Burlington Coat Factory Investments Holdings, Inc.
Form 10-K
August 30, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended June 2, 2007

OR

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

For the transition period from ______ to ______

1-37917
(Commission File Number)

BURLINGTON COT FACTORY INVESTMENTS HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**20-4663833**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**
1830 Route 130 North	**08016**

Burlington, New Jersey	
(Address of principal executive offices)	**(Postal Code)**

(609) 387-7800
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Securities Registered Pursuant to Section 12(b) or 12(g) of the Act: None

Title of Each Class	*Name of Each Exchange on Which Registered*
Not applicable	**Not applicable**

Securities Registered Pursuant to Section 12(g) of the Act:

Title of Each Class	*Name of Each Exchange on Which Registered*
Not applicable	**Not applicable**

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

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

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 x No ¨

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant. Not applicable

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, per Rule 12b-2 of the Exchange Act. Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

As of June 2, 2007, the registrant has 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.

Forward-Looking Statements

This Annual Report on Form 10-K contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. All statements herein that are not historical facts, including statements about our beliefs or expectations, are forward-looking statements. We generally identify these statements by words or phrases, such as "anticipate," "estimate," "plan," "expect," "believe," "intend," "foresee," "will," "may," and si or phrases. These statements discuss, among other things, our strategy, store openings, future financial or operational performance, results of store closings and restructurings, anticipated business developments, future financings, and other goals and targets. These statements are subject to risks, uncertainties, and other factors, including, among others, competition in the retail industry, seasonality of our business, changes in consumer preferences and consumer spending patterns, general economic conditions in the United States in states where we conduct our business, our ability to implement our strategy, our substantial level of indebtedness and related debt-service obligations, restrictions imposed by covenants in our debt agreements, availability of adequate financing, our dependence on vendors for our merchandise, domestic events affecting the delivery of merchandise to our stores, existence of adverse litigation and risks, uncertainties and factors set forth under "Item 1A. Risk Factors" and in our reports and documents filed with the Securities Exchange Commission. We believe that all forward-looking statements are based on reasonable assumptions when made; however, we caution that it is impossible to predict actual results or outcomes or the effects of risks, uncertainties or other factors on anticipated results or outcomes and that, accordingly, one should not place undue reliance on these statements. Forward-looking statements speak only as of the date they were made. We undertake no obligation to update these statements in light of subsequent events or developments. Actual results may differ materially from anticipated results or outcomes discussed in any forward-looking statement.

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Item 1. Business

Overview

Burlington Coat Factory (BCF) is a value priced department store that offers a complete line of apparel, including ladies sportswear, menswear, coats, family footwear, and accessories as well as baby furniture, home décor and gifts. BCF's broad selection provides a wide range of apparel, accessories and furnishings for all ages. BCF purchases merchandise both pre-season and in-season merchandise, and responds to changing market conditions and consumer fashion preferences. Furthermore, we believe BCF's substantial selection of staple, destination products, such as coats, Baby Depot products as well as men's and boys' suits, attracts customers from greater distances than the average retailer. These products drive incremental store-traffic and differentiate us from our main competitors.

As used herein, the terms "Company", "we", "us", or "our" refers to Burlington Coat Factory Investments Holdings, Inc. and all its subsidiaries. Burlington Coat Factory Investments Holdings, Inc. has no operations and its only asset is all of the stock of Burlington Coat Factory Warehouse Corporation. All discussions of business operations relate to Burlington Coat Factory Warehouse Corporation and its subsidiaries, its consolidated subsidiaries and predecessors. The Company's fiscal year ends on the Saturday closest to May 31. Fiscal 2007 ended on June 2, 2007 and was a 52 week year. Fiscal 2006 ended on June 3, 2006 and was a 53 week year. Fiscal 2005 ended on May 28, 2005, and was a 52 week year. Burlington Coat Factory Investments Holdings, Inc. was incorporated on April 10, 2006 in the State of Delaware.

Company History

Burlington Coat Factory Warehouse Corporation ("BCFWC") was founded in 1972, and we have grown to become a leading nationwide apparel retailer generating sales in excess of $3 billion annually. In 1983, we conducted our initial public offering, expanding from 31 to 68 stores by the end of the following fiscal year. We launched our family footwear department in 1996, which expanded to 54 stores by 1997 and 152 stores in 1998. We were acquired on April 13, 2006 by affiliates of Bain Capital in a take-private transaction. The total transaction value was $2.1 billion, or $45.50 per share in cash.

The Stores

As of June 2, 2007, we operated 379 stores under the names: "Burlington Coat Factory Warehouse" (359 stores), "MJM Designer Shoes" (17 stores), "Cohoes Fashions" (2 stores), and "Super Baby Depot" (1 store). Our store base is geographically diversified with stores located in 44 states. We believe that our customers are attracted to our stores principally by the availability of a large assortment of first-quality current brand-name merchandise at every day low prices.

We opened our first MJM Designer Shoes store in 2002. MJM Designer Shoes offers an extensive collection of men's, women's and children's moderate- to higher-priced designer and fashion shoes, sandals, boots and sneakers. MJM Designer Shoes stores also carry accessories such as handbags, wallets, belts, socks, hosiery and novelty gifts. MJM Designer Shoes stores provide a superior shoe shopping experience for the value conscious consumer by offering a broad selection of quality goods at discounted prices in stores with a convenient self-service layout. As of June 2, 2007, there were 17 MJM Designer Shoes stores in seven states.

Cohoes Fashions offers a broad selection of designer label merchandise for men and women similar to that carried in Burlington Coat Factory stores. In addition, the stores carry decorative gifts and home furnishings. Cohoes Fashions, Inc. was acquired by us in 1989 and presently operates one store each in Rhode Island and New Jersey.

The table below details our four store concepts:

BCFWC Store Concepts (as of June 2, 2007)

Concept	**# Stores at 6/2/07**	**Avg. Size (sq. ft. in thousands)**	**Net Sales (dollars in millions) (1)**	**% of Total**	**Merchandise Focus**
BCF	359	84	$ 3,311	97.3%	Value-priced women's, men's, children's apparel and accessories. Most stores include linens, bath items, gifts, luggage, family footwear, baby apparel and furniture.
MJM Designer Shoes	17	28	$ 57	1.7%	Moderate- to higher-priced designer and fashion men's, women's and children's footwear, handbags and other accessories.
Cohoes Fashions	2	45	$ 31	0.9%	Broad selection brand-name merchandise for men and women, decorative gifts and home furnishings similar to merchandise in BCFWC stores.
Super Baby Depot	1	25	$ 4	0.1%	Brand-name merchandise including apparel, furniture and accessories for newborns, infants and toddlers.

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(1) Net sales exclude Other Revenue, consisting of rental income, layaway and alteration charges. Represents net sales for the fiscal year ended June 2, 2007.

The stores are generally located in close proximity to population centers, other department stores and other retail operations and are usually established near a major highway or thoroughfare, making them easily accessible by automobile.

Some stores contain departments licensed to unaffiliated parties for the sale of items such as lingerie, fragrances, and jewelry. During fiscal 2007, our rental income from all of our licensed departments aggregated less than 1% of our total revenues.

Store Expansion

Since 1972 when our first store was opened in Burlington, New Jersey, we have expanded to three hundred fifty nine BCF stores, two Cohoes Fashions stores, seventeen MJM Designer Shoes stores, and one stand-alone Super Baby Depot store.

We believe our real estate locations represent a competitive advantage. Most of our stores are approximately 80,000 square feet, occupying significantly larger boxes than our typical off-price or specialty store competitors. Major landlords frequently seek us as a tenant because the appeal of our apparel merchandise profile attracts a desired customer base and because we occupy larger facilities than most of our competitors. In addition, we have built long-standing relationships with major shopping center developers. At June 2, 2007, we operated stores in 44 states, and we are exploring expansion opportunities both within our current market areas and in other regions.

We believe that our ability to find satisfactory locations for our stores is essential for the continued growth of our business. The opening of stores generally is contingent upon a number of factors, including the availability of desirable locations with suitable structures and the negotiation of acceptable lease terms. There can be no assurance, however, that we will be able to find suitable locations for new stores or that even if such locations are found and acceptable lease terms are obtained, we will be able to open the number of new stores presently planned.

Real Estate Strategy

During the fiscal year ended June 2, 2007, we owned the land and/or building for 41 of our 379 stores. Generally, however, our policy has been to lease our stores, with average rents per square foot that are below off-price competitors' rents. Our large average store size (generally twice that of our off-price competitors), ability to attract foot traffic and our disciplined real estate strategy enable us to secure these lower rents. Most of our stores are located in malls, strip shopping centers, regional power centers or are freestanding. We lease 89% of our store base and own the remaining 11%.

We have revised our lease model to provide on some of our new leases for a ten year initial term with a number of five year options thereafter. Typically, our new lease strategy includes landlord allowances for leasehold improvements. We believe our new lease model makes us more competitive with other retailers for desirable locations.

We have a proven track record of successful new store expansion. Our store base grew from 13 stores in 1980 to 379 stores as of June 2, 2007. As part of our growth strategy, we plan to open 20-35 new Burlington Coat Factory stores each year. Assuming that appropriate locations are identified, we believe that the Company will be able to execute this growth strategy since most of our competitors have at least twice as many store locations across the country than we do.

Store Openings and Closings

Fiscal Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**

Stores (Beginning of Period)	295	319	335	349	362	368
Stores Opened	29	22	24	16	12	19
Stores Closed	(5)	(6)	(10)	(3)	(6)	(8)
Stores (End of Period)	319	335	349	362	368*	379

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

Distribution

The Company has four distribution centers that occupy an aggregate of 1,830,000 square feet, each of which includes processing and storage capacity. Our distribution centers are located in (1) Burlington, New Jersey, (2) Edgewater Park, New Jersey, (3) Bristol, Pennsylvania, and (4) San Bernardino, California. Our newest distribution center, in San Bernardino, opened in May 2006, and is fully operational. The facility is 440,000 square feet and has allowed us to increase our percentage of centrally received merchandise. Historically, we have centrally received 50% of merchandise while shipping 50% direct to store. During fiscal year 2007, we were able to transition our mix to approximately 70% of merchandise units through the distribution centers, reducing our direct to store shipments to 30%.

Our distribution center network leverages automated sorting units to process and ship product to stores. We believe that the use of automated sorting units optimizes our cost efficiencies, improves accuracy, and improves our overall turn of product within our distribution network.

We currently use a legacy warehouse management system to receive, track, and control our product flow. During fiscal years 2008-2009, the Company plans to replace this warehouse management system. We believe that the use of this new system will have a positive impact on efforts to optimize our supply chain efforts.

	Calendar Year Operational	Size (thousands of sq. ft.)	Leased/ Owned
Burlington, NJ	1987	402	Owned
Bristol, PA	2001	340	Leased
Edgewater Park, NJ	2004	648	Owned
San Bernardino, CA	2006	440	Leased

Customer Demographic

Our core customer is the 18–49 year-old woman. The core customer is educated, resides in mid- to large-sized metropolitan areas and has an annual household income of $35,000 to $100,000. This customer shops for herself, her family and her home. We appeal to value seeking and fashion conscious customers who are price-driven but enjoy the style and fit of high-quality, branded merchandise. These core customers are drawn to us not only by our value proposition, but also by our broad selection of styles, our brands and our highly appealing product selection for families.

Customer Service

We are committed to providing our customers with an enjoyable shopping experience. In training our employees, we emphasize knowledgeable and friendly customer service. We train specialized employees who work in departments where customers benefit from more hands-on assistance. For example, the men’s suits departments are staffed with trained men’s suit sales experts and professional tailors. Additionally, we offer Baby Depot customers access to highly-trained personnel who can advise parents on apparel, furniture and accessory selection.

Employees

As of June 2, 2007, we employed 28,005 people, including part-time and seasonal employees. Our staffing requirements fluctuate during the year as a result of the seasonality of the apparel industry. We hire additional employees and increase the hours of part-time employees during seasonal peak selling periods. As of June 2, 2007, employees at only two of our stores are subject to collective bargaining agreements.

Competition

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

Merchandise Vendors

The Company purchases merchandise from many suppliers, none of which accounted for more than 5% of the Company's net purchases during fiscal 2007. The Company has no long-term purchase commitments or arrangements with any of its suppliers, and believes that it is not dependent on any one supplier. The Company continues to have good working relationships with its suppliers.

Seasonality

The Company's business, like that of most retailers, is subject to seasonal influences, with the major portion of sales and income typically realized during the back-to-school and holiday seasons (September through January). Because of the seasonality of the Company's business, results for any quarter are not necessarily indicative of the results that may be achieved for the fiscal year.

Tradenames

The Company has tradename assets such as Burlington Coat Factory, Baby Depot, Luxury Linens and MJM Designs. The Company considers these tradenames and the accompanying name recognition to be valuable to its business.

AVAILABLE INFORMATION

We have agreed that, whether or not required to do so by the rules and regulations of the SEC, for so long as any of the notes remain outstanding, we will furnish to the holders of the notes (i) all quarterly and annual financial information that would be required to be contained in a filing with the SEC on Form 10-Q and Form 10-K as if we were required to file such forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operation" and, with respect to the annual information only, a report thereon by our independent accountants and (ii) all reports that would be required to be filed with the SEC on Form 8-K as if we were required to file such reports. We will make available to the trustee and holders of the notes, the annual reports, information, documents and other reports that are required by Sections 13 and 15(d) of the Exchange Act within the time periods specified therein. Information filed with the SEC may be read and copied by the public at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Under the indenture governing the notes we are required to file with the trustee annual, quarterly and other reports after we file these reports with the Securities and Exchange Commission. Annual reports delivered to the trustee and the holders of notes will contain financial statements that have been reported upon, with an opinion expressed by an independent public accountant. We will also furnish such other reports as may be required by law.

Item 1A. Risk Factors

The risks and uncertainties described in this Annual Report on Form 10-K are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that it currently deems immaterial may also impair the Company's business and operations. If any of the following risks actually occur, the Company's business, financial condition, cash flows or results of operations could be materially adversely affected.

Risks Related to Our Business

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

Our growth will largely depend on our ability to open and operate new stores successfully. We intend to continue to open a significant number of new stores in future years, while remodeling a portion of our existing store base annually. During our 2008 fiscal year, we plan to open 25 new stores, and in subsequent fiscal years, we anticipate opening between 20 to 35 new stores per fiscal year. The success of this strategy is dependent upon, among other things, the identification of suitable markets and sites for store locations, the negotiation of acceptable lease terms, the hiring, training and retention of competent sales personnel, and the effective management of inventory to meet the needs of new and existing stores on a timely basis. Our proposed expansion also will place increased demands on our operational, managerial and administrative resources. These increased demands could cause us to operate our business

less effectively, which in turn could cause deterioration in the financial performance of our existing stores. In addition, to the extent that our new store openings are in existing markets, we may experience reduced net sales volumes in existing stores in those markets. We expect to fund our expansion through cash flow from operations and, if necessary, by borrowings under our ABL Credit Facility; however, if we experience a decline in performance, we may slow or discontinue store openings. We may not be able to execute any of these strategies successfully, on a timely basis, or at all. If we fail to implement these strategies successfully, our financial condition and results of operations would be adversely affected.

