BURLINGTON COAT FACTORY WAREHOUSE CORP
Form 10-Q
December 14, 2010

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

FORM 10-Q

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

For the quarterly period ended October 30, 2010

OR

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

For the transition period from   to   .

Commission File Number 1-37917

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

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

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

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

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

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

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

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

As of December 14, 2010, the registrant has 1,000 shares of common stock outstanding, all of which are owned by Burlington Coat Factory Holdings, Inc., registrant's parent holding company, and are not publicly traded.

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	October 30, 2010	January 30, 2010	October 31, 2009
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 53,723	$ 24,750	$ 64,404
Restricted Cash and Cash Equivalents	35,282	2,605	2,608
Accounts Receivable, Net of Allowances for Doubtful Accounts	38,105	31,278	31,837
Merchandise Inventories	892,193	613,295	845,973
Deferred Tax Assets	28,481	29,644	52,541
Prepaid and Other Current Assets	35,793	29,443	31,107
Prepaid Income Taxes	44,343	4,841	1,729
Assets Held for Disposal	521	521	521
Total Current Assets	1,128,441	736,377	1,030,720
Property and Equipment - Net of Accumulated Depreciation	862,054	856,149	885,884
Tradenames	238,000	238,000	238,000
Favorable Leases - Net of Accumulated Amortization	397,756	421,091	458,383
Goodwill	47,064	47,064	47,064
Other Assets	92,821	95,313	90,033
Total Assets	$ 2,766,136	$ 2,393,994	$ 2,750,084
LIABILITIES AND STOCKHOLDER’S EQUITY			
Current Liabilities:			
Accounts Payable	$ 683,351	$ 139,802	$ 587,713
Income Taxes Payable	1,040	14,223	30,788
Other Current Liabilities	229,486	215,814	247,288
Current Maturities of Long-Term Debt	18,559	14,201	7,243
Total Current Liabilities	932,436	384,040	873,032
Long-Term Debt	1,260,135	1,399,152	1,284,918
Other Liabilities	184,985	173,067	147,477
Deferred Tax Liability	270,959	283,235	317,553

Commitments and Contingencies (Note 17)			
Stockholder's Equity:			
Common Stock	-	-	-
Capital in Excess of Par Value	465,822	464,489	463,721
Accumulated Deficit	(348,201)	(309,989)	(336,617)
Total Stockholder's Equity	117,621	154,500	127,104
Total Liabilities and Stockholder's Equity	$ 2,766,136	$ 2,393,994	$ 2,750,084

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended		Three Months Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
REVENUES:				
Net Sales	$ 2,481,613	$ 2,403,395	$ 858,186	$ 872,374
Other Revenue	21,925	21,772	7,850	7,988
Total Revenue	2,503,538	2,425,167	866,036	880,362
COSTS AND EXPENSES:				
Cost of Sales (Exclusive of Depreciation and Amortization)	1,549,042	1,501,925	527,301	523,465
Selling and Administrative Expenses	835,925	810,218	285,618	281,569
Restructuring and Separation Costs (Note 4)	2,152	6,294	-	1,190
Depreciation and Amortization	109,195	113,555	36,960	36,210
Interest Expense (Inclusive of Gain (Loss) on Interest Rate Cap Agreements)	78,350	58,271	24,928	20,587
Impairment Charges – Long-Lived Assets	510	15,865	252	6,437
Impairment Charges – Tradenames	-	15,250	-	-
Other Income, Net	(10,033)	(8,904)	(3,590)	(2,558)
Total Costs and Expenses	2,565,141	2,512,474	871,469	866,900
(Loss) Income Before Income Tax (Benefit) Expense	(61,603)	(87,307)	(5,433)	13,462
Income Tax (Benefit) Expense	(23,542)	(45,382)	(2,638)	5,951
Net (Loss) Income	$ (38,061)	$ (41,925)	$ (2,795)	$ 7,511
Total Comprehensive (Loss) Income	$ (38,061)	$ (41,925)	$ (2,795)	$ 7,511

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	October 30, 2010	October 31, 2009
OPERATING ACTIVITIES		
Net Loss	$ (38,061)	$ (41,925)
Adjustments to Reconcile Net Loss to Net Cash Provided By Operating Activities:		
Depreciation and Amortization	109,195	113,555
Impairment Charges – Long-Lived Assets	510	15,865
Impairment Charges – Tradenames	-	15,250
Amortization of Debt Issuance Costs	9,187	7,751
Accretion of Senior Notes and Senior Discount Notes	540	483
Interest Rate Cap Agreement - Adjustment to Market	7,065	(8,353)
Provision for Losses on Accounts Receivable	1,383	1,859
Provision for Deferred Income Taxes	(11,113)	(14,510)
Loss on Retirement of Fixed Assets	82	(230)
(Gain) Loss on Investments in Money Market Fund	(240)	2,887
Non-Cash Stock Option Expense	1,333	3,623
Non-Cash Rent Expense	(335)	(4,166)
Changes in Assets and Liabilities:		
Accounts Receivable	(8,406)	(2,545)
Merchandise Inventories	(278,898)	(150,936)
Prepaid and Other Current Assets	(45,852)	(5,316)
Accounts Payable	543,549	189,085
Other Current Liabilities and Income Tax Payable	(5,730)	23,440
Deferred Rent Incentives	15,616	7,874
Other Long Term Assets and Long Term Liabilities	1,271	(18,566)
Net Cash Provided by Operating Activities	301,096	135,125
INVESTING ACTIVITIES		
Cash Paid for Property and Equipment	(103,247)	(70,151)
Proceeds Received from Sale of Property	227	905
Increase in Restricted Cash and Cash Equivalents	(32,677)	(318)
Lease Acquisition Costs	(422)	(1,337)

Redemption of Investment in Money Market Fund		240		7,371
Purchase of Tradenames Rights		-		(6,250)
Other		40		64
Net Cash Used in Investing Activities		(135,839)		(69,716)
FINANCING ACTIVITIES				
Proceeds from Long-Term Debt – ABL Line of Credit		25,400		593,915
Principal Payments on Long-Term Debt		(1,797)		(1,563)
Principal Payments on Long-Term Debt – Term Loan		(12,202)		(8,055)
Principal Payments on Long-Term Debt – ABL Line of Credit		(146,600)		(623,915)
Payment of Dividends		(151)		(3,094)
Debt Issuance Costs		(934)		-
Net Cash Used in Financing Activities		(136,284)		(42,712)
Increase in Cash and Cash Equivalents		28,973		22,697
Cash and Cash Equivalents at Beginning of Period		24,750		41,707
Cash and Cash Equivalents at End of Period	$	53,723	$	64,404
Supplemental Disclosure of Cash Flow Information				
Interest Paid	$	72,004	$	75,515
Net Income Tax Payments (Refunds)	$	40,221	$	(13,641)
Non-Cash Investing Activities:				
Accrued Purchases of Property and Equipment	$	14,992	$	12,497
Sale of Assets Held for Disposal for Notes Receivable	$	-	$	(2,000)

See Notes to Condensed Consolidated Financial Statements.

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
October 30, 2010
(UNAUDITED)

1. Summary of Significant Accounting Policies

Basis of Presentation

These unaudited Condensed Consolidated Financial Statements include the accounts of Burlington Coat Factory Investments Holdings, Inc. and all of its subsidiaries (the Company or Holdings). Holdings has no operations and its only asset is all of the stock of Burlington Coat Factory Warehouse Corporation. All discussions of operations in this report relate to Burlington Coat Factory Warehouse Corporation and its subsidiaries (BCFWC), which are reflected in the financial statements of Holdings. The Condensed Consolidated Financial Statements are unaudited, but in the opinion of management reflect all adjustments (which are of a normal and recurring nature) necessary for the fair presentation of the results of operations for the interim periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted. It is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the financial statements and notes thereto included in the Company's Transition Report on Form 10-K/T for the 35 week period ended January 30, 2010. The balance sheet at January 30, 2010 has been derived from the audited Consolidated Financial Statements contained in the Company's Transition Report on Form 10-K/T. At January 30, 2010, the Company revised the presentation of the amortization of deferred financing fees related to the Company’s debt instruments by recording it in the line item “Interest Expense” in the Company’s Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income. The amortization of deferred financing fees had previously been included as a component of the line item “Depreciation and Amortization” in the Company’s Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income prior to January 30, 2010. At January 30, 2010, the Company also revised the presentation of the amortization of deferred financing fees in its Condensed Consolidated Statements of Cash Flows by reclassifying the amortization of deferred financing fees out of the line item “Depreciation and Amortization” within the Company’s Condensed Consolidated Statement of Cash Flows and including it within the line item “Amortization of Debt Issuance Costs” within the Company’s Condensed Consolidated Statements of Cash Flows. Because the Company's business is seasonal in nature, the operating results for the three and nine month periods ended October 30, 2010 are not necessarily indicative of results for the fiscal year ending January 29, 2011.

Fiscal Year

In order to conform to the predominant fiscal calendar used within the retail industry, on February 25, 2010, the Company’s Board of Directors approved a change in the Company’s fiscal year from a fiscal year comprised of the twelve consecutive fiscal months ending on the Saturday closest to May 31 to a fiscal year comprised of the twelve consecutive fiscal months ending on the Saturday closest to January 31. Accordingly, the Company’s Transition Report on Form 10-K/T relates to the 35 week transition period beginning on May 31, 2009, the day following the end of the Company’s 2009 fiscal year, and ended on January 30, 2010 (the Transition Period).

Statements that are made about fiscal year 2010 refer to the first full fiscal year after the Transition Period, which is the 52 week period commencing on January 31, 2010 and ending on January 29, 2011 (Fiscal 2010). Fiscal 2009

ended on May 30, 2009 and was a 52 week year (Fiscal 2009). Fiscal 2008 ended on May 31, 2008 and was a 52 week year (Fiscal 2008).

As a result of the Company's fiscal year end change and the seasonality of the Company's results, the Company recast its prior quarterly interim financial information for the 12 month period ended January 30, 2010 on the basis of the new fiscal year for comparative purposes.

Current Conditions

Prior to the Transition Period, the Company had experienced recurring annual net losses since its formation in April 2006, in part due to the interest expense associated with its leveraged debt structure detailed in Note 3 to the Company's Condensed Consolidated Financial Statements entitled "Long-Term Debt." At October 30, 2010, working capital was $160.7 million, cash and cash equivalents were $53.7 million and unused availability under the Company's $721 million ABL Senior Secured Revolving Facility (ABL Line of Credit) was $559.9 million. Significant declines in the United States and international financial markets which began during Fiscal 2009 and the resulting impact of such events on macroeconomic conditions have impacted and are anticipated to continue to impact customer behavior and consumer spending at retailers, which in turn impacts the Company's sales trends. In response to these economic conditions, the Company accelerated several initiatives to restructure its workforce and reduce its cost structure (refer to Note 4 to the Company's Condensed Consolidated Financial Statements entitled "Restructuring and Separation Costs" for further discussion). The Company continues to focus on a number of ongoing initiatives aimed at improving its comparative store sales and its operating results.

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

2. Stockholder's Equity

Activity for the three and nine month periods ended October 30, 2010 and October 31, 2009 in the Company's common stock, capital in excess of par value, and accumulated deficit are summarized below:

	(in thousands)			
	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Total
Balance at January 30, 2010	$ -	$ 464,489	$ (309,989)	$ 154,500
Net Income	-	-	5,213	5,213
Stock Option Expense	-	233	-	233
Dividends	-	-	(151)	(151)
Balance at May 1, 2010	-	464,722	(304,927)	159,795
Net Loss	-	-	(40,479)	(40,479)
Stock Option Expense	-	604	-	604
Balance at July 31, 2010	-	465,326	(345,406)	119,920
Net Loss	-	-	(2,795)	(2,795)
Stock Option Expense	-	496	-	496
Balance at October 30, 2010	$ -	$ 465,822	$ (348,201)	$ 117,621

	(in thousands)			
	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Total
Balance at January 31, 2009	$ -	$ 460,098	$ (291,598)	$ 168,500
Net Loss	-	-	(36,916)	(36,916)
Stock Option Expense	-	580	-	580
Stock Option Restructuring	-	2,426	-	2,426
Dividends	-	-	(3,000)	(3,000)
Balance at May 2, 2009	-	463,104	(331,514)	131,590
Net Loss	-	-	(12,520)	(12,520)

Stock Option Expense	-	1,238	-	1,238
Balance at August 1, 2009	-	464,342	(344,034)	120,308
Net Loss	-	-	7,511	7,511
Stock Option Expense	-	(621)	-	(621)
Dividends	-	-	(94)	(94)
Balance at October 31, 2009	$ -	$ 463,721	$ (336,617)	$ 127,104

3. Long-Term Debt

Long-Term debt consists of:

	(in thousands)		
	October 30, 2010	January 30, 2010	October 31, 2009
$900,000 Senior Secured Term Loan Facility, LIBOR plus 2.3% due in quarterly payments of $2,250 from August 26, 2011 to May 28, 2013.	$852,550	$864,752	$864,752
$721,000 ABL Senior Secured Revolving Facility, LIBOR plus spread based on average outstanding balance, expires February 4, 2014. (a)	-	121,200	-
Senior Notes, 11.1% due at maturity on April 15, 2014, semi-annual interest payments from April 15, 2011 to April 15, 2014.	301,804	301,264	301,092
Senior Discount Notes, 14.5% due at maturity on October 15, 2014, semi-annual interest payments from April 15, 2011 to October 15, 2014.	99,309	99,309	99,309
Industrial Revenue Bonds, 6.1% due September 1, 2010.	-	1,210	1,210
Promissory Note, non-interest bearing, due in monthly payments of $17 through January 1, 2012.	250	400	450
Promissory Note, 4.4% due in monthly payments of $8 through December 23, 2011.	104	167	187
Capital Lease Obligations	24,677	25,051	25,161
Total debt	1,278,694	1,413,353	1,292,161
Less: current maturities	(18,559)	(14,201)	(7,243)
Long-term debt, net of current maturities	$1,260,135	$1,399,152	$1,284,918

(a) The $721 million ABL Line of Credit is effective through May 31, 2011, at which time the facility is reduced to a $600 million ABL Line of Credit. The $600 million ABL Line of Credit expires February 4, 2014, but is subject to a springing maturity requirement whereby the ABL Line of Credit will mature 45 days prior to May 28, 2013 (the maturity date of the $900 million Senior Secured Term Loan Facility (Term Loan) if the Term Loan is not extended or refinanced prior to that date). Additional information regarding the ABL Line of Credit and Term Loan is included below.

The Term Loan is to be repaid in quarterly payments of $2.3 million from August 26, 2011 to May 28, 2013. As of October 31, 2010, the borrowing rate related to the Company's Term Loan was 2.5%. At the end of each fiscal year, the Company is required to make a payment based on 50% of its available free cash flow (as defined in the credit agreement governing the Term Loan). This payment offsets future mandatory quarterly payments. Based on its available free cash flow for the Transition Period, the Company made a payment of $11.5 million during the three months ended May 1, 2010. This payment offsets mandatory quarterly payments through the second quarter of the fiscal year ending January 28, 2012 (Fiscal 2011) and $0.3 million of the mandatory quarterly payment for the third quarter of Fiscal 2011.

On February 25, 2010, the Company entered into a second amendment to the credit agreement governing the Term Loan. Among other things, the amendment provides that consolidated EBITDA (as defined in credit agreement governing the Term Loan) will be increased or decreased for any period to the extent necessary to eliminate the effects during such period of any increase or decrease in legal, auditing, consulting, and accounting related expenses for such period relating directly to the Company's change in fiscal year compared to the amount of such expenses that would have been incurred in such period had the fiscal year change not occurred. The amendment also provides that for purposes of any calculation of consolidated interest coverage ratio and consolidated leverage ratio, as of the last day of any fiscal quarter ending on or after January 30, 2010 and prior to the completion of the fiscal year ending the Saturday closest to January 31, 2011, consolidated EBITDA and consolidated interest expense will be determined for the most recent period of twelve consecutive fiscal months. Pursuant to the terms of the amendment, the Company paid a fee to each lender consenting to the amendment in the amount of 0.05% (or $0.4 million in the aggregate) of the principal amount of such lender's outstanding loan under the credit agreement governing the Term Loan. A further description of the second amendment to the credit agreement governing the Term Loan is contained in Item 1.01 of the Company's Current Report on Form 8-K, filed with the SEC on February 26, 2010.

The Company's Term Loan agreement contains financial, affirmative and negative covenants and requires that the Company, among other things, maintain on the last day of each fiscal quarter a consolidated leverage ratio not to exceed a maximum amount. Specifically, the Company's total debt to Adjusted EBITDA, as each term is defined in the credit agreement governing the Term Loan, for the trailing twelve months most recently ended on or prior to such date, may not exceed 5.25 to 1 at October 30, 2010; 5.00 to 1 at January 29, 2011; and 4.75 to 1 at April 30, 2011 and thereafter. Adjusted EBITDA is a non-GAAP financial measure of the Company's liquidity. Adjusted EBITDA, as defined in the credit agreement governing the Company's Term Loan, starts with consolidated net income (loss) for the period and adds back (i) depreciation, amortization, impairments and other non-cash charges that were deducted in arriving at consolidated net income (loss), (ii) the provision (benefit) for taxes, (iii) interest expense, (iv) advisory fees, and (v) unusual, non-recurring or extraordinary expenses, losses or charges as reasonably approved by the administrative agent for such period.

On January 15, 2010, the Company completed an amendment and restatement of the credit agreement governing the Company's ABL Line of Credit, which (among other things) extended the maturity date for consenting lenders constituting $600 million of commitments to February 4, 2014. As part of the amendment and restatement, the Company eliminated the outstanding $65 million A-1 tranche commitments, although the Company maintained the ability to restore up to $65 million of the A-1 tranche with the consent of lenders holding the majority of outstanding commitments. The Company offered the banks in the terminated A-1 tranche the option to convert to the A tranche or opt out of the agreement altogether. This reduced the Company's total line of credit to $721 million through May 31, 2011, after which the line of credit will be reduced to $600 million through the new maturity date. The $600 million ABL Line of Credit has a springing maturity requirement whereby the ABL Line of Credit will mature 45 days prior to May 28, 2013, the maturity date of the Term Loan, if the Term Loan is not extended or refinanced prior to such date unless the pro forma credit availability condition has been satisfied after implementation of a Term Loan maturity reserve or the outstanding principal amount under the Term Loan maturing prior to February 4, 2014 is not more than $75 million. The Company believes the $600 million line of credit will provide adequate liquidity to support its operating activities. A further description of the amended and restated credit agreement governing the ABL Line of Credit and related transactions, including a description of covenants, fees and interest rates, is contained in Item 1.01 of the Company's Current Report on Form 8-K, filed with the SEC on January 19, 2010.

The ABL Line of Credit carries an interest rate of LIBOR plus a spread which is determined by annual average borrowings outstanding. Commitment fees of 0.75% to 1.0%, based on the Company's actual usage of the line of credit, will be charged on the unused portion of the ABL Line of Credit and will be included in the line item "Interest Expense" on the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income.

At October 30, 2010, the Company had $559.9 million available under the ABL Line of Credit and no borrowings outstanding. Maximum borrowings under the facility during each of the three and nine month periods ended October 30, 2010 amounted to $25.4 million and $121.2 million, respectively. Average borrowings during the three and nine month periods ended October 30, 2010 amounted to $1.7 million and $7.1 million, respectively, at average interest rates of 4.6% and 3.0%, respectively.