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

We currently lease 89% of our store locations. Most of our current leases expire at various dates after five-year terms, or ten-year terms in the case of our newer leases, each subject to our option to renew such leases for several additional five-year periods. Our ability to renew any expiring lease or, if such lease cannot be renewed, our ability to lease a suitable alternate location, and our ability to enter into leases for new stores on favorable terms will depend on many factors which are not within our control, such as conditions in the local real estate market, competition for desirable properties and our relationships with current and prospective landlords. If we are unable to renew existing leases or lease suitable alternate locations, or enter into leases for new stores on favorable terms, our growth and our profitability may be significantly harmed.

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

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

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

Our results of operations for our individual stores have fluctuated in the past and can be expected to continue to fluctuate in the future. Since the beginning of fiscal 2004, our quarterly comparative store sales growth rates have ranged from 8.9% to (5.1%).

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

- fashion trends;
- calendar shifts of holiday or seasonal periods;
- the effectiveness of our inventory management;
- changes in our merchandise mix;
- weather conditions; availability of suitable real estate locations at desirable prices and our ability to locate them;
- the timing of promotional events;
- changes in general economic conditions and consumer spending patterns;
- our ability to understand and meet consumer preferences; and
- actions of competitors.

If our future comparative store sales fail to meet expectations, then our cash flow and profitability could decline substantially. You should refer to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information.

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

Extreme weather conditions in the areas in which our stores are located could have a material adverse effect on our business, financial condition and results of operations. For example, heavy snowfall or other extreme weather

conditions over a prolonged period might make it difficult for our customers to travel to our stores. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with those unseasonable conditions. These prolonged unseasonable weather conditions could adversely affect our business, financial condition and results of operations. For the past five fiscal years, a majority of our net sales have occurred during the five-month period from September through January. Unseasonably warm weather during these months could adversely affect our business.

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

All of the products that we offer are manufactured by third party vendors. Many of our key vendors limit the number of retail channels they use to sell their merchandise and competition among retailers to obtain and sell these goods is intense. In addition, nearly all of the brands of our top vendors are sold by competing retailers and some of our top vendors also have their own dedicated retail stores. Moreover, we typically buy products from our vendors on a purchase order basis. We have no long term purchase contracts with any of our vendors and, therefore, have no contractual assurances of continued supply, pricing or access to products, and any vendor could change the terms upon which they sell to us or discontinue selling to us at any time.

If our relationships with our vendors are disrupted, we may not be able to acquire the merchandise we require in sufficient quantities or on terms acceptable to us. Any inability to acquire suitable merchandise would have a negative effect on our business and operating results because we would be missing products from our merchandise mix unless and until alternative supply arrangements were made, resulting in deferred or lost sales.

Increases in freight costs could result in lower profitability.

The cost of delivering our merchandise from the warehouses to the stores could continue to increase if gasoline prices continue to rise. Although we are seeking to have more of our inventory distributed to our stores through our distribution centers, a substantial portion of our inventory is still shipped directly to our stores from our vendors via the more expensive “drop shipment” method, whereby vendors ship items directly to our stores rather than to our distribution centers. Increases in fuel costs will result in costly surcharges added to the cost of drop shipment and reduce our ability to maintain profit margins.

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

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

Such factors include:

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

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

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

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

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

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

- imposition of regulations and quotas relating to imports; and

- imposition of duties, taxes and other charges on imports.

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

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

During fiscal 2007, central distribution and warehousing services were extended to approximately 70% of our merchandise units through our warehouse/distribution facilities in Burlington, New Jersey, Edgewater, New Jersey, Bristol, Pennsylvania, and San Bernardino, California. During fiscal 2008, we expect this percentage to increase as more merchandise is distributed through our new distribution center in San Bernardino, California which opened in

May 2006. Most of the merchandise we purchase is shipped directly to our distribution centers, where it is prepared for shipment to the appropriate stores. If any distribution center were to shut down or lose significant capacity for any reason, our operations would likely be disrupted. Although in such circumstances our stores are capable of receiving inventory directly from the supplier via drop shipment, we would incur significantly higher costs and a reduced control of inventory levels during the time it takes for us to reopen or replace any of the distribution centers.

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

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

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

As part of our normal course of business, we collect, process and retain sensitive and confidential customer information in accordance with industry standards. Despite the security measures we have in place, our facilities and systems, and those of our third party service providers may be vulnerable to security breaches, acts of vandalism and theft, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events. Any security breach involving misappropriation, loss or

other unauthorized disclosure of confidential information, whether by us or our vendors, could severely damage our reputation, expose us to litigation and liability risks, disrupt our operations and harm our business.

Disruptions in the Company's information systems could adversely affect its operating results.

The efficient operation of the Company's business is dependent on its information systems. If an act of God or other event caused our information systems to not function properly, major business disruptions could occur. In particular, the Company relies on its information systems to effectively manage sales, distribution, merchandise planning and allocation functions. The Company's disaster recovery site is located within 15 miles of the Company's headquarters. If a disaster impacts both locations, the Company could be affected. The failure of the Company's information systems to perform as designed could disrupt its business and harm sales and profitability.

Acts of terrorism could adversely affect our business.

The economic downturn that followed the terrorist attacks of September 11, 2001 had an adverse impact on our business. Any further acts of terrorism or other future conflict may disrupt commerce and undermine consumer confidence, cause a downturn in the economy generally, cause consumer spending or shopping center traffic to decline or reduce the desire of our guests to make discretionary purchases. Any of the foregoing factors could impact our sales revenue negatively, particularly in the case of any terrorist attack targeting retail space such as a shopping center. Furthermore, an act of terrorism or war, or the threat thereof, could impact our business negatively by interfering with our or our vendors' ability to obtain merchandise from foreign manufacturers. Any future inability to obtain merchandise from our or our vendors' foreign manufacturers or to substitute other manufacturers, at similar costs and in a timely manner, could adversely affect our business.

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

We rely heavily on print and television advertising to increase consumer awareness of our product offerings and pricing to drive store traffic. In addition, we rely and will increasingly rely on other forms of media advertising. Our future growth and profitability will depend in large part upon the effectiveness and efficiency of our advertising and marketing programs. In order for our advertising and marketing programs to be successful, we must:

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

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

Our planned advertising and marketing expenditures may not result in increased total or comparable net sales or generate sufficient levels of product awareness. We may not be able to manage our advertising and marketing expenditures on a cost-effective basis.

There are a limited number of companies capable of distributing our direct mail advertising at the volume levels we require. If any of these companies cease operations, or if their expenses (e.g., postage, printing and paper costs) increase substantially, then it is likely that our advertising expenses will increase, which will have a negative effect on our business and operating results.

We are in the process of transitioning to new leadership team which may cause business interruptions.

We may experience unforeseen difficulties as we transition to a new leadership team. Our success is dependent on the continued efforts of our executive officers who have been with the Company for many years before the Merger

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

The interests of our controlling stockholders may conflict with yours as a holder of the notes.

Funds associated with Bain Capital own over approximately 98.5% of Parent's basic common stock, with the remainder held by existing members of management. Additionally, management holds options to purchase 7.3% of the basic shares outstanding.

The controlling stockholders may have an incentive to increase the value of its investment or cause us to distribute funds at the expense of our financial condition and impact our ability to make payments on the outstanding notes. In addition, the affiliates of Bain Capital have the power to elect a majority of our board of directors and appoint new officers and management and, therefore, effectively control many major decisions regarding our operations. The interests of Bain Capital or its associated funds may conflict with the interests of holders of our outstanding notes. For more information, see "Security Ownership of Certain Beneficial Owners and Management" and "Certain Relationships and Related Transactions."

Risk Factors Related to Our Substantial Indebtedness

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

We are highly leveraged. As of June 2, 2007, our total indebtedness was $1.462 billion including $299.7 million of senior notes due 2014, $88.0 million of senior unsecured notes, $884.3 million under the Term Loan, and $159.0 million under the ABL Credit Facility. Estimated cash required to make minimum debt service payments (including principal and interest) for these debt obligations amounts to $108.3 million for the fiscal year ending May 31, 2008, exclusive of the ABL Credit Facility. The ABL Credit Facility has no annual minimum principal payment requirement.

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

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

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

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

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

- incur additional indebtedness or enter into sale and leaseback obligations;
- pay certain dividends or make certain distributions on capital stock or repurchase capital stock;
- make certain capital expenditures;
- make certain investments or other restricted payments;
- have our subsidiaries pay dividends or make other payments to us;

- engage in certain transactions with stockholders or affiliates;
- sell certain assets or merge with or into other companies;
- guarantee indebtedness; and
- create liens.

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

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

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

If there were an event of default under any of the agreements relating to our outstanding indebtedness, the holders of the defaulted debt could cause all amounts outstanding, with respect to that debt, to be due and payable immediately. Our assets or cash flow may not be sufficient to fully repay borrowings under our outstanding debt instruments if accelerated upon an event of default. Further, if we are unable to repay, refinance or restructure our indebtedness under our secured debt, the holders of such

debt could proceed against the collateral securing that indebtedness. In addition, any event of default or declaration of acceleration under one debt instrument could also result in an event of default under one or more of our other debt instruments.

Item 1B. Unresolved Staff Comments
None.

Item 2. Properties

Properties

As of June 2, 2007, we operated 379 stores in 44 states throughout the United States. We own the land and/or building for 41 of our stores and lease the other 338 stores. Store leases generally provide for fixed monthly rental payments, plus the payment, in most cases, of real estate taxes and other charges with escalation clauses. In many locations, our store leases contain formulas providing for the payment of additional rent based on sales.

We own five buildings in Burlington, New Jersey. Of these buildings, two are used by us as retail space. In addition, we own approximately 97 acres of land in the townships of Burlington and Florence, New Jersey on which we have constructed our corporate headquarters and a warehouse/distribution facility. We lease warehouse facilities of approximately 340,000 square feet in Bristol, Pennsylvania. We lease approximately 20,000 square feet of office space in New York City. We own approximately 46 acres of land in Edgewater Park, New Jersey on which we have constructed a warehouse and office facility of approximately 648,000 square feet. The facility began processing merchandise in August of 2003 and has been fully operational since August 2004. An additional 440,000 square foot distribution facility opened in April 2006 in San Bernardino, California. These facilities have significantly expanded our warehousing and distribution capabilities.

The following table shows the years in which store leases existing at June 2, 2007 expire:

Fiscal Year Ending	Number of Leases Expiring	Expiring with Renewal Options
2008-2009	11	82
2010-2011	4	93
2012-2013	2	50
2014-2015	8	32
2016-2017	2	36
Thereafter to 2035	14	22
Total	41	315

Item 3. Legal Proceedings

We are party to various litigation matters, in most cases involving ordinary and routine claims incidental to our business. We cannot estimate with certainty our ultimate legal and financial liability with respect to such pending litigation matters. However, we believe, based on our examination of such matters, that our ultimate liability will not have a material adverse effect on our financial position, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders
None.

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PART II

Item 5. Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

There is no market for the common stock of Parent or Holdings. As of June 2, 2007, Parent was the only holder of record of Holdings' common stock, and 98.5% of Parent's common stock is held by various Bain Capital funds. Payment of dividends is prohibited under our credit agreements, except for certain limited circumstances.

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Item 6. Selected Financial Data

The following table presents selected historical consolidated statements of operations, balance sheet and other data for the periods presented and should only be read in conjunction with our audited consolidated financial statements and the related notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included elsewhere in this Form 10-K. The historical financial data for the periods April 13, 2006 to June 3, 2006, May 29, 2005 to April 12, 2006 and for the years ended May 28, 2005, May 29, 2004 and May 31, 2003 have been derived from our historical audited combined or consolidated financial statements.

Predecessor/Successor Presentation. Although Burlington Coat Factory Warehouse Corporation continued as the same legal entity after the Merger Transaction, the Selected Financial Data for fiscal year 2006 provided below is presented for two periods: Predecessor and Successor, which relate to the period preceding the Merger Transaction, May 29, 2005 to April 12, 2006, and the period succeeding the Merger Transaction, April 13, 2006 to June 3, 2006, and for the twelve months ended June 3, 2007, respectively. The financial data provided refers to the operations of the Company and its subsidiaries for both the Predecessor and Successor periods.

The following table sets forth certain selected financial data in thousands, which has been adjusted to give effect to the reclassification of the fiscal 2005 discontinued store operations, as discussed in Note A28 to the consolidated financial statements:

	Predecessor				**Successor**	**Combined (1)**	**Successor**
	Twelve Months Ended 5/31/03	Twelve Months Ended 5/29/04	Twelve Months Ended 5/28/05	Period from 5/29/05 to 4/12/06	Period from 4/13/06 to 06/03/06	Twelve Months Ended 6/03/06	Twelve Months Ended 6/02/07
Revenues from Continuing Operations	$ 2,678,128	$ 2,859,960	$ 3,199,840	$ 3,045,308	$ 425,246	$ 3,470,554	$ 3,441,645
Income (Loss) from Continuing Operations Net of Provision for Income Tax	70,512	72,339	106,047	94,339	(27,166)	67,173	(47,199)
Discontinued Operations, Net of Tax Benefit (2)	(4,393)	(4,363)	(1,014)	-----	-----	-----	-----
Net Income (Loss)	66,119	67,977	105,033	94,339	(27,166)	67,173	(47,199)
Balance Sheet Data							
Total Assets	$ 1,337,049	$ 1,579,178	$ 1,673,268	(3)	$ 3,213,500	-----	$ 3,036,521
Working Capital	195,211	330,007	407,240	(3)	233,165	-----	283,398
Long-Term Debt	34,587	133,538	132,347	(3)	1,508,119	-----	1,456,330

Stockholders Equity	$ 777,152	$ 845,432	$ 926,153	(3)	$ 419,512	-----	$ 380,470

(1) Our combined results for the year ended June 3, 2006 represent the addition of the Predecessor period from May 29, 2005 through April 12, 2006 and the Successor period from April 13, 2006 through June 3, 2006. This combination does not comply with generally accepted accounting principles (GAAP) or with the rules for pro forma presentation, but is presented because we believe it provides the most meaningful comparison of our results.

(2) Discontinued operations include the after-tax operations of stores closed by the Company during the fiscal years listed.

(3) Information not available for interim period.

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

For purposes of the following "Management's Discussion and Analysis of Financial Condition and Results of Operations" unless indicated otherwise or the context requires, "we," "us," "our," and "Company" refers to the operations of Burlington Coat Factory Warehouse Corporation and its consolidated subsidiaries, and the financial statements of Burlington Coat Factory Investments Holdings, Inc. and its subsidiaries. We maintain our records on the basis of a 52 or 53 week fiscal year ending on the Saturday closest to May 31. The following discussion and analysis should be read in conjunction with the "Selected Historical Consolidated Financial and Other Data" and our financial statements, including the notes thereto, appearing elsewhere herein.

General

Based on retail industry reports, we are a nationally recognized retailer of high-quality, branded apparel at every day low prices. We opened our first store in Burlington, New Jersey in 1972, selling primarily coats and outerwear. Since then, we have expanded our store base to 379 stores in 44 states, and diversified our product categories by offering an extensive selection of in-season, fashion-focused merchandise, including: ladies sportswear, menswear, coats, family footwear, baby furniture and accessories, as well as home décor and gifts. We employ a hybrid business model which enables us to offer the low prices of off-price retailers and the branded merchandise, product breadth and product diversity of department stores. We acquire desirable, first-quality, current-brand, labeled merchandise directly from nationally-recognized manufacturers such as Liz Claiborne, Ralph Lauren, Jones New York, Calvin Klein, Nine West, and Nautica.

As of June 2, 2007, we operated 379 stores under the names "Burlington Coat Factory Warehouse" (359 stores), "MJM Designer Shoes" (17 stores), "Cohoes Fashions" (2 stores), and "Super Baby Depot" (1 store) in 44 states. For the latest fiscal year ended June 2, 2007, we generated revenues of approximately $3.4 billion.

Executive Summary

Overview of Fiscal 2007 Operating Results

Burlington Coat Factory experienced a decrease in net sales for the 52 week period ended June 2, 2007 compared with the 53 week period ended June 3, 2006. Net sales were $3.40 billion for fiscal 2007 (52 weeks) and $3.44 billion for fiscal 2006 (53 weeks), a 1.0% decrease. However, comparing the period ended June 2, 2007 with the corresponding 52 week period ended June 3, 2006 would show that net sales for the fiscal 2007 period increased $14.9 million (0.4%).

The Company experienced a 2.2% comparative store sales decrease from the comparative period of a year ago due to unseasonably warm weather in November and December, unseasonably cool weather in April and the impact of the Company's new cash back return policy.

Gross margin as a percentage of sales increased to 37.6% from 36.5% during the period ended June 2, 2007 compared with the period ended June 3, 2006, due to higher initial margins and reduced freight costs.

The Company recorded a net loss of $47.2 million for the period ended June 2, 2007 compared with net income of $67.2 million for the 53 week period ended June 3, 2006. The primary drivers of this net loss were increases in interest, depreciation, and amortization expenses incurred in connection with the financing of the Merger Transaction, as well as impairment charges recorded related to underperforming stores.

The following is a list of operating highlights for Fiscal 2007:

§ 19 Burlington Coat Factory stores were opened and the Company expanded operations into two new markets: North Dakota and Mississippi.

§ The majority of inventory units (approximately 70%) now move through our distribution centers allowing the Company to reduce freight costs associated with the conversion from drop shipment to central distribution.

§ A successful launch of the private men's label, Fumagalli ®, with Allyn Saint George International, Inc.

Management Initiatives for Fiscal 2008

In Fiscal 2008, management plans to undertake the following initiatives in order to address the recent decline in comparative store sales and to prepare the Company for sustainable growth. These initiatives concentrate on specific strategies as they relate to merchandising, inventory planning and management and the in-store shopping experience. The objective of the merchandising strategies is to focus each of our merchandising categories on the right brands, the right items and trend right fashions at a great value in order to provide a compelling assortment of merchandise to our core customers. This will be accomplished through disciplined planning, buying and allocation. The objective of the marketing focus is to increase the number of trips to our stores by our core customers and to encourage our shoppers to shop across more divisions. The Company will

continue to use print, television, and radio media to execute a marketing strategy which highlights our great everyday values, our brands, and our trend right fashions as well as our overall message of Burlington Coat Factory as a value department store.

With respect to inventory management, the Company is focused on improving processes, tools and systems to enhance merchandise flow and to "freshen" inventory on a more regular basis while reducing the amount of undesirable merchandise on our selling floors. The Company currently uses a legacy warehouse management system to receive, track, and control our product flow. During fiscal years 2008-2009, the Company will be replacing this warehouse management system. We believe that the use of this new system will have a positive impact on efforts to optimize our supply chain efforts.

Management is also focused on improving the in-store shopping experience for our core customers by providing an easy and convenient shopping experience through an uncluttered presentation of our stores. Management is working to improve our customers' ability to navigate our stores by improving signage and setting the store regularly with seasonally relevant merchandise. Through joint efforts of the merchandising, planning, and store support teams, management is looking to coordinate the availability of season essentials and fashion right key items across divisions with seasonal floorsets.

Through these initiatives, management believes it can improve comparative store sales by increasing the Company's share of our core customers' spend.

Uncertainties and Challenges

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

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

In June 2007, the US Supreme Court determined that resale price maintenance by manufacturers is not per se illegal but that such vertical price restraints are to be judged by the rule of reason in the *Leegin Creative Leather Products, Inc. v. PSKS, Inc.* case. While as a result of the holding of this case, certain manufacturers may decide to enforce manufacturer's suggested retail price (MSRP), the Company has not found that this decision has had any impact on its ability to purchase merchandise from its vendors on customer friendly terms. At this point in time, it is difficult to determine what impact, if any, this case will have on the Company's ability to execute its off-price strategy. The Company does not believe the case will have any immediate or long term impact on its operations because it believes that it is an integral part of its vendors' distribution strategies, and as such, these vendors will continue to sell to the Company on mutually agreeable terms.

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

In the recent past, we have seen price deflation affect the retail industry with the increase of imports from China and other parts of the world capable of production at lower costs. To date, we have been able to compensate for price deflation by increasing unit sales to maintain the level of sales in terms of dollars. While there has been price deflation in the costs of inventory, gross margin on sales is kept in check by the high level of competition. These conditions can be expected to continue for so long as excess production of inventory by lesser developed countries continues. In addition, net profit can be affected by the rising costs of freight, payroll and employee benefits. Our liquidity, however, is not expected to be affected in any material respect so long as we increase total sales. Moreover, we expect the availability under our credit facilities to be sufficient for our cash needs.

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

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

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

The Merger Transaction

On January 18, 2006, we entered into the Merger Agreement among our Company, Parent and Merger Sub to sell our entire company to affiliates of Bain Capital.

On April 13, 2006, the Merger transaction was consummated through a $2.1 billion merger of a merger sub into BCFWC with BCFWC being the surviving corporation in the Merger. Under the Merger Agreement, former holders of our common stock, par value $1.00 per share, received $45.50 per share, or approximately $2.1 billion. Approximately $13.8 million of the $2.1 billion was used, among other things, to settle the outstanding equity options. The Merger consideration was funded through the use of our available cash, cash equity contributions from affiliates of Bain Capital and management and the debt financings as described more fully below.

Following the consummation of the Merger, the Parent entered into a Contribution Agreement with Holdings to effectuate an exchange of shares under Section 351(a) of the Internal Revenue Code of 1986, as amended. The Parent delivered to Holdings all of our outstanding shares, and Holdings simultaneously issued and delivered all of its authorized and outstanding shares of common stock to the Parent.

In connection with the Merger we entered into other definitive agreements as further described in Note 2 to the Consolidated Financial Statements entitled “Basis of Presentation.”

Burlington Coat Factory Warehouse Corporation Corporate Structure

The chart below summarizes our corporate structure prior to the Merger and related transactions.

The chart below summarizes our corporate structure following the consummation of the Merger and related transactions.

Key Performance Measures

Management considers numerous factors in assessing our Company's performance. Key performance measures used by management include comparative store sales, inventory turnover, inventory levels, gross margin, and liquidity.

Comparative store sales. Comparative store sales measure performance of a store during the current reporting period against the performance of the same store in the corresponding period of the previous year. The Company defines its comparative store sales as sales (net of sales discounts) of those stores that are beginning their four hundred and twenty-fifth day of operation (approximately 1 year and 2 months). Existing stores whose square footage has been changed by more than 20% and relocated stores are classified as new stores (unless the store remains in the same shopping complex) for comparative store sales purposes. This method is used in this section in comparing the results of operations for the fiscal period ended June 2, 2007 with the results of operations for the fiscal period ended June 3, 2006. The Company experienced a decrease in comparative store sales of 2.2% for the fiscal year ended June 2, 2007 compared with similar period ended June 3, 2006. This decrease is primarily due to unseasonable shifts in the weather and an offsetting increase in sales returns as a result of our change in cash refund policy without an increase in sales.

Inventory turnover. Inventory turnover is a measure that indicates how efficiently inventory is bought and sold. It measures the length of time the Company owns its 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 the retail sales before sales discounts by the average retail value of the inventory for the period being measured. The Company's inventory turnover rate was 2.4 and 2.5 in fiscal 2007 and fiscal 2006, respectively. This decrease in inventory turnover is primarily related to our decrease in comparative store sales.

Inventory levels are monitored by management to ensure that the stores are properly stocked to service customer needs while at the same time ensuring that stores are not over-stocked which would necessitate increased markdowns to move slow-selling merchandise. We have undertaken initiatives to improve inventory turnover by reducing over-all inventory levels in our stores. We are in the process of evaluating the effectiveness of markdown optimization software as an inventory management tool. At June 2, 2007, inventory was $710.6 million versus $708.2 at June 3, 2006. Average inventory per store amounted to $1.7 million at June 2, 2007 and $1.8 million at June 3, 2006.

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. The Company experienced an increase in gross margin percentage for fiscal 2007 to 37.6%, from 36.5% for fiscal 2006. This increase is primarily related to decreased freight costs and improvement in initial margins.

Liquidity. Liquidity measures our ability to generate cash. Management measures liquidity through cash flow and working capital. Cash flow is the measure of cash generated from operating, financing and investing activities. We experienced a decrease in cash flow of $34.9 million during the fiscal year ended June 2, 2007 compared with the fiscal year ended June 3, 2006 primarily due to principal payments made by the Company to pay down its outstanding debt. Changes in working capital also impact our cash flows. Working capital equals current assets minus current liabilities. Working capital at June 2, 2007 was $283.4 million compared with $233.2 million at June 3, 2006. This increase in working capital is due primarily to a decrease in our accounts payable and to a reclassification of certain long-lived assets as “Held for Disposal” as of June 2, 2007 compared with June 3, 2006.

Items Affecting Comparability

Predecessor/Successor bases of accounting.

Although BCFWC continued as the same legal entity after the Merger Transaction, the discussion regarding fiscal year 2006 reflects two periods: Predecessor and Successor, which relate to the period preceding the Merger and the period succeeding the Merger, respectively. We refer to the operations of the Company and subsidiaries for both the Predecessor and Successor periods. We have prepared our discussion of the results of operations for the fiscal year ended June 3, 2006 by comparing the mathematical combination, without making pro forma adjustments.

As a result of the Merger, our assets and liabilities have been adjusted to their fair value as of the closing date, April 13, 2006. Depreciation and amortization expenses are higher in the successor accounting period due to these fair value assessments resulting in increases to the carrying value of our property, plant and equipment and intangible assets. Interest expense has increased substantially in the successor accounting periods in connection with our financing arrangements, which includes a $800 million senior secured ABL Credit Facility, a $900 million secured Term Loan, $305 million senior notes and $99.3 million Holdings Senior Discount Notes, each of which are further described in the liquidity section that follows.

Results of Operations

The following table sets forth certain items in the Consolidated Statements of Operations as a percentage of net sales for periods indicated that are used in connection with the discussion herein.

	Fiscal Year Ended		
	June 2, 2007	**June 3, 2006**	**May 28, 2005**
Statement of Operations Data:			
Net Sales	100%	100.0%	100.0%
Cost of Sales (Exclusive of Depreciation and Amortization)	62.4	63.5	62.7
Selling & Administrative Expenses	31.2	30.6	30.2
Depreciation	3.8	2.8	2.8
Amortization	1.3	0.3	-
Impairment Charges	0.7	-	-
Interest Expense	3.9	0.6	0.2

Other (Income) Loss, Net	(0.2)	(0.2)	(0.5)
Other Revenue	1.1	0.9	0.9
Income (Loss) from Continuing Operations Before Income Taxes	(2.1)	3.3	5.4
Income Tax Expense (Benefit)	(0.7)	1.3	2.1
Net Income (Loss)	(1.4%)	2.0%	3.3%

Performance for the Fiscal Year (52 weeks) Ended June 2, 2007 Compared with the Fiscal Year (53 weeks) Ended June 3, 2006

Sales. Consolidated net sales decreased $35.4 million (1.0%) to $3.40 billion for the fiscal year ended June 2, 2007 (52 weeks) compared with the fiscal year ended June 3, 2006 (53 weeks). As previously noted, the Company's prior fiscal year ended June 3, 2006 was a 53 week fiscal year and as a result, the first three fiscal quarters of fiscal 2007 began and ended one week later than the corresponding period of the prior fiscal year and the fourth fiscal quarter began one week later and ended the same week as last year. Net sales for the fifty-two week period of fiscal 2006 ended June 3, 2006 were $3.39 billion. Comparative stores sales decreased 2.2% for the fiscal year ended June 2, 2007, due primarily to unseasonably warm weather in November and December, unseasonably cool weather in April, and increased returns resulting from the implementation of a new cash refund return policy. In addition, Company supply chain issues, primarily related to shifting direct store shipments into our distribution centers, which affected merchandise flow and in turn impacted sales.

Nineteen new Burlington Coat Factory department stores opened during fiscal 2007, contributing $86.5 million to net sales for the fiscal year ended June 2, 2007.

The Cohoes Fashions stores contributed $30.9 million to consolidated sales for the fiscal year ended June 2, 2007 compared with $48.5 million for the fiscal year ended June 3, 2006. This decrease is due to a comparative store sales decreases of 23.8% during the 2007 fiscal year compared with the period ended June 3, 2006. During fiscal 2007, the Company closed three of its Cohoes stores and converted two others to Burlington Coat Factory stores.

The MJM Designer Shoes stores contributed $56.7 million to sales for the fiscal year ended June 2, 2007 compared with
$59.6 million for the fiscal year ended June 3, 2006. Comparative store sales decreased 2.5% during the fiscal year ended June 2, 2007 compared with the fiscal period ended June 3, 2006. The decrease in comparative store sales is primarily due to underperformance of seasonal product such as boots in the cooler months and sandals in the warmer months.