At October 31, 2009, the Company had $575.7 million available under the then $800 million ABL Line of Credit. At January 30, 2010, the Company had $158.6 million available under the $721 million ABL Line of Credit. The maximum borrowings under the ABL Line of Credit during each of the three and nine month periods ended October 31, 2009 amounted to $79.4 million and $150.3 million, respectively. Average borrowings during the three and nine month periods ended October 31, 2009 amounted to $27.3 million and $35.2 million at average interest rates of 3.0% and 2.9%, respectively. There were no borrowings outstanding under the ABL Line of Credit at October 31, 2009. At January 30, 2010, $121.1 million was outstanding under the ABL Line of Credit and was included in the line item "Long-Term Debt" in the Company's Consolidated Balance Sheets.

Holdings and certain subsidiaries of BCFWC fully and unconditionally guarantee BCFWC's obligations under the $721 million ABL Line of Credit and the $900 million Term Loan. These guarantees are both joint and several.

As part of the Company's issuance of its 14.5% Senior Discount Notes, the Company is required to make a $13.4 million High Yield Discount Obligation payment by April 13, 2011. The amount of the payment is included in the line item "Current Maturities of Long-Term Debt" on the Company's Condensed Consolidated Balance Sheet as of October 30, 2010.

As of October 30, 2010, the Company was in compliance with all of its debt covenants. The credit agreements regarding the ABL Line of Credit and Term Loan, as well as the indentures governing the BCFWC Senior Notes and Holdings Senior Discount Notes, contain covenants that, among other things, limit the Company's ability, and the ability of the Company's restricted subsidiaries, to pay dividends on, redeem or repurchase capital stock; make investments; incur additional indebtedness or issue preferred stock; create liens; permit dividends or other restricted payments by the Company's subsidiaries; sell all or substantially all of the Company's assets or consolidate or merge with or into other companies; and engage in transactions with affiliates.

The Company had $32.0 million, $40.3 million and $––30.5 million in deferred financing fees, net of accumulated amortization, as of October 30, 2010, January 30, 2010 and October 31, 2009, respectively, related to its debt instruments recorded in the line item "Other Assets" on the Company's Condensed Consolidated Balance Sheets. As a result of the amendment of the Term Loan on February 25, 2010, the Company incurred an additional $0.9 million of deferred financing fees. Amortization of deferred financing fees amounted to $3.1 million and $2.6 million for the three month periods ended October 30, 2010 and October 31, 2009, respectively, and is included in the line item "Interest Expense" in the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income. Amortization of deferred financing fees amounted to $9.2 million and $7.8 million for the nine months ended October 30, 2010 and October 31, 2009, respectively.

4. Restructuring and Separation Costs

The Company accounts for restructuring and separation costs in accordance with ASC Topic No. 420, “Exit or Disposal Cost Obligations” (Topic No. 420). In an effort to better align the Company’s resources with its business objectives, during Fiscal 2009, the Company reviewed all areas of the business to identify efficiency opportunities to enhance the organization’s performance. In light of the then challenging economic and retail sales environments, the Company accelerated the implementation of several initiatives, including some that resulted in the elimination of certain positions and the restructuring of certain other jobs and functions. Certain of these initiatives have continued through the Transition Period and Fiscal 2010.

On February 16, 2009, the Company’s former President and Chief Executive Officer (Former CEO) entered into a separation agreement with the Company. As part of his separation agreement, the Company paid the Former CEO’s salary through January 30, 2010 at which time continuation payments and other benefits payable as provided in his separation agreement commenced. The continuation payments will be paid out in biweekly installments through May 30, 2011. The total amount of all continuation payments and other benefits payable to the Former CEO pursuant to the terms of his separation agreement was approximately $4.2 million, $2.4 million of which was stock compensation. At October 30, 2010, $0.4 million of the total amount remained to be paid to the Former CEO.

There were no changes to the Company’s workforce during the three months ended October 30, 2010 that resulted in restructuring and severance charges. During the nine months ended October 30, 2010, restructuring and severance charges amounted to $2.2 million. In comparison, restructuring and severance charges for the three and nine months ended October 31, 2009 amounted to $1.2 million and $6.3 million, respectively.

The table below summarizes the charges incurred related to the Company’s restructuring and separation costs, which are included in the line items “Other Current Liabilities” and "Other Liabilities" in the Company’s Condensed Consolidated Balance Sheet as of October 30, 2010:

	(in thousands)				
	January 30, 2010	Charges	Cash Payments	Other	October 30, 2010
Severance-Restructuring (a)	$ 1,560	-	(1,332)	(110)	$ 118
Severance-Separation Cost (b)	912	2,152	(1,439)	-	1,625
Total	$ 2,472	2,152	(2,771)	(110)	$ 1,743

	(in thousands)				
	January 31, 2009	Charges	Cash Payments	Capital in Excess of Par Value	October 31, 2009

Severance-Restructuring (a)	$ 1,697	2,104	(2,670)	(56)	$ 1,075
Severance-Separation Cost (b)	-	4,190	(698)	(2,426)	1,066
Total	$ 1,697	6,294	(3,368)	(2,482)	$ 2,141

(a) The balances as of October 30, 2010, January 30, 2010, October 31, 2009 and January 31, 2009 are recorded in the line item "Other Current Liabilities" in the Company's Condensed Consolidated Balance Sheets.

(b) The balance as of October 30, 2010 is recorded in the line item "Other Current Liabilities." Approximately $0.7 million and $0.2 million of the balance as of January 30, 2010 are recorded in the line items “Other Current Liabilities” and “Other Liabilities,” respectively. Approximately $0.7 million and $0.4 million of the balance as of October 31, 2009 are recorded in the line items “Other Current Liabilities” and “Other Liabilities,” respectively.

5. Assets Held for Disposal

Assets held for disposal represent assets owned by the Company that management has committed to sell in the near term. The Company either identified or was actively seeking out potential buyers for these assets as of the balance sheet dates. The asset listed as “Assets Held for Disposal” in the Company’s Condensed Consolidated Balance Sheets as of October 30, 2010, January 30, 2010, and October 31, 2009 was an owned parcel of land adjacent to one of the Company’s stores.

Assets held for disposal are valued at the lower of their carrying value or fair value, less cost to sell, as follows:

	(in thousands)		
	October 30, 2010	January 30, 2010	October 31, 2009
Property and Equipment	$ 521	$ 521	$ 521

6. Restricted Cash and Cash Equivalents

At October 30, 2010, restricted cash and cash equivalents consisted of $32.8 million of collateral in lieu of a letter of credit for certain insurance contracts and $2.5 million restricted contractually for the acquisition and maintenance of a building related to a store operated by the Company. As a result, the Company’s outstanding letters of credit guaranteeing performance under various insurance contracts decreased $32.8 million from May 1, 2010 through October 30, 2010.

At both January 30, 2010 and October 31, 2009, restricted cash and cash equivalents amounted to $2.6 million restricted contractually for the acquisition and maintenance of a building related to a store operated by the Company.

7. Intangible Assets

Intangible assets at October 30, 2010, January 30, 2010, and October 31, 2009 consisted primarily of tradenames and favorable lease positions as follows:

	(in thousands)					
	October 30, 2010			January 30, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Tradenames	$ 238,000	$ -	$ 238,000	$ 238,000	$ -	$ 238,000

Favorable Leases	$ 521,561	$ (123,805)	$ 397,756	$ 521,775	$ (100,684)	$ 421,091

	(in thousands)		
	October 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
Tradenames	$ 238,000	$ -	$ 238,000
Favorable Leases	$ 561,441	$ (103,058)	$ 458,383

Favorable Leases

The decrease in the gross carrying amount of favorable leases from January 30, 2010 to October 30, 2010 was related to a $0.2 million cost adjustment recorded during the nine months ended October 30, 2010 which represented certain favorable leases becoming fully amortized during the period.

The increase in favorable lease accumulated amortization from January 30, 2010 through October 30, 2010 was primarily related to amortization expense of $23.3 million which was incurred during the nine months ended October 30, 2010. This increase was partially offset by a $0.2 million cost adjustment as described above.

The decrease in the gross carrying amount of the Company's favorable leases from October 31, 2009 to January 30, 2010 was primarily related to a reduction of $39.7 million as a result of the impairment of 22 stores.

The decrease in favorable lease accumulated amortization from October 31, 2009 to January 30, 2010 was primarily related to a cost adjustment of $10.6 million resulting from the impairment charge noted above, which decreased both the carrying cost and the accumulated amortization of the favorable leases, which was partially offset by amortization expense of $8.2 million.

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

Fiscal year:	(in thousands)
2011	$ 31,105
2012	29,854
2013	28,590
2014	27,972
2015	26,812
Total	$ 144,333

8. Fair Value Measurements

The Company accounts for fair value measurements in accordance with ASC Topic No. 820, "Fair Value Measurements and Disclosures," (Topic No. 820) which defines fair value, establishes a framework for measurement and expands disclosure about fair value measurements. Topic No. 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price), and classifies the inputs used to measure fair value into the following hierarchy:

Level 1: Quoted prices for identical assets or liabilities in active markets.

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

whose significant value drivers are observable.

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

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

Financial Assets

The Company's financial assets as of October 30, 2010 included cash equivalents, interest rate cap agreements and a note receivable. The Company's financial liabilities are discussed below. The carrying value of cash equivalents approximates fair value due to its short-term nature. The fair values of the interest rate cap agreements are determined using quotes that are based on models whose inputs are observable LIBOR forward interest rate curves. To comply with the provisions of Topic No. 820, the Company incorporates credit valuation adjustments to appropriately reflect both the Company's non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. In adjusting the fair value of the Company's interest rate cap agreements for the effect of non-performance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. As a result, the Company has determined that the inputs used to value this investment fall within Level 2 of the fair value hierarchy.