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 $38.2 million for the fiscal year ended June 2, 2007 compared with $31.7 million for the fiscal year ended June 3, 2006. This increase is primarily related to gift card service fees.
Cost of Sales. Cost of Sales decreased $58.1 million (2.7%) for the fiscal year ended June 2, 2007 compared with the fiscal year ended June 3, 2006. Cost of sales, as a percentage of net sales, decreased to 62.4% in fiscal 2007 period from 63.5% in fiscal 2006. The decrease in cost of sales as a percentage of sales was due primarily to reduced initial merchandise costs and reduced freight costs partly offset by increased markdown costs during the fiscal year ended June 2, 2007 compared with the period ended June 3, 2006. The Company's 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. The Company includes these costs in the Selling and Administrative Expenses, Depreciation, and Amortization line items in the Consolidated Statements of Operations. The Company includes in its definition of Cost of Sales all costs of merchandise (net of purchase discounts and certain vendor allowances), inbound freight, warehouse outbound freight and freight related to internally transferred merchandise and certain merchandise acquisition costs, primarily commissions and import fees.

Selling and Administrative Expenses. Selling and Administrative Expenses for the 52 week year ended June 2, 2007 amounted to $1,062.5 million compared to $1,051.9 million for the 53 week year ended June 3, 2006, a 1.0% increase. This increase was due primarily to the increase in expenses of approximately $22.2 million related to new stores opened in fiscal 2007 and approximately $15 million in expenses related to non-cash rent expense, stock option expense resulting from the adoption of SFAS 123(R) and the payment of the advisory fee to Bain Capital. The increase was partially offset by approximately $10.2 million from the Company's decision not to make a contribution to the employee profit sharing program and from the effect of the 53rd week in the prior year. As a percentage of Net Sales, Selling and Administrative Expenses were 31.2% for the period ended June 2, 2007 compared with 30.6% for the period ended June 3, 2006.

Depreciation. Depreciation expense amounted to $130.4 million in the period ended June 2, 2007 compared with $96.9 million in the period ended June 3, 2006. This increase of $33.5 million is attributable primarily to increased depreciation expenses as it relates to the step up in basis of the Company's fixed assets related to the Merger Transaction of approximately $421 million and to capital additions made subsequent to fiscal 2006.

Amortization. Amortization expense related to the amortization of net favorable leases and deferred debt charges amounted to $43.7 million for the fiscal year ended June 2, 2007 compared with $10.3 million for the fiscal year ended June 3, 2006. The increase in amortization expense is attributable to increased deferred debt charges and favorable lease assets recorded as part of the Merger Transaction.

Impairment Charges. The Company reviews, at least on an annual basis, whether events or circumstances have changed such that the carrying value of its long-lived assets may not be recoverable. For the fiscal year ended June 2, 2007, the Company recorded impairment charges of $24.4 million related to certain long-lived assets and intangible assets of sixteen of its stores. There were no impairment charges recorded for the fiscal year ended June 2, 2006.

Interest Expense. Interest expense was $134.3 million and $22.7 million for the fiscal ended June 2, 2007and June 3, 2006, respectively. The increase in interest expense is primarily related to our ABL Credit Facility, our secured term loan, BCFWC senior notes and our senior discount notes which all relate to financing activities related to the Merger.

Other (Income), Net. Other (Income), Net (consisting of investment income, gains and losses on disposition of assets and other miscellaneous items) decreased $2.3 million to $6.2 million for the period ended June 2, 2007 compared with the period ended June 3, 2006. The decrease is primarily related to decreases in investment income of $3.6 million for the fiscal year ended June 2, 2007 compared with the fiscal year ended June 3, 2006. Losses on write-offs of fixed assets from closed stores for the fiscal year ended June 2, 2007 amounted to $3.6 million compared with $2.7 million for the fiscal year ended June 3, 2006. These losses were offset in part by higher insurance claim recoveries in fiscal 2007 compared with fiscal 2006. Insurance recoveries were $2.9 million and $1.0 million for the fiscal years ended June 2, 2007 and June 3, 2006, respectfully.

Income Tax. Income tax benefit was $25.4 million for the fiscal year ended June 2, 2007, compared with income tax expense of $46.8 million for the twelve month period ended June 3, 2006. The effective tax rate for fiscal 2007 and fiscal 2006 were 35.0% and 41.1%, respectively.

Net Loss. Net loss amounted to $47.2 million for the fiscal year ended June 2, 2007 compared with net income of $67.2 million for the comparative period of last year. The decrease in earnings of $114.4 million is due primarily to continuing expenses resulting from the Merger Transaction of April 13, 2006, including increased depreciation, amortization and interest expense.

Performance for the Fiscal Year (53 weeks) Ended June 3, 2006 Compared with the Fiscal Year (52 weeks) Ended May 28, 2005

Sales. Consolidated net sales from continuing operations increased $267.6 million (8.4%) for fiscal year 2006 compared with fiscal 2005. Comparative stores sales increased 4.3% for fiscal 2006 compared with the comparative 53 week period of fiscal 2005. We define our comparative store sales as sales of those stores that have operated at least 425 days for the entire comparative period. Existing stores whose square footage has been changed by more than 20% and relocated stores are classified as new stores for comparative store sales purposes. Sales during the non-comparative 53rd week of fiscal 2006 amounted to $51.0 million.

Nine new Burlington Coat Factory department stores opened during fiscal 2006 and contributed $66.0 million to net sales in fiscal 2006. Burlington Coat Factory stores opened during fiscal 2005 contributed $32.8 million to this years net sales in their non-comparative periods.

The Cohoes Fashions stores contributed $48.5 million to consolidated sales in fiscal 2006 compared with $46.4 million in fiscal 2005. Comparative store sales increased 0.2% for fiscal 2006 compared with the comparative fiscal 2005 period.

The MJM Designer Shoes stores contributed $59.6 million to sales for the fiscal year ended June 3, 2006 compared with $44.6 million for the comparative period of fiscal 2005. This increase is due to a comparative store sales increase of 6.8% in fiscal 2006. Sales of our three MJM Designer Shoes stores opened during fiscal 2006 amounted to $6.5 million and the sales of four MJM Designer Shoes stores opened during fiscal 2005 amounted to $5.1 million, during their non-comparative periods.

Other Revenue. Other Revenue (consisting of rental income from leased departments, sublease rental income, layaway and alteration service charges and miscellaneous revenue items) increased to $31.7 million in fiscal 2006 compared with $28.6 million for the 12 month period of fiscal 2005. The increase is related primarily to increases in rental income received from leased departments.

Cost of Sales. Cost of sales increased $196.1 million (9.9%) for the 12 month period ended June 3, 2006 compared with the 12 month period ended May 28, 2005. The dollar increase in cost of sales was due primarily to the increase in net sales during fiscal 2006 compared with fiscal 2005 and to increased freight costs. Cost of sales as a percentage of net sales increased from 62.7% in fiscal 2005 to 63.5% in fiscal 2006. The increase in cost of sales as a percentage of net sales for fiscal 2006 compared with fiscal 2005 was primarily the result of lower initial margins, increased freight charges, increases in inventory shrinkage and increases in markdowns. The increase in freight charges was due primarily to fuel surcharges resulting from increased gasoline and oil prices. 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 these costs in the Selling and Administrative Expenses line item in the Consolidated Statements of Operations. We include in our Cost of Sales line item all costs of merchandise (net of purchase discounts and certain vendor allowances), inbound freight, warehouse outbound freight and freight related to internally transferred merchandise and certain merchandise acquisition costs, primarily commissions and import fees.

Selling and Administrative Expense. Selling and Administrative Expenses, including amortization of leasehold purchases, were $1,051.9 million for the fiscal year ended June 3, 2006, compared with $957.8 million for the 12 month period ended May
28, 2005. The increase in Selling and Administrative Expenses was due primarily to expenditures related to the Merger Transaction of $14.6 million, an increase in the number of stores in operation during this fiscal year compared with fiscal 2005, increases in utility costs, advertising expenditures and employee benefits. As a percentage of Net Sales, Selling and Administrative Expenses were 30.6% for the 12 month period ended June 3, 2006; excluding the $14.6 million in merger related costs, Selling and Administrative Expenses costs as a percentage of sales were 30.1%. For the 12 month period ended May 28, 2005, Selling and Administrative Expenses were 30.2% of sales.

Depreciation Expense. For the twelve month period ended June 3, 2006, depreciation expense amounted to $96.9 million compared with $89.9 million for the 12 month period ended May 28, 2005. This increase is attributable primarily to depreciation recognized on capital additions relating to new store purchases, improvements, expansions and remodelings over the past two fiscal years and to depreciation related to the step up in basis of fixed assets resulting from the valuation of assets completed in connection with the Merger Transaction.

Interest Expense. Interest expense increased to $22.7 million from $7.3 million for the 12 months ended June 3, 2006 compared with the 12 months ended May 28, 2005. This increase in interest expense is primarily related to our ABL Credit Facility, our new secured term loan, our Senior Notes due 2014 and our new Senior Discount Notes which all relate to financing activities related to the Merger Transaction.

Income from Continuing Operations. Income from continuing operations amounted to $67.2 million for the 12 month period ended June 3, 2006 compared with $106.0 million for the 12 month period ended May 28, 2005.

Discontinued Operations. There were no discontinued operations recorded in fiscal 2006. During fiscal 2005, we discontinued the operations of three stores and one partnership investment. During fiscal 2005, net sales for these stores amounted to $11.2 million. Gross margin amounted to $2.4 million for the same period and loss from discontinued operations amounted to $1.0 million for the 12 month period of fiscal 2005.

Stores Damaged by Hurricanes. As a result of the effects of Hurricane Katrina on August 29, 2005 and Hurricane Wilma on October 23, 2005, three of our stores (two in Louisiana and one in Florida) were damaged and closed. All merchandise inventories in these three stores, totaling $14.0 million at retail and approximately $7.6 million at cost, were destroyed. We were insured at the selling price of the inventory less a deductible and have been reimbursed in excess of the net book value of the merchandise inventory. All of our long-lived assets at these three stores, which had a net book value of approximately $3.8 million, were damaged or destroyed. We were insured at replacement cost for these assets, except for certain leasehold improvements. During fiscal 2006, we received partial payments on this claim of $12.4 million. During fiscal 2006, the Company recognized as income $1.0 million in insurance recoveries in excess of the book value of assets damaged.

Liquidity and Capital Resources

We fund inventory expenditures during normal and peak periods through cash flows from operating activities, available cash, and our revolving credit facility. Our working capital needs follow a seasonal pattern, peaking in the second quarter of our fiscal year 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 opening of new stores and remodeling of existing stores, debt servicing, payment of operating expenses and providing for working capital, which principally represents the purchase of inventory.

We believe that cash generated from operations, along with our existing cash and revolving credit facilities, will be sufficient to fund our expected cash flow requirements, and planned capital expenditures for at least the next 12 months.

Cash Flow for the Twelve Months Ended June 2, 2007 Compared with Twelve Months Ended June 3, 2006

Net cash provided by continuing operations amounted to $96.0 million for fiscal 2007 which reflected a decrease of $282.1 million from $378.1 million of net cash provided by continuing operations for the comparative period of fiscal 2006. This decrease in net cash from continuing operations was due primarily to less cash being generated from the sale of short term investments than was generated in fiscal year 2006, and from a decrease in net income of $114.4 million. The decrease in net income is primarily due to interest expenses and other Merger related expenses such as the payment of retention bonuses incurred during fiscal 2007.

Net cash (used in) investing activities decreased from $2.12 billion for fiscal 2006 to $52.6 million for fiscal 2007. This decrease was primarily attributable to acquisition costs related to the Merger recorded during fiscal 2006.

Net cash used in financing activities amounted to $67.9 million for fiscal 2007 compared with $1.75 billion of net cash provided by financing activities for fiscal 2006. This decrease is related to the net debt/equity proceeds related to

the financing of the Merger Transaction received during fiscal 2006.

Working capital increased to $283.4 million at June 2, 2007 from $233.2 million at June 3, 2006. This increase in working capital is primarily attributed to a decrease in accounts payable of $62.5 million due to fewer purchases in May 2007 compared with May of 2006, offset in part by a $27.4 million increase in Assets Held for Disposal given the anticipated sale of certain fixed assets.

Twelve Months Ended June 3, 2006 Compared with Twelve Months Ended May 28, 2005

Net cash provided by continuing operations of $378.1 million for fiscal 2006 increased by $236.1 million from $142.0 million of net cash provided by continuing operations for the comparative period of fiscal 2005. This increase in net cash from continuing operations was due primarily to an increase in the sale of short term investments and to lower expenditures for inventory purchases during fiscal 2006 compared with fiscal 2005.

Net cash (used in) investing activities increased from $(98.5) million for fiscal 2005 to $(2,121.6) million for fiscal 2006. This increase was primarily attributable to acquisition costs related to the Merger.

Net cash provided by financing activities amounted to $1,753.9 million for fiscal 2006 compared with $25.4 million of net cash used in financing activities for fiscal 2005. This increase is related to the net debt/equity proceeds related to the financing of the Merger. Working capital decreased to $233.2 million at June 3, 2006 from $407.2 million at May 28, 2005. This decrease in

working capital and the increase in net cash used in financing activities were due primarily to the prepayment of our $100 million senior notes in November 2005.

Debt

Our credit agreements and debt indentures contain customary covenants, including, among other things, covenants that restrict our ability to incur certain additional indebtedness, create or permit liens on assets, or engage in mergers or consolidations. Our credit agreements and debt indentures also contain various and customary events of default with respect to the loans, including, without limitation, the failure to pay interest or principal when the same is due under the credit agreements, cross default provisions, the failure of representations and warranties contained in the credit agreements to be true and certain insolvency events. If an event of default occurs and is continuing, the principal amounts outstanding thereunder, together with all accrued unpaid interest and other amounts owed thereunder, may be declared immediately due and payable by the lenders. Were such an event to occur, we would be forced to seek new financing that may not be on as favorable terms as our current facilities.

As of June 2, 2007, we were in compliance with our financial covenants relating to our debt. As of June 2, 2007, we had: $159.0 million outstanding under the ABL Credit Facility and unused availability of $291.3 million. We had $884 million outstanding under our term loan facility. During fiscal 2007, the Company paid down $13 million of its outstanding obligations under the Term Loan, of which $4 million was an optional prepayment without penalty. In addition, during fiscal 2007, the Company paid $53 million toward its outstanding obligations under the ABL Credit Facility.

Please refer to Note L. Long-Term Debt in the footnotes to the Company's Consolidated Financial Statements for a description of all outstanding debt.

Capital Expenditures

During fiscal 2007, we opened 19 new Burlington Coat Factory Warehouse department stores and relocated three stores to new locations within their trading areas. We incurred $37.9 million, net of landlord allowances, in capital expenditures during fiscal 2007, including $20.7 million for store fixtures and improvements (which include expenses related to the re-opening of three stores closed due to Hurricane damage), $3.0 million for upgrades to our warehouse/distribution facilities and $14.2 million for information technology improvements and equipment expenditures. For fiscal 2008, the Company estimates that it will spend approximately $61.1 million, net of landlord allowances, for store openings, improvements to warehouse/distribution facilities, information technology upgrades, and other capital expenditures. Of the $61.1 million, approximately $28.8 million has been allocated for expenditures related to new stores, relocations and other store requirements; $19.7 million for information technology initiatives (including $6.2 million for a new warehouse management system); and $12.6 million for corporate office improvements and warehouse infrastructure upgrades (of which $9.7 million is for additional and replacement equipment for the New Jersey warehouse facilities).

We monitor the availability of desirable locations for our stores from such sources as dispositions by other retail chains and bankruptcy auctions. We may seek to acquire a number of such locations in one or more transactions. If we undertake such transactions, we may seek additional financing to fund acquisition 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 Company stores) related to these 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.

Dividends

Payment of dividends is prohibited under our credit agreements, except for certain limited circumstances. Dividends equal to $100,080 were paid in fiscal 2007 to our Parent in order to repurchase capital stock of the Parent from a retiring manager.

Certain Information Concerning Contractual Obligations

The following table sets forth certain information regarding our contractual obligations as of June 2, 2007 (in millions):

Contractual Obligations	**Payments During Fiscal Years**				
	Total	**Less Than 1 Year**	**2-3 Years**	**4-5 Years**	**Thereafter**
Long-Term Debt(1)	$ 1,453.1	$ 5.7	$ 20.6	$ 192.1	$ 1,234.7
Interest	743.2	116.6	258.8	240.5	127.3
Capital Lease Obligations(2)	54.0	2.5	5.1	5.3	41.1
Operating Leases	705.6	144.7	216.7	132.2	212.0
Purchase Obligations	635.5	626.0	9.0	0.5	---
Total	$ 3,591.4	$ 895.5	$ 510.2	$ 570.6	$ 1,615.1

(1) Excludes interest on Long-Term Debt.
(2) Capital Lease Obligations include future interest payments.

During fiscal 2007, we sold lease rights for three store locations that were operated by the Company. In the event of default, the Company could be liable for obligations associated with these real estate leases which have future lease related

payments (not discounted to present value) of approximately $9.6 million through the end of fiscal 2012, and which are not reflected in the table above. The scheduled future minimum rentals for these leases over the next five fiscal years and thereafter are $1.9 million, $1.9 million, $ 1.6 million, $1.4 million, and $2.8 million, respectively. We believe the likelihood of a material liability being triggered under these leases is remote, and no liability has been accrued for these contingent lease obligations as of June 2, 2007.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. 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 revenue returns, bad debts, inventories, income taxes, financing operations, asset impairment, retirement benefits, risk participation agreements, vendor promotional allowances, reserves for closed store contingencies and litigation. 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.

We believe that the following represent the more critical estimates and assumptions used in the preparation of the condensed consolidated financial statements:

Intangible Assets and Purchase Accounting. As discussed above, the Merger was completed on April 13, 2006 and was financed by a combination of borrowings under our senior secured credit facilities, the issuance of the senior notes, the issuance of the Holdings Senior Discount Notes and the equity investment of affiliates of Bain Capital and management. The purchase price, including transaction costs was approximately $2.1 billion. Purchase accounting requires that all assets and liabilities be recorded at fair value on the acquisition date, including identifiable intangible assets separate from goodwill. Identifiable intangible assets include trade names, and net favorable lease positions. Goodwill represents the excess of cost over the fair value of net assets acquired. For the Merger, we obtained independent appraisals and valuations of the intangible (and certain tangible) assets acquired as well as for the equity. The fair values and useful lives of identified intangible assets are based on many factors, including estimates and assumptions of future operating performance, estimates of cost avoidance, the specific characteristics of the identified intangible assets and our historical experience.

When circumstances change, or at least annually, we compare the carrying value of our intangible assets to their estimated fair value. If the carrying value is greater than the respective estimated fair value, we then determine if the asset is impaired, and whether some or all of the asset should be written off as a charge to operations, which could have a material adverse effect on our financial results.

Goodwill Impairment. Goodwill represents the excess of cost over the fair value of net assets acquired. SFAS No. 142, "*Goodwill and Other Intangible Assets*," requires periodic tests of the impairment of Goodwill. SFAS No. 142 requires a comparison, at least annually, of the net book value of the assets and liabilities associated with a reporting unit, including goodwill, with the fair value of the reporting unit, which corresponds to the discounted cash flows of the reporting unit, in the absence of an active market. When this comparison indicates that impairment must be recorded, the impairment recognized is the amount by which the carrying amount of the assets exceeds the fair value of these assets. Our annual goodwill impairment review is conducted during the last month of each fiscal year. There were no impairment charges recorded on our $46.2 million carrying value of Goodwill for the fiscal year ended June 2, 2007.

Inventory. Our inventory is valued at the lower of cost or market using the retail average cost method. Under the retail inventory method, the valuation of inventory at cost and resulting gross margin are calculated by applying a calculated cost to retail ratio to the retail value of inventory. The retail inventory method is an averaging method that has been widely used in the retail industry due to its practicality. Additionally, the use of the retail inventory method will result in valuing inventory at the lower of cost or market if markdowns are currently taken as a reduction of the retail value of inventory. Inherent in the retail inventory method calculation are certain significant management judgments and estimates including, merchandise markon, markups, markdowns and shrinkage which significantly impact the ending inventory valuation at cost as well as the resulting gross margin. Management believes that our retail inventory method and application of the average cost method provides an inventory valuation which approximates cost using a first-in, first-out assumption and results in carrying value at the lower of cost or market. Estimates are used to charge inventory shrinkage for the first three fiscal quarters of the fiscal year. An actual physical inventory is conducted at the end of the fiscal year to calculate actual shrinkage. We also estimate the required markdown allowances. If actual market conditions are less favorable than those projected by management, additional markdowns may be required. While we make estimates on the basis of the best information available to us at the time estimates are made, over accruals or under accruals may be uncovered as a result of the physical inventory requiring fourth quarter adjustments.

Insurance. We have risk participation agreements with insurance carriers with respect to workers' compensation, liability insurance and health insurance. Pursuant to these arrangements, we are responsible for paying individual claims up to designated dollar limits. The amounts included in our costs related to these claims are estimated and can vary based on changes in assumptions or claims experience included in the associated insurance programs. For example, changes in legal trends and

interpretations, as well as changes in the nature and method of how claims are settled can impact ultimate costs. An increase in worker's compensation claims by employees, health insurance claims by employees or liability claims will result in a corresponding increase in our costs related to these claims. Insurance reserves amounted to $33.7 million and $30.8 million at June 2, 2007 and June 3, 2006, respectively.

Reserves for Revenue Returns. We record reserves for future revenue returns. The reserves are based on current revenue volume and historical claim experience. If claims experience differs from historical levels, revisions in our estimates may be required. Sales reserves amounted to $5.5 million and $1.9 million at June 2, 2007 and June 3, 2006. This increase is due to the change in the Company's return policy which starting in fiscal 2007 which provided for cash back returns in addition to store merchandise credit for returns.

Long-Lived Assets. We test for recoverability of long-lived assets whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. This includes performing an analysis of anticipated undiscounted future net cash flows of long-lived assets. If the carrying value of the related assets exceeds the undiscounted cash flow, we reduce the carrying value to its fair value, which is generally calculated using discounted cash flows. Various factors including future sales growth and profit margins are included in this analysis. To the extent these future projections change, the conclusion regarding impairment may differ from the estimates. Future adverse changes in market conditions or poor operating results of underlying assets could result in losses or an inability to recover the carrying value of the assets that may not be reflected in an asset's current carrying value, thereby possibly requiring an impairment charge in the future. In Fiscal 2007, we recorded $24.4 million in impairment charges related to long-lived assets and intangible assets at sixteen of our stores. There were no impairment charges related to long-lived assets in Fiscal 2006.

Allowance for Doubtful Accounts. We maintain allowances for bad checks, miscellaneous receivables and losses on credit card accounts. This reserve is calculated based upon historical collection activities adjusted for known uncollectibles.

Estimates Related to Certain Employee Benefit Plans. The Company has significant employee benefit expenses related to its discretionary, noncontributory profit-sharing plan for certain employees who meet age and service requirements and its match of employee contributions to the Company's 401(k) plan. The Company estimates its expenses related to these plans on a quarterly basis based on historical employee contribution rates, estimated eligible wages and estimated plan forfeitures. In the period ended June 2, 2007, the Company decided not to make a contribution to the profit sharing plan for the plan year end December 31, 2006. As a result, $9.4 million of previously recorded employee benefit costs were reversed and recorded in the year as an offset to selling and administrative costs. An additional $0.8 million was recorded as an offset to selling and administrative costs related to the variance between estimated and actual plan forfeitures for calendar year 2006.

Income Taxes. We account for income taxes in accordance with SFAS 109, *"Accounting for Income Taxes."* Our provision for income taxes and effective tax rates are based on a number of factors, including our income, tax planning strategies, differences between tax laws and accounting rules, statutory tax rates and credits, uncertain tax positions, and valuation allowances, by legal entity and jurisdiction. We use significant judgment and estimations in evaluating our tax positions.

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

reserves reflect the probable outcome of known tax contingencies. Beginning in the first quarter of fiscal 2008, we will adopt Financial Accounting Standards Board ("FASB") Interpretation No. 48 (as amended) – "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"). Any adjustments related to the adoption of FIN 48 will be reflected as an adjustment to retained earnings in fiscal 2008.

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

Recent Accounting Pronouncements

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

b. In June 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue 06-3, *How*

Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement. The scope of this consensus includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to sales, use, value added and some excise taxes. Additionally, this consensus seeks to address how a company should address the disclosure of such items in interim and annual financial statements, either gross or net pursuant to APB Opinion No. 22, *Disclosure of Accounting Policies*. EITF Issue 06-3 is effective for all financial reports for interim and annual reporting periods beginning after December 15, 2006. The Company presents sales net of sales taxes in its consolidated statement of operations. No change in presentation is anticipated as a result of EITF 06-3.

c. In September 2006, the SEC issued SAB No. 108, *Considering Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financials*. SAB No. 108 provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year financial statement misstatements for the purpose of a materiality assessment. The Company was required to adopt the provisions of SAB No. 108 in its first year ending after November 15, 2006. The adoption of SAB No. 108 did not have a material impact on our consolidated financial statements.

d. In February 2007, the FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115.* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value, with unrealized gains and losses related to these financial instruments reported in earnings at each subsequent reporting date. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is in the process of evaluating the impact of SFAS No. 159 on its consolidated financial statements.

e. In July 2006, the FASB issued FASB Interpretation ("FIN") No. 48 – Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on accounting for derecognition, interest, penalties, accounting in interim periods, disclosure and classification of matters related to uncertainty in income taxes and transitional requirements upon adoption of FIN 48. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 on the first day of its fiscal year ended May 31, 2008. Any adjustments related to the adoption of FIN48 will be reflected as an adjustment to retained earnings in fiscal 2008.

Fluctuations in Operating Results

We expect that our revenues and operating results may fluctuate from quarter to quarter or over the longer term. Certain of the general factors that may cause such fluctuations are discussed under "Risk Factors."

Seasonality

Our business is seasonal, with our highest sales occurring in the months of September, October, November, December and January of each year. For the past five fiscal years, an average 51% of our net sales have occurred during the period from September through January. Weather, however, continues to be an important contributing factor to the sale of clothing in the fall, winter and spring seasons. Generally, our sales are higher if the weather is cold during the fall and warm during the early spring.

Inflation

We do not believe that our operating results have been materially affected by inflation during the past year. Historically, we have been able to increase our selling prices as the costs of merchandising and related operating

expenses have increased, and therefore, inflation has not had a significant effect on operations.

Market Risk

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

As previously described, the Company entered into two interest rate cap agreements effective as of May 30, 2006, to manage interest rate risks associated with its long-term debt obligations. Gains and losses associated with these contracts are accounted for as interest expense and are recorded under the caption “Interest Expense” on the Company’s Consolidated Statement of Operations. We continue to have exposure to interest rate risks to the extent they are not hedged.

Off-Balance Sheet Transactions

Other than operating leases consummated in the normal course of business, we do not have any material off-balance sheet arrangements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

We are exposed to certain market risks as part of our ongoing business operations. Primary exposures include changes in interest rates, as borrowings under BCFWC's ABL Credit Facility and term loan which bear interest at floating rates based on LIBOR or the base rate, in each case plus an applicable borrowing margin. We will manage our interest rate risk by balancing the amount of fixed-rate and floating-rate debt. For fixed-rate debt, interest rate changes do not affect earnings or cash flows. Conversely, for floating-rate debt, interest rate changes generally impact our earnings and cash flows, assuming other factors are held constant.

At June 2, 2007, we had $392.2 million principal amount of fixed-rate debt and $1,043.3 million of available floating-rate debt. Based on $1,043.3 million outstanding as floating rate debt, an immediate increase of one percentage point would cause an increase to cash interest expense of approximately $10.4 million per year.

If a one point increase in interest rate were to occur over the next four quarters (excluding the interest rate cap), such an increase would result in the following additional interest expenses (assuming current borrowing level remain constant) (all amounts in thousands):

Floating Rate Debt (amounts in thousands)	Principal Outstanding at June 2, 2007	Additional Interest Expense Q1 2007	Additional Interest Expense Q2 2007	Additional Interest Expense Q3 2007	Additional Interest Expense Q4 2008
ABL Credit Facility	$ 159,000	$ 398	$ 398	$ 398	$ 398
Term Loan	884,250	2,211	2,211	2,211	2,205
Total	$ 1,043,250	$ 2,609	$ 2,609	$ 2,609	$ 2,603

BCFWC has two interest rate cap agreements for a maximum principal amount of $1.0 billion which limit our interest rate exposure to 7% for our first billion of borrowings under our variable rate debt obligations and if interest rates were to increase above the 7% cap rate, then the maximum interest rate exposure for the Company would be $17.8 million assuming constant current borrowing levels of $1 billion. Currently, the Company has unlimited interest rate risk related to its variable rate debt in excess of $1 billion. At June 2, 2007, BCFWC's borrowing rates related to its ABL Credit Facility averaged 7.16%. At June 2, 2007, the borrowing rate related to its term loan was 7.61%.