Although the Company has determined that the majority of the inputs used to value its interest rate cap agreements fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with the Company's interest rate cap agreements utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default. As of October 30, 2010, the Company recorded credit valuation adjustments of $0.1 million to the overall valuation of the Company's interest rate cap agreements. The credit valuation adjustment is not considered significant to the valuation of each of the individual interest rate cap agreements and as a result, the Company has determined that its interest rate cap agreement valuations in their entirety are classified as Level 2 within the fair value hierarchy.

The fair value of the note receivable is based on a discounted cash flow analysis whose inputs are unobservable, and therefore it falls within Level 3 of the fair value hierarchy.

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

	(in thousands) Fair Value Measurements at		
	October 30, 2010	January 30, 2010	October 31, 2009
Assets:			
Level 1			
Cash equivalents (including restricted cash)	$ 57,222	$ 2,758	$ 2,611
Level 2			
Interest rate cap agreements (a)	$ 1,714	$ 8,779	$ 11,689
Level 3			
Note Receivable (b)	$ 1,407	$ 1,407	$ 1,721

(a) Included in “Prepaid and Other Current Assets” and “Other Assets” within the Company’s Condensed Consolidated Balance Sheets (refer to Note 9 of the Company’s Condensed Consolidated Financial Statements entitled “Derivative Instruments and Hedging Activities” for further discussion regarding the Company's interest rate cap agreements).

(b) Included in “Prepaid and Other Current Assets” and “Other Assets” on the Company’s Condensed Consolidated Balance Sheets.

Financial Liabilities

The fair value of the Company’s debt as of October 30, 2010, January 30, 2010 and October 31, 2009 is noted in the table below:

(in thousands)		
October 30, 2010	January 30, 2010	October 31, 2009

	Carrying Amount (c)	Fair Value (c)	Carrying Amount (c)	Fair Value (c)	Carrying Amount (c)	Fair Value (c)
$900,000 Senior Secured Term Loan Facility, LIBOR plus 2.3% due in quarterly payments of $2,250 from August 26, 2011 to May 28, 2013.	$ 852,550	$ 830,171	$ 864,752	$ 804,219	$ 864,752	$ 777,916
$721,000 ABL Senior Secured Revolving Facility, LIBOR plus spread based on average outstanding balance, expires February 14, 2014. (a)	-	-	121,200	121,200	-	-

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Senior Notes, 11.1% due at maturity on April 15, 2014, semi-annual interest payments from April 15, 2011 to April 15, 2014	301,804	318,026	301,264	310,051	301,092	310,877
Senior Discount Notes, 14.5% due at maturity on October 15, 2014, semi-annual interest payments from April 15, 2011 to October 15, 2014	99,309	106,012	99,309	98,812	99,309	98,316
Other debt (b)	354	354	1,777	1,777	1,847	1,847
Total debt	$ 1,254,017	$ 1,254,563	$ 1,388,302	$ 1,336,059	$ 1,267,000	$ 1,188,956

(a) The carrying value of the ABL Line of Credit approximates its fair value due to its short-term nature (borrowings are typically done in increments of 30 days or less) and its variable interest rate.

(b) Other debt includes the industrial revenue bonds and both promissory notes, as further described in Note 3 of the Company's Condensed Consolidated Financial Statements entitled "Long-Term Debt."

(c) Capital lease obligations are excluded from the table above.

As of October 30, 2010, the fair value of the Company's debt, exclusive of capital leases, was $1,254.6 million compared with the carrying value of $1,254.0 million. The fair values presented herein are based on estimates using quoted market prices for the same or similar issues and other pertinent information available to management as of the respective period end dates. Although management is not aware of any factors that could significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these Condensed Consolidated Financial Statements since October 30, 2010, and current estimates of fair value may differ from amounts presented herein.

9. Derivative Instruments and Hedging Activities

The Company accounts for derivatives in accordance with ASC Topic No. 815 "Disclosures and Hedging" (Topic No. 815). Topic No. 815 provides disclosure requirements to provide users of financial statements with an enhanced understanding of: (i) How and why an entity uses derivative instruments; (ii) How derivative instruments and related hedged items are accounted for under Topic No. 815 and its related interpretations; and (iii) How derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows.

The Company is exposed to certain risks relating to its ongoing business operations, including market risks relating to fluctuations in interest rates. The Company's senior secured credit facilities contain floating rate obligations and are subject to interest rate fluctuations. The Company uses interest rate cap agreements, which are designated as economic hedges, to manage interest rate risk associated with the Company's variable-rate borrowings and to minimize

the negative impact of interest rate fluctuations on its earnings and cash flows, thus reducing the Company's exposure to variability in expected future cash flows attributable to the changes in LIBOR rates.

Topic No. 815 requires recognition of all derivative instruments as either assets or liabilities at fair value in the statement of financial position. The Company does not monitor its interest rate cap agreements for hedge effectiveness and therefore does not designate its interest rate cap agreements as cash flow hedges of certain future interest payments on variable-rate debt. Instead, the interest rate cap agreements are adjusted to market on a quarterly basis. As a result, gains or losses associated with the interest rate cap agreements are recorded in the line item "Interest Expense" on the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income and in the line item "Interest Rate Cap Contract – Adjustment to Market" on the Company's Condensed Consolidated Statements of Cash Flows.

As of October 30, 2010, January 30, 2010, and October 31, 2009 the Company was party to four outstanding interest rate cap agreements to manage the interest rate risk associated with future interest payments on variable-rate debt.

(in thousands)

Fair Values of Derivative Instruments

Asset Derivatives

	October 30, 2010		January 30, 2010		October 31, 2009	
Derivatives Not Designated as Hedging Instruments Under Topic No. 815	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest Rate Cap Agreements	Other Assets	$ 1,714	Other Assets	$ 8,779	Other Assets	$ 11,689

Liability Derivatives

	October 30, 2010		January 30, 2010		October 31, 2009	
Derivatives Not Designated as Hedging Instruments Under Topic No. 815	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest Rate Cap Agreements	Other Liabilities	$ -	Other Liabilities	$ -	Other Liabilities	$ -

(Gain) Loss on Derivative Instruments

Derivatives Not Designated as Hedging Instruments Under Topic No. 815	Location of (Gain) or Loss Recognized in Income on Derivatives	Amount of (Gain) or Loss Recognized in Income on Derivatives	
		Nine Months Ended	
		October 30, 2010	October 31, 2009
Interest Rate		$ 7,065	

Cap Agreements	Interest Expense	$ (8,353)

One of the four interest rate cap agreements became effective on May 12, 2006. It has a notional principal amount of $300 million with a cap rate of 7.0% and terminates on May 31, 2011. Upon the effective date the Company determined that it would not monitor this interest rate cap agreement for hedge effectiveness. The Company adjusts this interest rate cap agreement to fair value on a quarterly basis and records all gains and losses associated with this contract in the line item "Interest Expense" in the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income.

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

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

10. Income Taxes

As of October 30, 2010, the Company had a current deferred tax asset of $28.5 million and a non-current deferred tax liability of $271.0 million. As of January 30, 2010, the Company had a current deferred tax asset of $29.6 million and a non-current deferred tax liability of $283.2 million. As of October 31, 2009, the Company had a current deferred tax asset of $52.5 million and a non-current deferred tax liability of $317.6 million. Current deferred tax assets consisted primarily of certain operating costs and inventory related costs not currently deductible for tax purposes. Non-current deferred tax liabilities primarily relate to rent expense, pre-opening costs, intangible costs and depreciation expense where the Company has a future obligation for tax purposes.

In accordance with ASC Topic No. 270, "Interim Financial Reporting" (Topic No. 270) and ASC Topic No. 740, "Income Taxes" (Topic No. 740), at the end of each interim period the Company is required to determine the best estimate of its annual effective tax rate and then apply that rate in providing for income taxes on a current year-to-date (interim period) basis. For the nine months ended October 30, 2010, the Company's best estimate of its annual effective income tax rate was 37.4% (before discrete items).

As of October 30, 2010, January 30, 2010 and October 31, 2009, valuation allowances amounted to $7.0 million, $7.0 million and $8.6 million, respectively, and related primarily to state tax net operating losses. The Company believes that it is more likely than not that a portion of the benefit of the state tax net operating losses will not be realized. The state net operating losses have been generated in a number of taxing jurisdictions and are subject to various expiration periods ranging from five to twenty years beginning with Fiscal 2011. Any future tax benefit recognized by the use of a state tax net operating loss that was established prior to the April 13, 2006 merger transaction involving Bain Capital, LLC (Merger Transaction), where a valuation allowance has been established, and any future tax benefits related to the recognition of any state tax net operating losses, where a valuation allowance has been established, will be recorded to the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income according to the provisions of ASC Topic No. 805, "Business Combinations" (Topic No. 805).

11. Barter Transactions

The Company accounts for barter transactions under ASC Topic No. 845 "Nonmonetary Transactions." Barter transactions with commercial substance are recorded at the estimated fair value of the products exchanged, unless the products received have a more readily determinable estimated fair value. Revenue associated with barter transactions is recorded at the time of the exchange of the related assets. During the nine months ended October 30, 2010 and the nine months ended October 31, 2009, the Company did not enter into any new barter transactions.