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

A change in interest rates generally does not have an impact upon our future earnings and cash flow for fixed-rate debt instruments. As fixed-rate debt matures, however, and if additional debt is acquired to fund the debt repayment, future earnings and cash flow may be affected by changes in interest rates. This effect would be realized in the periods subsequent to the periods when the debt matures.

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Item 8. INDEX TO FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Burlington Coat Factory Investments Holdings, Inc.
Burlington, New Jersey

We have audited the accompanying consolidated balance sheets of Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries as of June 2, 2007 and June 3, 2006 (the "Successor") and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended June 2, 2007 and for the period from April 13, 2006 to June 3, 2006. We have also audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows for the period from May 29, 2005 to April 12, 2006 and for the year ended May 28, 2005 of Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries (the "Predecessor"). Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and the financial statement schedule are the responsibility of Burlington Coat Factory Investments Holdings, Inc.'s (the "Company's") management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

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

In our opinion, the Successor's consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 2, 2007 and June 3, 2006, and the results of its operations, stockholders' equity, and its cash flows for the year ended June 2, 2007 and for the period from April 13, 2006 to June 3, 2006, in conformity with accounting principles generally accepted in the United States of America. Further, in our opinion, the Predecessor's consolidated financial statements present fairly, in all material respects, the results of its operations and its cash flows for the period from May 29, 2005 to April 12, 2006 and for the year ended May 28, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
August 30, 2007

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets
(All amounts in thousands, except share data)

	June 2, 2007	June 3, 2006
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 33,878	$ 58,376
Restricted Cash and Cash Equivalents	2,753	13,816
Investments	—	591
Accounts Receivable (Net of Allowances for Doubtful Accounts of $969 in 2007; $199 in 2006	30,590	42,083
Merchandise Inventories	710,571	708,185
Deferred Tax Assets	35,143	27,916
Prepaid and Other Current Assets	34,257	30,786
Prepaid Income Taxes	1,109	-
Assets Held for Disposal	35,073	7,661
Total Current Assets	883,374	889,414
Property and Equipment—Net of Accumulated Depreciation	948,334	1,042,398
Tradename	526,300	526,300
Favorable Leases—Net of Accumulated Amortization	574,879	626,676
Goodwill	46,219	58,985
Other Assets	57,415	69,727
Total Assets	$ 3,036,521	$ 3,213,500
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 395,375	$ 457,855
Income Taxes Payable	-	6,274
Other Current Liabilities	198,627	181,760
Current Maturities of Long Term Debt	5,974	10,360
Total Current Liabilities	599,976	656,249
Long Term Debt	1,456,330	1,508,119
Other Liabilities	48,447	21,974
Deferred Tax Liability	551,298	607,646
Commitments and Contingencies (See Footnote S)		
Stockholders' Equity:		
Common Stock, Par Value $0.01; Authorized 1,000 shares; 1,000 issued and outstanding at June 2, 2007 and June 3, 2006	—	—
Capital in Excess of Par Value	454,935	446,678
Accumulated Deficit	(74,465)	(27,166)
Total Stockholders' Equity	380,470	419,512
Total Liabilities and Stockholders' Equity	$ 3,036,521	$ 3,213,500

See Notes to Consolidated Financial Statements

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries

Consolidated Statements of Operations
(All amounts in thousands)

	(Successor)		(Predecessor)	
	Year Ended June 2, 2007	April 13, 2006 to June 3, 2006	May 29, 2005 to April 12, 2006	Year Ended May 28, 2005
REVENUES:				
Net Sales	$ 3,403,407	$ 421,180	$ 3,017,633	$ 3,171,242
Other Revenue	38,238	4,066	27,675	28,598
	3,441,645	425,246	3,045,308	3,199,840
COSTS AND EXPENSES:				
Cost of Sales (Exclusive of Depreciation and Amortization)	2,125,160	266,465	1,916,798	1,987,159
Selling and Administrative Expenses	1,062,468	154,691	897,231	957,759
Depreciation	130,398	18,097	78,804	88,995
Amortization	43,689	9,758	494	98
Impairment Charges	24,421	—	—	863
Interest Expense	134,313	18,093	4,609	7,334
Other Income, Net	(6,180)	(4,876)	(3,572)	(14,619)
	3,514,269	462,228	2,894,364	3,027,589
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Tax	(72,624)	(36,982)	150,944	172,251
Provision for (Benefit from) Income Tax	(25,425)	(9,816)	56,605	66,204
Income (Loss) from Continuing Operations	(47,199)	(27,166)	94,339	106,047
Loss From Discontinued Operations, Net of Tax Benefit of $112 in 2005	—	—	—	(1,014)
Net Income (Loss)	(47,199)	(27,166)	94,339	105,033
Net Unrealized Gain (Loss) on Investments, Net of tax	—	—	(4)	2
Total Comprehensive Income (Loss)	$ (47,199)	(27,166)	$ 94,335	$ 105,035

See Notes to Consolidated Financial Statements

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(All amounts in thousands)

	(Successor)		(Predecessor)	
	Year Ended June 2, 2007	April 13 to June 3, 2006	May 29, 2005 to April 12, 2006	Year Ended May 28, 2005
OPERATING ACTIVITIES				
Net Income (Loss)	$ (47,199)	$ (27,166)	$ 94,339	$ 105,033
Net Loss from Discontinued Operations	—	—	—	1,014
Net Income (Loss) from Continuing Operations	(47,199)	(27,166)	94,339	106,047
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Depreciation	130,398	18,097	78,804	88,995
Amortization	43,689	9,758	494	98
Impairment Charges	24,421	—	—	863
Accretion	11,948	—	—	—
Interest Rate Cap Contract-Adjustment to Market	1,971	—	—	—
Provision for Losses on Accounts Receivable	2,826	374	3,479	7,501
Provision for Deferred Income Taxes	(61,834)	(11,305)	(11,328)	(5,503)
Loss (Gain) on Disposition of Fixed Assets and Leaseholds	3,637	1	2,742	(750)
Unrealized Loss on Investments	—	—	—	108
Stock Option Expense and Deferred Compensation Amortization	7,957	847	—	—
Non-Cash Rent Expense and Other	10,185	2,537	1,438	3,355
Changes in Assets and Liabilities				
Investments	591	183	133,890	33,702
Accounts Receivable	(4,258)	(2,296)	2,059	(8,540)
Merchandise Inventories	(2,386)	48,971	(36,274)	(98,344)
Prepaid and Other Current Assets	910	9,154	(8,098)	(1,725)
Accounts Payable	(62,480)	(62,176)	116,189	26,556
Accrued and Other Current Liabilities	3,683	(39,759)	50,193	(8,687)
Deferred Rent Incentives	31,957	(113)	3,052	(1,652)
Net Cash Provided by (Used in) Continuing Operations	96,016	(52,893)	430,979	142,024
Net Cash Provided by Discontinued Operations	—	—	—	67

Net Cash Provided by (Used in) Operating Activities	96,016	(52,893)	430,979	142,091
INVESTING ACTIVITIES				
Acquisition Costs	—	(2,055,747)	—	—
Cash Paid for Property and Equipment	(69,188)	(6,275)	(68,923)	(93,115)
Change in Restricted Cash and Cash Equivalents	11,063	6	1,135	(5,653)
Proceeds from Insurance Recoveries	—	—	3,822	—
Proceeds From Sale of Fixed Assets and Leaseholds	4,669	4,337	697	4,507
Proceeds From Sale of Partnership Interest	850	—	—	—
Lease Acquisition Costs	—	—	(635)	(4,225)
Issuance of Notes Receivable	—	(9)	(55)	(58)
Receipts Against Long Term Notes Receivable	(67)	—	—	35

Other	82	19	39	16
Net Cash Used in Investing Activities—Continuing Operations	(52,591)	(2,057,669)	(63,920)	(98,493)
Net Cash Used in Investing Activities—Discontinuing Operations	—	—	—	(78)
Net Cash Used in Investing Activities	(52,591)	(2,057,669)	(63,920)	(98,571)
FINANCING ACTIVITIES				
Proceeds from Long Term Debt- Term Debt	—	—	470	—
Proceeds from Long Term Debt—Term Loan	—	900,000	—	—
Proceeds from Long Term Debt - Senior Discount Notes	—	75,000	—	—
Proceeds from Long Term Debt—Senior Notes	—	299,114	—	—
Proceeds from Long Term Debt—ABL Line of Credit	649,655	428,000	—	—
Principal Payments on Long Term Debt	(1,384)	(46)	(101,167)	(1,048)
Principal Payments on Long Term Debt—Term Loan	(13,500)	(2,250)	—	—
Principal Payments on Long Term Debt—ABL Line of Credit	(702,894)	(215,761)	—	—
Equity Investment	300	—	—	—
Proceeds from Issuance of Common Stock	—	445,830	—	—
Purchase of Interest Rate Cap Contract	—	(2,500)	—	—
Treasury Stock Transactions	—	—	—	1,083
Issuance of Common Stock Upon Exercise of Stock Options	—	—	425	1,364
Debt Issuance Costs	—	(71,398)	—	—
Payment of Dividends	(100)	—	(1,791)	(26,783)
Net Cash Provided by (Used in) Financing Activities	(67,923)	1,855,989	(102,063)	(25,384)
Increase (Decrease) in Cash and Cash Equivalents	(24,498)	(254,573)	264,996	18,136
Cash and Cash Equivalents at Beginning of Period	58,376	312,949	47,953	29,817
Cash and Cash Equivalents at End of Period	$ 33,878	$ 58,376	$ 312,949	$ 47,953
Supplemental Disclosure of Cash Flow Information				
Interest Paid	$ 124,631	$ 6,223	$ 5,538	$ 9,363
Income Taxes Paid	$ 38,389	$ 26,814	$ 43,351	$ 86,498
Accruals Related to Purchases of Property and Equipment	$ 4,175	$ (987)	$ (1,506)	$ (805)

See Notes to Consolidated Financial Statements

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity
(All amounts in thousands, except share data)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Note Receivable From Options Exercised	Treasury Stock	Total
Predecessor:							
Balance at May 29, 2004	$ 49,809	$ 23,016	$ 831,926	$ 2	$ (63)	$ (59,258)	$ 845,432
Comprehensive Income:							
Net Income			105,033				105,033
Net Unrealized Loss on Non-current Marketable Securities, Net of Taxes				2			2
Total Comprehensive Income:							105,035
Stock Options Exercised	89	1,275					1,364
Repayment of Note receivable from Options Exercised					22		22
Treasury Stock Transactions		485				598	1,083
Dividend			(26,783)				(26,783)
Balance at May 28, 2005	49,898	24,776	910,176	4	(41)	(58,660)	926,153
Comprehensive Income:							
Net Income			94,339				94,339
Net Unrealized Loss on Non-current Marketable Securities, Net of Taxes				(4)			(4)
Total Comprehensive Income:							94,335
Stock Options Exercised	3	422					425
					41		41

Repayment of Note receivable from Options Exercised							
Dividend			(1,791)				(1,791)
Balance at April 12, 2006	$ 49,901	$ 25,198	$ 1,002,724	$ —	$ —	$ (58,660)	$ 1,019,163

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Successor:	Common Stock	Capital in Excess of Par Value	Accumulated (Deficit)	Total
Balance at April 13, 2006	$	$ 445,830	$	$ 445,830
Net Loss			(27,166	(27,166)
Deferred Compensation—Amortization		848		848
Balance at June 3, 2006		446,678	(27,166)	419,512
Net Loss			(47,199)	(47,199)
Stock Option Expense		2,855		2,855
Deferred Compensation-Amortization		5,102		5,102
Equity Investment		300		300
Dividend ($10,000 per share)			(100)	(100)
Balance at June 2, 2007	$ —	$ 454,935	$ (74,465)	$ 380,470

See Notes to Consolidated Financial Statements

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

A. Summary of Significant Accounting Policies

1. Business

Burlington Coat Factory Investments Holdings, Inc. and its subsidiaries (the "Company" or "Holdings") operate stores, in 44 states, which sell apparel, shoes and accessories for men, women and children. A majority of those stores offer a home furnishings and linens department and a juvenile furniture department. As of June 2, 2007, the Company operates stores under the names "Burlington Coat Factory" (three hundred fifty-nine stores), "Cohoes Fashions" (two stores), "MJM Designer Shoes" (seventeen stores), and "Super Baby Depot" (one store). Cohoes Fashions offers products similar to that of Burlington Coat Factory. MJM Designer Shoes offers moderately priced designer and fashion shoes. The Super Baby Depot store offers baby clothing, accessories, furniture and other merchandise in the middle to higher price range. During fiscal 2007, the Company opened nineteen Burlington Coat Factory stores. Two stores previously operated as Cohoes Fashions stores were converted to Burlington Coat Factory stores and three existing Burlington Coat Factory stores were relocated to new sites within their existing selling markets. In addition, the Company reopened all stores which were closed due to Hurricane Katrina and Wilma damage. During the fiscal year, three Burlington Coat Factory stores, three Cohoes Fashions stores, one MJM Designer Shoes store and one Super Baby Depot store were closed.

2. Basis of Presentation

The consolidated financial statements include the accounts of Burlington Coat Factory Investments Holdings, Inc. and all 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. Except as expressly indicated or unless the context otherwise requires, as used herein the "Company", "we", "us", or "our" means Burlington Coat Factory Investments Holdings, Inc. and its subsidiaries.

Although BCFWC continued as the same legal entity after the Merger Transaction (described below in Note 3), the accompanying consolidated statements of operations and cash flows are presented for the Predecessor and Successor periods, which relate to the period preceding the Merger and the period succeeding the Merger, respectively. We refer to the operations of BCFWC and subsidiaries for both the Predecessor and Successor periods.

3. Merger Transaction

On January 18, 2006, BCFWC entered into an Agreement and Plan of Merger, dated as of January 18, 2006 (the "Merger Agreement"), by and among BCFWC, Burlington Coat Factory Holdings, Inc. (f/k/a BCFWC Acquisition, Inc.) ("Parent") and BCFWC Mergersub, Inc. ("Merger Sub") to sell all of the outstanding common stock of BCFWC to Parent through a merger with Merger Sub, which were entities directly and indirectly owned by entities affiliated with Bain Capital Partners, LLC (collectively, the "Equity Sponsors" or "Investors").

On April 13, 2006, the transaction was consummated by the Equity Sponsors through a $2.1 billion merger of Acquisition Sub with and into BCFWC, with BCFWC being the surviving corporation in the merger (the "Merger"). Under the Merger Agreement, the former holders of BCFWC's common stock, par value $1.00 per share, received $45.50 per share. The Merger consideration was funded through the use of BCFWC's available cash, cash equity

contributions from the Equity Sponsors and the debt financings as described more fully below. We refer to the April 13, 2006 Merger as the "Merger Transaction."