The following table summarizes the prepaid advertising expense in the line items "Prepaid and Other Current Assets" and "Other Assets" in the Company's Condensed Consolidated Balance Sheets as of October 30, 2010, January 30, 2010, and October 31, 2009:

	(in thousands)		
	October 30, 2010	January 30, 2010	October 31, 2009
Prepaid and Other Current Assets	$ 3,340	$ 2,681	$ 3,193
Other Assets	6,198	7,508	8,884
Total Prepaid Advertising Expense	$ 9,538	$ 10,189	$ 12,077

The following table details barter credit usage for the three and nine month periods ended October 30, 2010 and October 31, 2009:

	(in thousands)			
	Three Months Ended		Nine Months Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Barter Credit Usage	$ 428	$ 441	$ 1,310	$ 983

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

On April 13, 2006, the Parent's Board of Directors (the Board) adopted the 2006 Management Incentive Plan (the Plan). The Plan provides for the granting of service-based and performance-based stock options, restricted stock and other forms of awards to executive officers and other key employees of the Company and its subsidiaries. Awards made pursuant to the Plan are comprised of units of Parent's common stock. Each unit consists of nine shares of Class A common stock and one share of Class L common stock of the Parent. The shares comprising a unit are in the same proportion as the shares of Class A and Class L common stock held by all stockholders of the Parent. Options granted pursuant to the Plan are exercisable only for whole units and cannot be separately exercised for the individual classes of the Parent common stock. As of October 30, 2010, there were 730,478 units reserved under the Plan consisting of 6,574,302 shares of Class A common stock of Parent and 730,478 shares of Class L common stock of Parent.

Non-cash stock compensation expense for the three and nine months ended October 30, 2010 amounted to $0.5 million and $1.3 million, respectively. In comparison, non-cash stock compensation expense for the three and nine months ended October 31, 2009 amounted to a contra expense of $0.6 million and expense of $3.6 million, respectively. The table below summarizes the types of stock compensation:

	(in thousands)			
	Three Months Ended		Nine Months Ended	
Type of Non-Cash Stock Compensation	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Stock Compensation – Separation Costs (A)	$ -	$ 56	$ -	$ 2,481
Stock Option Compensation (B)	295	(768)	720	525
Restricted Stock Compensation (B)	201	91	613	617
Total	$ 496	$ (621)	$ 1,333	$ 3,623

(A) Included in the line item "Restructuring and Separation Costs" in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income.
(B) Included in the line item "Selling and Administrative Expense" in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income.

Of the $2.5 million of stock compensation – separation costs $2.4 million was related to the repurchase of a portion of the Former CEO's restricted stock, under the terms of his separation agreement, and a modification of his options. The remaining $0.1 million related to the separation of two former employees from the Company under the terms of their respective separation agreements.

Stock Options

Options granted during the nine months ended October 30, 2010 and October 31, 2009 were all service-based awards and were granted at exercise prices of $90 per unit and $180 per unit. All of the service-based awards granted in the nine months ended October 30, 2010 and October 31, 2009 vest 40% on the second anniversary of the award (or the modification of the award) with the remaining amount vesting ratably over the subsequent three years. The final exercise date for any option granted is the tenth anniversary of the grant date.

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

As of October 30, 2010, the Company had 492,666 options outstanding to purchase units, all of which are service-based awards. The Company accounts for awards issued under the Plan in accordance with Topic No. 718 using the modified prospective method, which requires companies to record stock compensation expense for all non-vested and new awards beginning as of the adoption date (June 4, 2006 for the Company). For the three and nine months ended October 30, 2010, the Company recognized non-cash stock compensation expense of $0.3 million ($0.1 million after tax) and $0.7 million ($0.4 million after tax), respectively, net of a $0.4 million and $1.3 million forfeiture adjustment that was recorded as a result of actual forfeitures being higher than initially estimated. In comparison, for the three and nine months ended October 31, 2009, the Company recognized contra expense of $0.8 million ($0.4 million after tax), and expense of $0.5 million ($0.2 million after tax), respectively, net of a $1.3 million and $2.5 million forfeiture adjustment that was recorded as a result of actual forfeitures being higher than initially estimated.

Non-cash stock option compensation expense is included in the line item “Selling and Administrative Expense” in the Company’s Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income. As of October 30, 2010 there was approximately $6.9 million of unearned non-cash stock-based compensation that the Company expected to recognize as expense over the next 4.9 years. The service-based awards are expensed on a straight-line basis over the requisite service period of 5 years. As of October 30, 2010, 25.8% of outstanding options to purchase units had vested.

Stock Option Unit Transactions are summarized as follows:

	Number of Units	Weighted Average Exercise Price Per Unit
Options Outstanding January 30, 2010	478,500	$ 123.70
Options Issued	76,500	120.00
Options Forfeited	(62,334)	(120.00)
Options Outstanding October 30, 2010	492,666	$ 123.59

Non-vested stock option unit transactions during the nine months ended October 30, 2010 are summarized below:

	Number of Units	Weighted Average Grant Date Fair Value Per Unit
Non-Vested Options Outstanding, January 30, 2010	361,500	$ 36.50
Granted	76,500	44.56

Vested	(32,200)		(43.75)
Forfeited	(40,110)		(36.70)
Non-Vested Options Outstanding, October 30, 2010	365,690	$	40.13

The following table summarizes information about the options to purchase units that were outstanding under the Plan as well as options that were exercisable under the plan as of October 30, 2010:

	Stock Option Units Outstanding		Option Units Exercisable	
Exercise Prices	Number Outstanding at October 30, 2010	Weighted Average Remaining Contractual Life (Years)	Number Exercisable at October 30, 2010	Weighted Average Remaining Contractual Life (Years)
$ 90.00	322,778	8.0	70,650	5.3
$ 180.00	155,888	7.2	42,326	4.9
$ 270.00	14,000	2.6	14,000	2.6
	492,666		126,976	

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

Exercise Prices	Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
Expected to Vest as of October 30, 2010			
$ 90.00	261,023	7.9	$ 90.00
$ 180.00	127,510	7.1	$ 180.00
$ 270.00	14,000	2.6	$ 270.00
	402,533		

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants under the Plan during the nine months ended October 30, 2010 and October 31, 2009:

	Nine Months Ended	
	October 30, 2010	October 31, 2009
Risk-Free Interest Rate	1.8 – 3.4%	2.6 – 3.5%

Expected Volatility	38.5%	52.5%
Expected Life (years)	6.6 – 9.5	6.9 – 10.0
Contractual Life (years)	10	10
Expected Dividend Yield	0.0 %	0.0%
Weighted Average Grant Date Fair Value of Options Issued at an exercise price of:		
$ 90.00	$ 49.62	$ 21.97
$180.00	$ 34.45	$ 19.68

The weighted average grant date fair value of options granted has varied from period to period due to changes in the Company's business enterprise value resulting from changes in the Company's business forecast, market conditions and changes in the fair value and book value of the Company's debt.

Restricted Stock Grants

Under the Plan, the Company also has the ability to grant restricted stock units ("Units"). Each Unit consists of nine shares of Class A common stock and one share of Class L common stock of the Parent.

As of October 30, 2010, the Company had 76,829 Units outstanding, all of which are service based awards. During the three and nine month periods ended October 30, 2010, the Company recorded $0.2 million and $0.6 million, respectively, of non-cash stock compensation expense, net of $0.1 million and $0.2 million of forfeiture adjustments that were recorded as a result of actual forfeitures being higher than initially estimated. These amounts are included in the line item "Selling and Administrative Expense" on the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income. In comparison, as of October 31, 2009, the Company had 101,496 Units outstanding. During the three and nine months ended October 31, 2009, the Company recognized expense of $0.1 million and $0.6 million, respectively, of non-cash stock compensation, net of $0.1 million and $0.1 million of forfeiture adjustments that were recorded as a result of actual forfeitures being higher than initially estimated. As of October 30, 2010 there was approximately $1.4 million of unearned non-cash stock based compensation that the Company expects to recognize as an expense over the next 1.6 years. The service based Units are expensed on a straight-line basis over the requisite service period of three years. At October 30, 2010, 2,500 of the outstanding Units were vested.

Restricted Stock Unit Transactions for the nine months ended October 30, 2010 are summarized below:

	Number of Units
Units Outstanding, January 30, 2010	95,052
Forfeited	(18,223)
Units Outstanding, October 30, 2010	76,829

Non-vested Unit transactions for the nine months ended October 30, 2010 are summarized below:

	Number of Units	Weighted Average Grant Date Fair Value Per Unit
Non-vested Units Outstanding, January 30, 2010	92,552	$ 47.97
Forfeited	(18,223)	(45.80)
Non-vested Units Outstanding, October 30, 2010	74,329	$ 48.50

13. Comprehensive (Loss) Income

The Company presents comprehensive (loss) income on its Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income in accordance with ASC Topic No. 220 "Comprehensive Income." For the three and nine month periods ended October 30, 2010 and October 31, 2009, comprehensive (loss) income consisted of net (loss) income.

14. Other Revenue

Other revenue consists of rental income received from leased departments; sublease rental income and other miscellaneous items; and layaway, alteration and other service charges (Service Fees), which are summarized below:

	(in thousands)			
	Three Months Ended		Nine Months Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Rental Income from Leased Departments	$1,548	$1,631	$4,866	$5,649
Sublease Rental Income and Other Miscellaneous Items	2,571	2,668	8,217	8,025
Service Fees	3,731	3,689	8,842	8,098

Total	$7,850	$7,988	$21,925	$21,772

15. Other Current Liabilities

Other current liabilities primarily consist of sales tax payable, liabilities due to customers, accrued payroll costs, self-insurance reserves, accrued operating expenses, payroll taxes payable, current portion of deferred rent expense and other miscellaneous items. Liabilities due to customers totaled $33.4 million, $33.2 million, and $42.8 million as of October 30, 2010, January 30, 2010, and October 31, 2009, respectively.

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The Company has risk participation agreements with insurance carriers with respect to workers' compensation, general liability insurance and health insurance. Pursuant to these arrangements, the Company is responsible for paying individual claims up to designated dollar limits. The amounts included in costs related to these claims are estimated and can vary based on changes in assumptions or claims experience included in the associated insurance programs. An increase in worker's compensation or health insurance claims by employees or general liability claims may result in a corresponding increase in costs related to these claims. At October 30, 2010, January 30, 2010, and October 31, 2009, self-insurance reserves of $24.3 million, $24.2 million, and $41.8 million, respectively, were recorded in the line item "Other Current Liabilities" in the Company's Condensed Consolidated Balance Sheets. The remaining reserve balances of $21.7 million and $21.5 million as of October 30, 2010 and January 30, 2010, respectively, were recorded in the line item "Other Liabilities" in the Company's Condensed Consolidated Balance Sheets. Prior to January 30, 2010, all of the Company's self-insurance reserves were recorded in the line item "Other Current Liabilities" in the Company's Condensed Consolidated Balance Sheets.

16. Segment Information

The Company reports segment information in accordance with ASC Topic No. 280 “Segment Reporting” (Topic No. 280). The Company has identified operating segments at the store level. However, each store’s operating performance has been aggregated into one reportable segment. Each store meets the aggregation criteria set forth in Topic No. 280. The Company’s operating segments are aggregated for financial reporting purposes because they are similar in each of the following areas: economic characteristics, class of consumer, nature of products, nature of production processes and distribution methods. Revenues from customers are derived from merchandise sales and the Company does not rely on any major customers as a source of revenue.

17. Commitments and Contingencies

Legal

The Company establishes reserves relating to legal claims in connection with litigation to which the Company is party to from time to time in the ordinary course of business. The aggregate amounts of such reserves were $6.9 million, $11.6 million, and $5.0 million as of October 30, 2010, January 30, 2010, and October 31, 2009, respectively. The Company believes that potential liabilities in excess of those recorded will not have a material adverse effect on the Company's Consolidated Financial Statements. However, there can be no assurances to this effect.

A putative class action lawsuit, entitled May Vang, and all others similarly situated, v Burlington Coat Factory Warehouse Corporation, Case No. 09-CV-08061-CAS, was filed in the Superior Court of the State of California on September 17, 2009. The named plaintiff purports to assert claims on behalf of all current, former, and future employees in the United States and the State of California for the relevant statutory time period. Plaintiff filed an amended complaint on November 16, 2009. The amended complaint asserts claims for failure to pay all earned hourly wages in violation of the Fair Labor Standards Act (FLSA), failure to pay all earned hourly wages in violation of the California Labor Code, providing compensatory time off in lieu of overtime pay, forfeiture of vacation pay, failure to provide meal and rest periods, secret payment of lower wages than that required by statute or contract, failure to provide accurate, written wage statements, and unfair competition. The complaint seeks certification as a class with respect to the FLSA claims, certification of a class with respect to California law claims, appointment of class counsel and class representative, civil penalties, statutory penalties, declaratory relief, injunctive relief, actual damages, liquidated damages, restitution, pre-judgment interest, costs of suit and attorney’s fees. The Company intends to vigorously defend this action.

There have been no significant changes in the Company's commitments and contingencies from those disclosed in the Company's Transition Report on Form 10-K/T, except as noted below:

Lease Agreements

The Company enters into lease agreements during the ordinary course of business in order to secure favorable store locations. As of October 30, 2010, the Company was committed to two new lease agreements for locations at which stores are expected to be opened in Fiscal 2010. The two new stores are expected to have minimum lease payments of $0.3 million, $1.6 million, $1.6 million, $1.6 million, and $11.5 million for the remainder of the fiscal year ending January 29, 2011, and the fiscal years ending January 28, 2012, February 2, 2013, February 1, 2014, and January 31, 2015 and all subsequent years thereafter, respectively.

Letters of Credit

The Company had irrevocable letter of credit arrangements with various banks in the aggregate amount of $40.5 million and $54.2 million as of October 30, 2010 and October 31, 2009, respectively. Based on the terms of the credit agreement related to the ABL Line of Credit, the Company had available letters of credit of $559.9 million and $575.7 million as of October 30, 2010 and October 31, 2009, respectively. Among these arrangements as of October 30, 2010 and October 31, 2009, the Company had letters of credit in the amount of $30.4 million and $44.7 million, respectively, guaranteeing performance under various insurance contracts and utility agreements. The Company also had no outstanding letter of credit at October 30, 2010 and $1.2 million at October 31, 2009 guaranteeing its Industrial Revenue Bonds. Finally, the Company had outstanding commercial letter of credit agreements in the amount of $10.1 million and $8.3 million at October 30, 2010 and October 31, 2009, respectively, for purchase commitments related to imported inventory.

The Company had irrevocable letters of credit in the amount of $79.6 million as of January 30, 2010. Based on the terms of the credit agreement relating to the ABL Line of Credit, the Company had available letters of credit of $79.0 million as of January 30, 2010. Letters of credit outstanding at January 30, 2010 amounted to $68.5 million, guaranteeing performance under various insurance contracts, and utility agreements. The Company also had letters of credit, in the amount of $1.2 million at January 30, 2010, guaranteeing the Company's Industrial Revenue Bonds and $9.9 million for purchase commitments related to imported inventory.

18. Recent Accounting Pronouncements

In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic No. 820): Improving Disclosures about Fair Value Measurements" (ASU 2010-06). This ASU provides amendments that will require more robust disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2, and 3. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early application is permitted. The adoption of ASU 2010-06 on January 31, 2010, did not have a material impact on the Company's Condensed Consolidated Financial Statements.

In March 2010, the FASB issued ASU No. 2010-11, "Derivatives and Hedging (Topic No. 815): Scope Exception Related to Embedded Credit Derivatives" (ASU 2010-11). ASU 2010-11 clarifies the only form of embedded credit derivative that is exempt from embedded derivative bifurcation requirements is one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The amendments in this ASU are effective at the beginning of a reporting entity's first fiscal quarter beginning after June 15, 2010. The adoption of ASU 2010-11 on August 1, 2010 did not have a material impact on the Company's Condensed Consolidated Financial Statements.

19. Subsequent Events

On November 3, 2010, BCFWC and the Company announced their intention to commence cash tender offers for any and all of BCFW's outstanding 11.1% Senior Notes due 2014 and the Company's outstanding 14.5% Senior Discount Notes due 2014. In connection with these offers, BCFWC announced its intention to offer $500.0 million aggregate principal amount of senior unsecured notes in a private offering exempt from the registration requirements of the Securities Act of 1933, as amended.

Subject to market conditions, BCFWC intended to raise approximately $1,500.0 million of new debt financing, the proceeds of which would be used to repay the Company's existing term loan facility, repurchase or redeem BCFWC's outstanding 11.1% Senior Notes due 2014 and the Company's outstanding 14.5% Senior Discount Notes due 2014, make a distribution to the Company's equity holders, pay related fees and expenses and for general corporate purposes.

Based on changing market conditions and less favorable pricing, on November 18, 2010, BCFWC and the Company announced the termination of their previously announced cash tender offers, as well as the Company's previously announced proposed financing transactions.

In connection with the termination of these transactions, certain costs incurred, which would have been capitalized as deferred financing fees and amortized over the life of the new facilities through the line item “Interest Expense” in the Company’s Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income, in the event that the transaction had been completed, will now be charged as expense in the line item “Selling and Administrative Expenses” in the Company’s Condensed Consolidated Statement of Operations and Comprehensive Net (Loss) Income. The Company estimates that approximately $3 million of expense related to these transactions will be incurred during the fourth quarter of Fiscal 2010.

20. Condensed Guarantor Data

On April 13, 2006, BCFWC issued $305 million aggregate principal amount of 11 .1% Senior Notes due 2014. The notes were issued under an indenture issued on April 13, 2006. Holdings and subsidiaries of BCFWC have fully and unconditionally guaranteed these notes. These guarantees are both joint and several. The following condensed consolidating financial statements present the financial position, results of operations and cash flows of Holdings, BCFWC, (exclusive of subsidiaries, referred to herein as “BCFW”), and the guarantor subsidiaries. The Company has one non-guarantor subsidiary that is not wholly-owned and is considered to be “minor” as that term is defined in Rule 3-10 of Regulation S-X promulgated by the Securities and Exchange Commission.

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

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries
Condensed Consolidating Balance Sheets
(All amounts in thousands)

	As of October 30, 2010				
ASSETS	Holdings	BCFW	Guarantors	Eliminations	Consolidated
Current Assets:					
Cash and Cash Equivalents	$-	$4,402	$49,321	$-	$53,723
Restricted Cash and Cash Equivalents	-	32,815	2,467	-	35,282
Accounts Receivable	-	27,326	10,779	-	38,105
Merchandise Inventories	-	-	892,193	-	892,193
Deferred Tax Asset	-	9,166	19,315	-	28,481
Prepaid and Other Current Assets	-	15,599	20,194	-	35,793
Prepaid Income Tax	-	42,222	2,121	-	44,343
Assets Held for Sale	-	-	521	-	521
Total Current Assets	-	131,530	996,911	-	1,128,441
Property and Equipment - Net of Accumulated Depreciation	-	62,424	799,630	-	862,054
Tradenames	-	238,000	-	-	238,000
Favorable Leases - Net of Accumulation Amortization	-	-	397,756	-	397,756
Goodwill	-	47,064	-	-	47,064
Other Assets	117,621	1,723,050	51,876	(1,799,726)	92,821
Total Assets	$117,621	$2,202,068	$2,246,173	$(1,799,726)	$2,766,136
LIABILITIES AND STOCKHOLDER'S EQUITY					
Current Liabilities:					
Accounts Payable	$-	$683,351	$-	$-	$683,351
Income Taxes Payable	-	617	423	-	1,040
Other Current Liabilities	-	136,342	93,144	-	229,486
Current Maturities of Long-Term Debt	-	4,300	14,259	-	18,559
Total Current Liabilities	-	824,610	107,826	-	932,436
Long-Term Debt	-	1,150,054	110,081	-	1,260,135
Other Liabilities	-	21,460	173,525	(10,000)	184,985