Immediately following the consummation of the Merger Transaction, Parent entered into a Contribution Agreement with Holdings to effectuate an exchange of shares whereby Parent delivered to Holdings all of the outstanding shares in BCFWC, and Holdings simultaneously issued and delivered to the parent 1,000 shares of common stock constituting all of Holdings' issued and outstanding stock.

The following principal equity capitalization and financing transactions occurred in connection with the Merger Transaction:

- Aggregate cash equity contributions of approximately $445 million were made by the Equity Sponsors and $0.8 million in cash from members of management; and

- BCFWC (1) entered into an $800 million secured ABL Credit Facility, of which $225 million was drawn at closing, (2) entered into a $900 million secured term loan agreement, all of which was drawn at closing, (3) issued $305 million face amount 11 1/8% Senior Notes due 2014 at a discount of which all the $299 million proceeds were used to finance the Merger Transactions and (4) received a cash contribution from Holdings of $75 million from an issuance of $99.3 million 14 1/2% Senior Discount Notes due 2014, all of which was also used to finance the Merger Transaction.

The proceeds from the equity capitalization and financing transactions, together with $193 million of our available cash, were used to fund the:

- Purchase of common stock outstanding of approximately $2.1 billion;

- Settlement of all stock options of BCFWC under the terms of the Merger Agreement of approximately $13.8 million; and

- Fees and expenses related to the Merger Transaction and the related financing transactions of approximately $90.8 million.

Immediately following the consummation of the Merger Transaction, the Equity Sponsors indirectly owned 98.5% of the Parent and management owned 1.5% of the Parent.

In connection with the Merger Transaction, effective as of April 13, 2006, the Certificate of Incorporation of BCFWC Mergersub, Inc. became BCFWC's Certificate of Incorporation which resulted in the following changes to BCFWC's authorized capital stock from 5,000,000 preferred shares, par value $1.00 per share, and 100,000,000 common shares, par value $1.00 per share to 1,000 preferred shares, par value $0.01 per share, and 10,000 common shares, par value $1.00 per share, authorized shares of capital stock. As of June 2, 2007, 1,000 shares of BCFWC common stock were held by Holdings and all 1,000 shares of Holdings were held by Parent.

4. Principles of Consolidation

The consolidated financial statements include the accounts of Burlington Coat Factory Investments Holdings, Inc. and all its subsidiaries in which it has the controlling financial interest through direct ownership of a majority voting interest or a controlling managerial interest. All subsidiaries are wholly owned except one, of which we own seventy-five percent. The investment is consolidated, net of its minority interest. All significant 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 Parent is the only holder of record of this stock.

5. Use of Estimates

The Company's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Certain amounts included in the consolidated financial statements are estimated based on currently available information and management's judgment as to the outcome of future conditions and circumstances. While every effort is made to ensure the integrity of such estimates, actual results

could differ from these estimates.

6. Cash and Cash Equivalents

Cash and cash equivalents represent cash and short-term, highly liquid investments with maturities of three months or less at the time of purchase.

7. Inventories

Merchandise inventories as of June 2, 2007 and June 3, 2006 are valued at the lower of cost, on an average cost basis, or market, as determined by the retail inventory method. The Company records its cost of merchandise (net of purchase discounts and certain vendor allowances), certain merchandise acquisition costs (primarily commissions and import fees), inbound freight, warehouse outbound freight, and freight on internally transferred merchandise in the line item "Cost of Sales" in the Company's Consolidated Statement of Operations. Costs associated with the Company's warehousing, distribution, buying, and store receiving functions are included in the line items "Selling and Administrative Expenses", "Depreciation" and "Amortization" in the Company's Consolidated Statement of Operations. Warehousing and purchasing costs included in "Selling and Administrative Expenses" amounted to $57.7 million, $7.5 million, $45.4 million and $47.5 million for the fiscal year ended June 2, 2007, the fiscal period from April 13, 2006 to June 3, 2006, the fiscal period from May 29, 2005 to April 12, 2006, and the fiscal year ended May 28, 2005, respectively. Depreciation related to the warehousing and purchasing functions amounted to $10.4 million, $0.1 million, $7.8 million, and $8.8 million, for the fiscal year ended June 2, 2007, the fiscal period from April 13, 2006 to June 3, 2006, the fiscal period from May 29, 2005 to April 12, 2006, and the fiscal year ended May 28, 2005, respectively. Also included in "Selling and Administrative Expenses" are payroll and payroll related expenses, occupancy related expenses, advertising expenses, store operating expenses and corporate overhead expenses.

8. Investments

The Company classifies its investments in debt and equity securities into held-to-maturity, available-for-sale or trading categories in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting For Certain Investments in Debt and Equity Securities.* Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Debt securities not classified as held-to-maturity are classified as trading securities and are carried at fair market value, with unrealized gains and losses included in net income (loss). The Company's investments not classified as held-to-maturity or trading securities are classified as available-for-sale and are carried at fair market value, with unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity.

9. Assets Held for Disposal

Assets Held for Disposal represents 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 comprised of buildings related to store operations and store leases held by the Company.

10. Property & Equipment

Property and equipment are recorded at cost, and depreciation is computed using the straight line method over the estimated useful lives of the assets. The estimated useful lives are between 20 and 40 years for buildings, depending upon the expected useful life of the facility, and three to ten years for store fixtures and equipment. Leasehold improvements are depreciated over the lease term including any reasonably assured renewal options or the expected economic life of the improvement, whichever is less. Repairs and maintenance expenditures are charged to expense as incurred. Renewals and betterments, which significantly extend the useful lives of existing property and equipments, are capitalized. Assets recorded under capital leases are recorded at the present value of minimum lease payments and are amortized over the lease term. Amortization of assets recorded as capital leases is included in "Depreciation" in the Company's Consolidated Statements of Operations.

The carrying value of all long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, in accordance with SFAS No.144, "*Accounting for the Impairment of Disposal of Long Lived Assets*." An impairment charge is recorded when an asset's carrying value exceeds its fair value.

11. Intangible Assets

The Company accounts for intangible assets in compliance with SFAS No. 142, *Goodwill and Other Intangible Assets*. The Company's intangible assets primarily represent a tradename and net favorable lease positions. The tradename asset, the trademark Burlington Coat Factory, is expected to generate cash flows indefinitely and does not have an estimable or finite useful life; and therefore, is accounted for as an indefinite-lived asset not subject to amortization. The values of favorable and unfavorable lease positions are amortized on a straight-line basis over the expected lease terms. Amortization of net favorable lease positions are

included in "Amortization" in the Company's Consolidated Statement of Operations.

The Company tests identifiable intangible assets with an indefinite life for impairment at a minimum on an annual basis, relying on a number of factors, including operating results, business plans and projected future cash flows. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. The Company tested these assets for impairment during the last month of fiscal 2007. Based upon the Company's review, impairment charges were not required.

Identifiable intangible assets that are subject to amortization are evaluated for impairment using a process similar to that used to evaluate other long-lived assets as described in Note A 27. An impairment loss is recognized for the amount by which the carrying value exceeds the fair value of the asset.

12. Goodwill

Goodwill represents the excess of the acquisition cost over the estimated fair value of tangible assets and other identifiable assets acquired less liabilities assumed. Other identifiable intangible assets include tradenames and net favorable leases. SFAS No. 142 replaces the amortization of goodwill and indefinite-lived intangible assets with periodic tests for the impairment of these assets. SFAS No. 142 requires a comparison, at least annually, of the carrying value of the assets and liabilities associated with a reporting unit, including goodwill, with the fair value of the reporting unit. If the carrying value exceeds the fair value, we would calculate the implied fair value of our reporting unit goodwill as compared to the carrying value of our reporting unit goodwill to determine the appropriate impairment charge. We estimate the fair value of our reporting unit using widely accepted valuation techniques such as comparable transactions and market multiple analyses. These techniques use a variety of assumptions to include projected market conditions, discount rates and future cash flows. Although we believe our assumptions are reasonable, actual results may vary significantly and may expose us to material impairment charges in the future. The Company's annual impairment test was conducted during the last month of fiscal 2007 and no impairment was recorded as result of these tests.

13. Other Assets

Other assets consist primarily of deferred financing fees, notes receivable and the net accumulation of excess rent income, accounted for on a straight-line basis, over actual rental income receipts. Deferred financing fees are amortized over the life of the related debt facility. Amortization of deferred financing fees is recorded in the line item "Amortization" in the Company's Consolidated Statement of Operations.

14. Other Current Liabilities

Other current liabilities primarily consist of sales tax payable, unredeemed store credits and gift cards, accrued payroll costs, accrued insurance costs ($33.7 million and $30.8 million as of June 2, 2007 and June 3, 2006, respectively), accrued operating expenses, layaway deposits, payroll taxes payable, current portion of deferred rent expense and other miscellaneous items.

15. Other Liabilities

Other liabilities primarily consist of deferred lease incentives and the net accumulation of excess straight-line rent expense over actual rental payments. Deferred lease incentives are funds received or receivable from landlords used primarily to offset the costs of store remodelings. These deferred lease incentives are amortized over the expected lease term including rent holiday periods and option periods where the exercise of the option can be reasonably assured. Amortization of deferred lease incentives is included in the line item "Selling and Administrative Expenses" on

the Company's Consolidated Statement of Operations.

16. Common Stock

Burlington Coat Factory Investments Holdings, Inc. has 1,000 shares of common stock issued and outstanding, which are all owned by Burlington Coat Factory Holdings, Inc. Burlington Coat Factory Holdings, Inc., the parent company of Burlington Coat Factory Investments Holdings, Inc., has authorized 49,700,000 shares of Class A common stock, par value $0.001 and 5,550,000 shares of Class L common stock, par value $0.001. Burlington Coat Factory Holdings, Inc. has outstanding as of June 2, 2007: 45,198,117 shares of Class A common stock and 5,022,013 shares of Class L common stock. As of June 3, 2006, shares outstanding were 45,178,119 shares of Class A common stock and 5,019,791 shares of Class L common stock.

17. Store Opening Expense

Expenses related to new store openings are charged to operations in the period incurred.

18. Income Taxes

The company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred income taxes for 2007 and 2006 reflect the impact of "temporary differences" between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws.

19. 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 Consolidated Balance Sheets. Gift cards are recorded as a liability at the time of issuance, and the related sale is recorded upon redemption. Except where prohibited by law, after 12 months of non-use, a monthly maintenance fee is deducted from the remaining balance of the gift card and is recorded as other revenue. The Company presents sales, net of sales taxes, in its Consolidated Statement of Operations.

20. Other Income (Loss), Net

Other Income (Loss), Net, consists of investment income gains (losses), net losses from disposition of fixed assets ($3.6 million, $2.7 million and $0.8 million for the fiscal year ended June 2, 2007, the period from May 29, 2005 to April 12, 2006, and the fiscal year ended May 28, 2005) and other miscellaneous income items. There was a one thousand dollar net loss on disposition of fixed assets for the period from April 13, 2006 to June 3, 2006.

21. Comprehensive Income

The Company presents comprehensive income (loss) as a component of stockholders' equity in accordance with SFAS No. 130, *Reporting Comprehensive Income.* For the fiscal year ended June 2, 2007, the period from April 13, 2006 to June 3, 2006, the period from May 29, 2005 to April 13, 2006 and the fiscal year ended May 28, 2005, comprehensive income (loss) consisted of net income (loss).

22. Other Revenue

Other Revenue consists of rental income received from leased departments, subleased rental income, layaway, alteration and other service charges and other miscellaneous items. Layaway, alteration and other service fees amounted to $16.1 million, $0.9 million, $7.8 million and $8.4 million for the fiscal year ended June 2, 2007, the period from April 13, 2006 to June 3, 2006, the period from May 29, 2005 to April 12, 2006 and the fiscal year ended May 28, 2005, respectively. Rental income from leased departments amounted to $9.9 million, $1.4 million, $9.7 million and $9.2 million for the fiscal year ended June 2, 2007, the period from April 13, 2006 to June 3, 2006, the period from May 29, 2005 to April 12, 2006 and the fiscal year ended May 28, 2005, respectively. Subleased rental income and other miscellaneous revenue items amounted to $12.2 million, $1.8 million, $10.2 million and $11.0 million for the fiscal year ended June 2, 2007, April 13, 2006 to June 3, 2006, the period from May 29, 2005 to April 12, 2006 and the fiscal year ended May 28, 2005.

23. Vendor Rebates and Allowances

Rebates and allowances received from vendors are accounted for in compliance with Emerging Issues Task Force ("EITF") Issue No. 02-16, *Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor*. EITF Issue No. 02-16 specifically addresses whether a reseller should account for cash consideration received from a vendor as an adjustment of cost of sales, revenue, or as a reduction to a cost incurred by the reseller. Rebates and allowances received from vendors that are dependent on purchases of inventories are recognized as a reduction of cost of goods sold when the related inventory is sold or marked down.

Rebates and allowances that are reimbursements of specific expenses are recognized as a reduction of selling and administrative expenses when earned, up to the amount of the incurred cost. Any vendor reimbursement in excess of the related incurred cost is recorded as a reduction of cost of sales. Reimbursements of expenses amounted to $0.9 million, $0.1 million, $0.8 million and $1.0 million for the fiscal year ended June 2, 2007, the period from April 13, 2006 to June 3, 2006, the period from May 29, 2005 to April 12, 2006, and for the fiscal year ended May 28, 2005, respectively.

24. Capitalized Computer Software Costs

The Company accounts for capitalized software in accordance with Statement of Position ("SOP") 98-1, *Accounting For the Costs of Computer Software Developed For or Obtained for Internal-Use*. The SOP requires the capitalization of certain costs incurred in connection with developing or obtaining software for internal use. The Company capitalized $12.5 million, $4.1 million, $0.3 million and $4.2 million relating to these costs during the fiscal year ended June 2, 2007, the period from May 29, 2005 to April
12, 2006, the period from April 13, 2006 to June 3, 2006, and for the fiscal year ended May 28, 2005, respectively.

As part of the Merger Transaction, the Company recorded $42.0 million for internally developed software.

Purchased and internally developed software is amortized on a straight line basis over a three-year life. The net carrying value of software is included in the line item “Property and Equipment” on the Company’s Consolidated Balance Sheets and software amortization is included in the line item “Depreciation” on the Company’s Consolidated Statement of Operations

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

On April 13, 2006, the Parent’s Board of Directors adopted the 2006 Management Incentive Plan (the “Plan”). The Plan provides for the granting of service-based and performance-based stock options and restricted stock to executive officers and other key employees of the Company and its subsidiaries. Pursuant to the Plan, employees are granted options to purchase “units” of common stock in the Parent. Each unit consists of nine shares of Class A common stock and one share of Class L common stock of the Parent. The shares comprising a unit are in the same proportion as the shares of Class A and Class L common stock held by all stockholders of the Parent. The options are exercisable only for whole units and cannot be separately exercised for the individual classes of the Parent common stock. There are 511,122 units reserved under the Plan consisting of 4,600,098 shares of Class A common stock of Parent and 511,122 shares of Class L common stock of Parent.