Deferred Tax Liability	-	88,323	182,636	-	270,959
Stockholder’s Equity:					
Common Stock	-	-	-	-	
Capital in Excess of Par Value	465,822	465,822	1,052,051	(1,517,873)	465,822
(Accumulated Deficit)/ Retained Earnings	(348,201)	(348,201)	620,054	(271,853)	(348,201)
Total Stockholder’s Equity	117,621	117,621	1,672,105	(1,789,726)	117,621
Total Liabilities and Stockholder’s Equity	$117,621	$2,202,068	$2,246,173	$(1,799,726)	$2,766,136

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

	As of January 30, 2010				
	Holdings	BCFW	Guarantors	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ -	$ 4,176	$ 20,574	$ -	$ 24,750
Restricted Cash and Cash Equivalents	-	-	2,605	-	2,605
Accounts Receivable	-	19,886	11,392	-	31,278
Merchandise Inventories	-	540	612,755	-	613,295
Deferred Tax Assets	-	10,001	19,643	-	29,644
Prepaid and Other Current Assets	-	12,959	16,484	-	29,443
Prepaid Income Taxes	-	3,870	971	-	4,841
Assets Held for Disposal	-	-	521	-	521
Total Current Assets	-	51,432	684,945	-	736,377
Property and Equipment—Net of Accumulated Depreciation	-	52,526	803,623	-	856,149
Tradenames	-	238,000	-	-	238,000
Favorable Leases—Net of Accumulated Amortization	-	-	421,091	-	421,091
Goodwill	-	47,064	-	-	47,064
Other Assets	154,500	1,441,062	37,792	(1,538,041)	95,313
Total Assets	$ 154,500	$ 1,830,084	$ 1,947,451	$ (1,538,041)	$ 2,393,994
LIABILITIES AND STOCKHOLDER’S EQUITY					
Current Liabilities:					
Accounts Payable	$ -	$ 139,802	$ -	$ -	$ 139,802
Income Taxes Payable	-	10,628	3,595	-	14,223
Other Current Liabilities	-	125,839	89,975	-	215,814
Current Maturities of Long-Term Debt	-	12,202	1,999	-	14,201
Total Current Liabilities	-	288,471	95,569	-	384,040
Long-Term Debt	-	1,275,014	124,138	-	1,399,152
Other Liabilities	-	23,374	159,693	(10,000)	173,067
Deferred Tax Liability	-	88,725	194,510	-	283,235

Stockholder's Equity:					
Common Stock	-	-	-	-	-
Capital in Excess of Par Value	464,489	464,489	836,784	(1,301,273)	464,489
(Accumulated Deficit) / Retained Earnings	(309,989)	(309,989)	536,757	(226,768)	(309,989)
Total Stockholder's Equity	154,500	154,500	1,373,541	(1,528,041)	154,500
Total Liabilities and Stockholder's Equity	$ 154,500	$ 1,830,084	$ 1,947,451	$ (1,538,041)	$ 2,393,994

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries
Condensed Consolidating Balance Sheets
(All amounts in thousands)

	As of October 31, 2009				
ASSETS	Holdings	BCFW	Guarantors	Eliminations	Consolidated
Current Assets:					
Cash and Cash Equivalents	$ -	$ 35,858	$ 28,546	$ -	$ 64,404
Restricted Cash and Cash Equivalents	-	-	2,608	-	2,608
Accounts Receivable	-	21,800	10,037	-	31,837
Merchandise Inventories	-	1,207	844,766	-	845,973
Deferred Tax Asset	-	14,770	37,771	-	52,541
Prepaid and Other Current Assets	-	14,753	16,354	-	31,107
Prepaid Income Tax	-	1,729	-	-	1,729
Assets Held for Sale	-	-	521	-	521
Total Current Assets	-	90,117	940,603	-	1,030,720
Property and Equipment - Net of Accumulated Depreciation	-	52,930	832,954	-	885,884
Tradenames	-	238,000	-	-	238,000
Favorable Leases - Net of Accumulation Amortization	-	-	458,383	-	458,383
Goodwill	-	47,064	-	-	47,064
Other Assets	127,104	1,741,129	38,144	(1,816,344)	90,033
Total Assets	$ 127,104	$ 2,169,240	$ 2,270,084	$ (1,816,344)	$ 2,750,084
LIABILITIES AND STOCKHOLDER'S EQUITY					
Current Liabilities:					
Accounts Payable	$ -	$ 587,713	$ -	$ -	$ 587,713
Income Taxes Payable	-	25,055	5,733	-	30,788
Other Current Liabilities	-	120,799	126,489	-	247,288
Current Maturities of Long-Term Debt	-	5,252	1,991	-	7,243

Total Current Liabilities	-	738,819	134,213	-	873,032
Long-Term Debt	-	1,159,497	125,421	-	1,284,918
Other Liabilities	-	45,891	111,586	(10,000)	147,477
Deferred Tax Liability	-	97,929	219,624	-	317,553
Stockholder's Equity:					
Common Stock	-	-	-	-	-
Capital in Excess of Par Value	463,721	463,721	1,337,756	(1,801,477)	463,721
(Accumulated Deficit)/ Retained Earnings	(336,617)	(336,617)	341,484	(4,867)	(336,617)
Total Stockholder's Equity	127,104	127,104	1,679,240	(1,806,344)	127,104
Total Liabilities and Stockholder's Equity	$ 127,104	$ 2,169,240	$ 2,270,084	$ (1,816,344)	$ 2,750,084

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Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries
Condensed Consolidating Statement of Operations
(All amounts in thousands)

	For the Nine Months Ended October 30, 2010				
	Holdings	BCFW	Guarantors	Eliminations	Consolidated
REVENUES:					
Net Sales	$ -	$ 861	$ 2,480,752	$ -	$ 2,481,613
Other Revenue	-	373	21,552	-	21,925
Total Revenue	-	1,234	2,502,304	-	2,503,538
COSTS AND EXPENSES:					
Cost of Sales	-	844	1,548,198	-	1,549,042
Selling and Administrative Expenses	-	121,108	714,817	-	835,925
Restructuring and Separation Costs	-	1,739	413	-	2,152
Depreciation and Amortization	-	13,456	95,739	-	109,195
Interest Expense	-	65,944	12,406	-	78,350
Impairment Charges – Long-Lived Assets	-	-	510	-	510
Other (Income) Expense, Net	-	(5,434)	(4,599)	-	(10,033)
Loss (Earnings) from Equity Investment	38,061	(83,297)	-	45,236	-
Total Costs and Expenses	38,061	114,360	2,367,484	45,236	2,565,141
(Loss) Income Before (Benefit) Provision for Income Taxes	(38,061)	(113,126)	134,820	(45,236)	(61,603)
(Benefit) Provision for Income Taxes	-	(75,065)	51,523	-	(23,542)
Net (Loss) Income	$ (38,061)	$ (38,061)	$ 83,297	$ (45,236)	$ (38,061)

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries
Condensed Consolidating Statement of Operations
(All amounts in thousands)

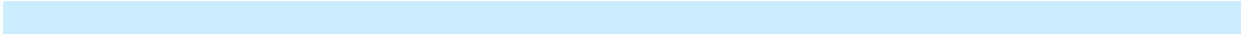
	For the Three Months Ended October 30, 2010				
	Holdings	BCFW	Guarantors	Eliminations	Consolidated
REVENUES:					
Net Sales	$ -	$ -	$ 858,186	$ -	$ 858,186
Other Revenue	-	140	7,710	-	7,850
Total Revenue	-	140	865,896	-	866,036
COSTS AND EXPENSES:					
Cost of Sales	-	-	527,301	-	527,301
Selling and Administrative Expenses	-	34,835	250,783	-	285,618
Restructuring and Separation Costs	-	-	-	-	-
Depreciation and Amortization	-	5,343	31,617	-	36,960
Interest Expense	-	21,043	3,885	-	24,928
Impairment Charges – Long-Lived Assets	-	-	252	-	252
Other (Income) Expense, Net	-	(1,366)	(2,224)	-	(3,590)
Loss (Earnings) from Equity Investment	2,795	(32,730)	-	29,935	-
Total Costs and Expenses	2,795	27,125	811,614	29,935	871,469
(Loss) Income Before (Benefit) Provision for Income Taxes	(2,795)	(26,985)	54,282	(29,935)	(5,433)
(Benefit) Provision for Income Taxes	-	(24,190)	21,552	-	(2,638)
Net (Loss) Income	$ (2,795)	$ (2,795)	$ 32,730	$ (29,935)	$ (2,795)

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries
Condensed Consolidating Statement of Operations
(All amounts in thousands)

	For the Nine Months Ended October 31, 2009				
	Holdings	BCFW	Guarantors	Eliminations	Consolidated
REVENUES:					
Net Sales	$ -	$ 1,399	$ 2,401,996	$ -	$ 2,403,395
Other Revenue	-	424	21,348	-	21,772
Total Revenue		1,823	2,423,344		2,425,167
	-			-	
COSTS AND EXPENSES:					
Cost of Sales	-	932	1,500,993	-	1,501,925
Selling and Administrative Expenses	-	118,501	691,717	-	810,218
Restructuring and Separation Costs	-	5,337	957	-	6,294
Depreciation and Amortization		15,467	98,088		113,555
Interest Expense	-	45,419	12,852	-	58,271
Impairment Charges – Long-Lived Assets	-	-	15,865	-	15,865
Impairment Charges – Tradenames	-	15,250	-	-	15,250
Other (Income) Expense, Net	-	(5,787)	(3,117)	-	(8,904)
Loss (Earnings) from Equity Investment	41,925	(50,897)	-	8,972	-
Total Costs and Expenses	41,925	144,222	2,317,355	8,972	2,512,474
(Loss) Income Before (Benefit) Provision for Income Taxes	(41,925)	(142,399)	105,989	(8,972)	(87,307)
(Benefit) Provision for Income Taxes	-	(100,474)	55,092	-	(45,382)
Net (Loss) Income	$ (41,925)	$ (41,925)	$ 50,897	$ (8,972)	$ (41,925)