The units were granted in three tranches with exercise prices as follows: Tranche 1: $90 per unit; Tranche 2: $180 per Unit; and Tranche 3: $270 per unit. The service-based awards cliff vest 40% on the second anniversary of the award with the remaining ratably over the subsequent three years. All options become exercisable upon a change of control and unless determined otherwise by the plan administrator. Upon cessation of employment, options that have not vested will terminate immediately, units issued upon the exercise of vested options will be callable and unexercised vested options will be exercisable for a period of 60 days. The final exercise date for any option granted is the tenth anniversary of the grant date.

As of June 2, 2007, the Parent granted 422,000 options to purchase units. All options granted to date are service-based awards. On June 4, 2006, we adopted SFAS No. 123R (Revised 2004), *“Share-Based Payment,”* using the modified prospective method, which requires companies to record stock compensation expense for all non-vested and new awards beginning as of the adoption date. Accordingly, prior period amounts presented herein have not been restated. For the fiscal year ended June 2, 2007, we recognized non-cash stock compensation expense of $2.9 million, which is included in the line item “Selling and Administrative Expense” on our Company’s Consolidated Statements of

Operations. The adoption of SFAS 123R had no impact on our cash flow from operations or financing activities. The Company made an election to use the simplified method of calculating the adoption date APIC Pool. At June 2, 2007, there is approximately $11.1 million of unearned non-cash stock-based compensation that we expect to recognize as expense over the next 3.9 years. The service-based awards are expensed on a straight-line basis over the requisite service period of five years. As of June 2, 2007, ninety-five percent of outstanding units are expected to vest.

Stock Option Unit Transactions are summarized as follows:

	Number of Units	Average Exercise Price Per Unit
Options Outstanding June 3, 2006	347,500	$ 180.00
Options Issued	74,500	$ 180.00
Options Forfeited	(55,000)	$ 180.00
Options Cancelled		
Options Exercised		
Options Outstanding June 2, 2007	367,000	$ 180.00

The following table summarizes information about the stock options outstanding under Parent's 2006 Plan as of June 2, 2007:

	Stock Option Units Outstanding				Option Units Exercisable
	Range of Exercise Prices	Number Outstanding At June 2, 2007	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable June 2, 2007
Tranche 1	$ 90	122,333	8.9 years	$ 90	0
Tranche 2	$ 180	122,333	8.9 years	$ 180	0
Tranche 3	$ 270	122,334	8.9 years	$ 270	0
		367,000			0

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants under Parent's 2006 Plan in fiscal 2006 and fiscal 2007:

Risk-Free Interest Rate		4.75%
Expected Volatility		70%
Expected Life		4.5 years
Contractual Life		10 years
Expected Dividend Yield		0.0%
Fair Value of Option Units Granted		
Tranche 1	$	53.13
Tranche 2	$	38.79
Tranche 3	$	30.53

Pre-Transaction Stock-Based Compensation Accounting

Prior to the closing of the Merger transaction, BCFWC applied Accounting Principles Board ("APB") No. 25 in accounting for its stock option awards. Accordingly, compensation expense has not been recorded for the fiscal period from April 13, 2006 to June 3, 2006, the period from May 29, 2005 to April 12, 2005 and the fiscal year ended May 28, 2005 for the stock options for which the exercise period of the options was equal to or greater then the fair market value of the options at the grant date. The following table illustrates the effect had the Company applied the fair value recognition provisions of SFAS No. 123 (in thousands):

	-Successor-	-----------Predecessor---------	
	Period from 4/13/06 to 6/3/06	Period from 5/29/05 to 4/12/06	Year Ended 5/28/05
Net income (loss) as reported	$ (27,166)	$ 94,339	$ 105,033
Expense under fair value method, net of tax effect	(297)	(567)	(252)
Pro forma net income (loss)	$ (27,463)	$ 93,772	$ 104,781

The fair value of each stock option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in fiscal 2005 (no options were granted during fiscal 2004 or fiscal 2006):

	Grant 1	Grant 2
Number of Shares	87,700	73,600
Risk-Free Interest Rate	4.10%	4.10%
Expected Volatility	37.65%	38.00%
Expected Life	5.5 years	5.5 years
Contractual Life	10 years	10 years
Expected Dividend Yield	0.20%	0.20%
Fair Value of Options Granted	$ 6.79	$ 9.85

Any unexercised stock options at the time of the consummation of the Merger transaction were cancelled and each holder received an amount in cash, less applicable withholding taxes, equal to $45.50 per share less the exercise price of each option.

26. Non-Vested Stock

At their option , in lieu of receiving an all cash retention bonus, members of management collectively received $5.9 million in shares of non-vested stock (66,122 units) in the form of common stock of the Parent. These shares vested on April 13, 2007. No shares were granted or forfeited during the year. Non-vested stock compensation was amortized over a one year vesting period and amounted to $5.1 million and $ 0.8 million for the fiscal year ended June 2, 2007 and for the period from April 13, 2006 to June 3, 2006. Compensation expense related to non-vested stock is recorded by the Company as additional paid-in-capital.

27. Impairment of Long-Lived Assets

The Company accounts for impaired long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Also, long-lived assets and certain intangibles to be disposed of should be reported at the lower of the carrying amount or fair value less cost to sell. The Company considers historical performance and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the estimated future cash flows expected to result from the use of the asset. If the

carrying amount of the asset exceeds the estimated expected undiscounted future cash flows, the Company measures the amount of the impairment by comparing the carrying amount of the asset to its fair value. The estimation of fair value is measured by discounting expected future cash flows at the rate the Company utilizes to evaluate potential investments.

28. Discontinued Operations

The Company continuously monitors and evaluates store profitability. Based upon these evaluations, the decision to permanently close a store or to relocate a store within its same trading market is made. Only those stores permanently closed, where sales by another store will not absorb a significant amount of the closed store's sales, are included in the Company's calculation of discontinued operations. There were no discontinued operations recorded during the fiscal year ended June 2, 2007, for the period from May 29, 2005 to April 12, 2006 or for the period from April 13, 2006 to June 3, 2006.

In accordance with SFAS No. 144, during fiscal 2005, the Company’s discontinued operations reflect the operating results for three stores and the Company’s seventy-five percent investment closed during fiscal 2005. The following table summarizes the operating results of discontinued operations.

	Predecessor Year Ended May 28, 2005 (all amounts in thousands)	
Revenues	$	11,301
Gross Margin		2,377
Selling and Administrative Expenses		3,990
Depreciation		289
Loss from Discontinued Operations Before Income Tax Benefit		(1,127)
Loss from Discontinued Operations, Net of Tax Benefit	$	(1,014)

29. Advertising Costs

The Company's net advertising costs consist primarily of newspaper and television costs. The production costs of net advertising are charged to expense as incurred. Net advertising expenses, included in Selling and Administrative Expenses on the Company's Consolidated Statements of Operations, for the fiscal year ended June 2, 2007, the period from April 13, 2006 to June 3, 2006, the period and from May 29, 2005 to April 12, 2006, and fiscal year ended May 28, 2005 were $72.3 million, $9.4 million, $64.2 million, and $64.0 million, respectively. Vendor rebates netted against advertising expenses were $0.6 million, $1.1 million, ($0.1 million), and $0.8 million, for the fiscal year ended June 2, 2007, for the period from April 13, 2006 to June 3, 2006, the period from May 29, 2005 to April 12, 2006, and the fiscal year ended May 28, 2005, respectively. The Company nets certain cooperative advertising reimbursements received from vendors against specific, incremental, identifiable costs incurred in connection with selling the vendors' products. Any excess reimbursement is characterized as a reduction of inventory and is recognized as a reduction to cost of sales as inventories are sold.

30. Lease Accounting

The Company leases store locations, distribution centers and office space used in its operations. We account for our leases under the provisions of SFAS No. 13, "*Accounting for Leases*" and subsequent amendments, which requires that leases be evaluated and classified as operating or capital leases for financial reporting purposes. Assets held under capital leases are included in property and equipment. For leases classified as operating, the Company calculates rent expense on a straight line basis over the lesser of the lease term including renewal options, if reasonably assured, or the economic life of the leased premises, taking into consideration rent escalation clauses, rent holidays and other lease concessions. The Company expenses rent during the construction or build-out phase of the leased property.

31. Derivatives and Hedging Activities

SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* as amended, establishes accounting and

reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires the recording of all derivatives as either assets or liabilities on the balance sheet, measured at estimated fair value and the recognition of any unrealized gains and losses.

The Company entered into two interest rate cap agreements to manage interest rate risk associated with its long-term debt obligations. These agreements are classified as "Intangible Assets" within our Consolidated Balance Sheets. Each agreement became effective on May 12, 2006. One interest rate cap agreement has a notional principal amount of $300,000,000 with a cap rate of seven percent, and terminates on May 31, 2011. The other agreement has a notional principal amount of $700,000,000 with a cap rate of seven percent, and terminates on May 29, 2009. We do not monitor these interest rate cap agreements for hedge effectiveness. Gains and losses associated with these contracts are classified as "Interest Expense" on the Company's Consolidated Statements of Operations. The fair market value of the interest rate contracts at June 2, 2007 and June 3, 2006 amounted to $0.3 and $2.3 million, respectively.

32. Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents and investments. The Company manages the credit risk associated with cash equivalents and investments by investing with high-quality institutions and, by policy, limiting investments only to those which meet prescribed investment guidelines. The Company has a policy of making investments in debt securities with short-term ratings of A-1 (or equivalent) or long-term ratings of A and A-2 (or equivalent). The Company maintains cash accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses from maintaining cash accounts in excess of such limits. Management believes that it is not exposed to any significant risks on its cash and cash equivalent accounts.

33. Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the classifications used in the 2007 consolidated financial statements. Impairment charges previously recorded in the line item "Depreciation" have been reclassified and included in the line item "Impairment Charges." Prepaid rent related balances previously recorded in the line item "Accounts Payable" have been reclassified and included in the line item "Prepaid and Other Current Assets" on the Company's Consolidated Balance Sheets.

34. Recent Accounting Pronouncements

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

b. In June 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement*. The scope of this consensus includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between
a seller and a customer and may include, but is not limited to sales, use, value added and some excise taxes. Additionally, this consensus seeks to address how a company should address the disclosure of such items in interim and annual financial statements, either gross or net pursuant to APB Opinion No. 22, *Disclosure of Accounting Policies*. EITF Issue 06-3 is effective for all financial reports for interim and annual reporting periods beginning after

December 15, 2006. The Company presents sales net of sales taxes in its consolidated statement of operations. No change in presentation is anticipated as a result of EITF 06-3.

c. In September 2006, the SEC issued SAB No. 108, *Considering Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financials*. SAB No. 108 provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year financial statement misstatements for the purpose of a materiality assessment. The Company was required to adopt the provisions of SAB No. 108 in its first year ending after November 15, 2006. The adoption of SAB No. 108 did not have a material impact on our consolidated financial statements.

d. In February 2007, the FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities-*

including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value, with unrealized gains and losses related to these financial instruments reported in earnings at each subsequent reporting date. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is in the process of evaluating the impact of SFAS No. 159 on its consolidated financial statements.

e. In July 2006, the FASB issued FASB Interpretation ("FIN") No. 48 – Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on accounting for derecognition, interest, penalties, accounting in interim periods, disclosure and classification of matters related to uncertainty in income taxes and transitional requirements upon adoption of FIN 48. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 on the first day of its fiscal year ended May 31, 2008. The Company is in the process of assessing the impact of the adoption of FIN 48 on its consolidated financial statements

B. Acquisitions

As described in Note 2, on April 13, 2006, affiliates of Bain Capital Partners, LLC purchased all of the outstanding capital stock of BCFWC from its existing stockholders for an aggregate purchase price of approximately $2.1 billion. The aggregate cost together with the costs and fees necessary to consummate the transaction were financed by equity contributions of $445.8 million, borrowings from an $800 million ABL Credit Facility, of which $225 million was drawn at the closing of the Merger Transaction, borrowings from a $900 million secured term loan agreement, issuance of $305 million of Senior Notes, of which $299 million of proceeds was used in the financing of the Merger Transaction, a cash contribution from Holdings of $75 million from an issuance of $99.3 million Senior Discount Notes and from BCFWC's available cash.

The acquisition of the Company has been accounted for in accordance with SFAS No. 141, *Business Combinations*. The purchase price was allocated to the assets acquired and liabilities assumed based on the estimates of their respective values at the date of acquisition.

Assets acquired and liabilities assumed in an acquisition are valued based on fair market value measures as determined by management with the assistance of third parties. The method used to determine the asset values include a variety of valuation techniques. With respect to trademarks, management under the advisement of a third party, adopted the income approach to value these intangible assets. Under the income approach, the value of our trademarks was determined by the present value of potential future revenues from such trademarks based on a discounted royalty rate.

With respect to internally developed software, we determined the value based on the assumed dollar value of the cost of recreating the source code of such software. The cost of recreating the source code was based on the labor costs for the man hours assumed to be required to create such source code.

In order to determine the value of our leases, we compared our leases with comparable leases available in the market and discounted current lease rates over the life of our existing leases.

In order to determine the step-up in basis for our assets, we applied either the cost approach or market approach, as management determined appropriate under the advisement of third party valuators. Under the cost approach the step-up in basis is determined by the current cost of replacement less estimated applicable depreciation. Under the

market approach, the step-up is determined by the market value of comparable assets less applicable depreciation.

The following table summarizes the allocation of the purchase price to assets acquired and liabilities assumed at the date of acquisition after revisions to estimated allocations had been made.

	April 13, 2006 (in thousands)
Total acquisition consideration:	
Cash paid upon acquisition	$ 2,050,918
Liabilities assumed	769,251
Acquisition related costs	4,849
	2,825,018
Less: book value of net assets acquired	1,785,818
	$ 1,039,200
Fair value adjustment for property, plant and equipment	$ 421,675
Tradenames	526,300
Net favorable lease positions	637,112
Internally developed software	42,000
Deferred taxes related to valuations	(634,106)
Goodwill	46,219
	$ 1,039,200

The following table reflects the pro forma revenue and net income for the periods presented as though the acquisition and related transactions had taken place at the beginning of each period (amounts in thousands):

	Year Ended June 3, 2006	Year Ended May 28, 2005
Revenue	$ 3,470,554	$ 3,199,840
Net Loss	$ (67,780)	$ (22,922)

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