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries
Condensed Consolidating Statement of Operations
(All amounts in thousands)

	For the Three Months Ended October 31, 2009				
	Holdings	BCFW	Guarantors	Eliminations	Consolidated
REVENUES:					
Net Sales	$ -	$ 429	$ 871,945	$ -	$ 872,374
Other Revenue	-	173	7,815	-	7,988
Total Revenue	-	602	879,760	-	880,362
COSTS AND EXPENSES:					
Cost of Sales	-	292	523,173	-	523,465
Selling and Administrative Expenses	-	35,857	245,712	-	281,569
Restructuring and Separation Costs	-	1,032	158	-	1,190
Depreciation and Amortization	-	4,234	31,976	-	36,210
Interest Expense	-	16,316	4,271	-	20,587
Impairment Charges – Long-Lived Assets	-	-	6,437	-	6,437
Impairment Charges – Tradenames	-	-	-	-	-
Other (Income) Expense, Net	-	(1,326)	(1,232)	-	(2,558)
(Earnings) Loss from Equity Investment	(7,511)	(32,870)	-	40,381	-
Total Costs and Expenses	(7,511)	23,535	810,495	40,381	866,900
Income (Loss) Before (Benefit) Provision for Income Taxes	7,511	(22,933)	69,265	(40,381)	13,462
(Benefit) Provision for Income Taxes	-	(30,444)	36,395	-	5,951
Net Income (Loss)	$ 7,511	$ 7,511	$ 32,870	$ (40,381)	$ 7,511



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Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries
Condensed Consolidating Statements of Cash Flows
(All amounts in thousands)

	For the Nine Months Ended October 30, 2010				
	Holdings	BCFW	Guarantors	Elimination	Consolidated
OPERATING ACTIVITIES					
Net Cash Provided by Operating Activities	$ -	$ 196,717	$ 104,379	$ -	$ 301,096
INVESTING ACTIVITIES					
Cash Paid For Property and Equipment	-	(29,367)	(73,880)	-	(103,247)
Proceeds Received from Sale of Fixed Assets	-	-	227	-	227
Lease Acquisition Costs	-	-	(422)	-	(422)
Redemption of Investment in Money Market Fund		-	240	-	240
Change in Restricted Cash and Cash Equivalents	-	(32,677)	-	-	(32,677)
Investing Activity-Other	-	40	-	-	40
Net Cash Used in Investing Activities	-	(62,004)	(73,835)	-	(135,839)
FINANCING ACTIVITIES					
Proceeds from Long-Term Debt – ABL Line of Credit	-	25,400	-	-	25,400
Proceeds from Long-Term Debt	-	-	(1,797)	-	(1,797)
Principal Payments on Long-Term Debt	-	(12,202)	-	-	(12,202)
Principal Payments on Long-Term Debt – ABL Line of Credit	-	(146,600)	-	-	(146,600)
Debt Issuance Cost	-	(934)	-	-	(934)
Payment of Dividends	(151)	(151)	-	151	(151)
Receipt of Dividends	151	-	-	(151)	-
Net Cash Used In Financing Activities	-	(134,487)	(1,797)	-	(136,284)
Increase in Cash and Cash Equivalents	-	226	28,747	-	28,973
Cash and Cash Equivalents at Beginning of Period	-	4,176	20,574	-	24,750
Cash and Cash Equivalents at End of Period	$ -	$ 4,402	$ 49,321	$ -	$ 53,723

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries
Condensed Consolidating Statements of Cash Flows
(All amounts in thousands)

	For the Nine Months Ended October 31, 2009				
	Holdings	BCFW	Guarantors	Elimination	Consolidated
OPERATING ACTIVITIES					
Net Cash Provided by Operating Activities	$ -	$ 104,576	$ 30,549	$ -	$ 135,125
INVESTING ACTIVITIES					
Cash Paid For Property and Equipment	-	(23,978)	(46,173)	-	(70,151)
Proceeds Received from Sale of Property	-	-	905	-	905
Change in Restricted Cash and Cash Equivalents	-	-	(318)	-	(318)
Lease Acquisition Costs	-	-	(1,337)	-	(1,337)
Redemption of Investment in Money Market Fund	-	-	7,371	-	7,371
Purchase of Tradename Rights	-	(6,250)	-	-	(6,250)
Investing Activity-Other	-	64	-	-	64
Net Cash Used in Investing Activities	-	(30,164)	(39,552)	-	(69,716)
FINANCING ACTIVITIES					
Proceeds from Long-Term Debt – ABL Line of Credit	-	593,915	-	-	593,915
Principal Payments on Long-Term Debt	-	-	(1,563)	-	(1,563)
Principal Payments on Long-Term Debt – ABL Line of Credit	-	(8,055)	-	-	(8,055)
Principal Payments on Long-Term Debt – Term Loan	-	(623,915)	-	-	(623,915)
Payment of Dividends	(3,094)	(3,094)	-	3,094	(3,094)
Receipt of Dividends	3,094	-	-	(3,094)	-
Net Cash Used In Financing Activities	-	(41,149)	(1,563)	-	(42,712)
Increase (Decrease) in Cash and Cash Equivalents	-	33,263	(10,566)	-	22,697
Cash and Cash Equivalents at Beginning of Period	-	2,595	39,112	-	41,707
Cash and Cash Equivalents at End of Period	$ -	$ 35,858	$ 28,546	$ -	$ 64,404

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

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

The Company's management intends for this discussion to provide the reader with information that will assist in understanding the Company's financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. All discussions of operations in this report relate to Burlington Coat Factory Warehouse Corporation and its subsidiaries, which are reflected in the financial statements of Burlington Coat Factory Investments Holdings, Inc. and its subsidiaries (hereinafter we or our or Holdings). The following discussion contains forward-looking information and should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this report and our Transition Report on Form 10-K/T related to the 35 week period ended January 30, 2010. Our actual results could differ materially from the results contemplated by these forward-looking statements due to various factors, including those discussed under the section of this Item 2 entitled "Safe Harbor Statement."

Fiscal Year

In order to conform to the predominant fiscal calendar used within the retail industry, on February 25, 2010 our Board of Directors approved a change in our fiscal year from a fiscal year comprised of the twelve consecutive fiscal months ending on the Saturday closest to May 31 to a fiscal year comprised of the twelve consecutive fiscal months ending on the Saturday closest to January 31. Accordingly, our Transition Report on Form 10-K/T was for the 35 week transition period beginning on May 31, 2009, the day following the end of our 2009 fiscal year, and ended on January 30, 2010 (the Transition Period).

Statements that we make about fiscal year 2010 refer to our first full fiscal year after the Transition Period, which is the 52 week period commencing on January 31, 2010 and ending on January 29, 2011 (Fiscal 2010). Fiscal 2009 ended on May 30, 2009 and was a 52 week year (Fiscal 2009). Fiscal 2008 ended on May 31, 2008 and was a 52 week year (Fiscal 2008).

As a result of our fiscal year end change and the seasonality of our results, we recast our prior quarterly interim financial information for the 12 month period ended January 30, 2010 on the basis of the new fiscal year for comparative purposes.

Overview

Three Month Period Ended October 30, 2010 Compared With Three Month Period Ended October 31, 2009

We experienced a decrease in net sales for the three months ended October 30, 2010 compared with the three months ended October 31, 2009. Consolidated net sales decreased $14.2 million, or 1.6%, to $858.2 million for the three months ended October 30, 2010 from $872.4 million for the three months ended October 31, 2009. This decrease was primarily attributable to a decrease in comparative store sales, partially offset by sales generated by new stores and stores previously opened that are not included in our comparative store sales. We believe the comparative store sales (as discussed below under the caption "Key Performance Measures") decrease was due primarily to warmer weather in September and October of 2010 as compared with the same period in the prior year, as discussed below (refer to the

section below entitled “Three Month Period Ended October 30, 2010 Compared With Three Month Period Ended October 31, 2009” for further explanation).

Our gross margin as a percentage of sales decreased to 38.6% during the three month period ended October 30, 2010 as compared with 40.0% for the three month period ended October 31, 2009. The reduction in gross margin as a percentage of sales was due primarily to planned increases in both markdowns and shrink for the three month period ended October 30, 2010 compared with the three month period ended October 31, 2009.

Selling and administrative expenses as a percentage of sales increased to 33.3% during the three months ended October 30, 2010 from 32.3% during the three months ended October 31, 2009. This increase was primarily due to the impact of our comparative store sales decrease of 5.6%.

Total selling and administrative expenses increased $4.0 million, or 1.4%, during the three months ended October 30, 2010 compared with the three months ended October 31, 2009. The increase in our selling and administrative expenses was primarily due to an increase in occupancy costs and payroll and payroll related costs due to the opening of 17 net new stores since October 31, 2009 and nine stores that were opened during the three months ended October 31, 2009, but which did not operate for the full fiscal period, partially offset by a decrease in legal reserves.

We recorded a net loss of $2.8 million for the three month period ended October 30, 2010 compared with net income of $7.5 million for the three month period ended October 31, 2009. The decline in our operating results during the three months ended October 30, 2010 compared with the three months ended October 31, 2009 was primarily attributable to the results discussed above, as well an increase in interest expense which primarily related to the change in the fair values of our interest rate cap agreements during the three months ended October 30, 2010 compared with the three months ended October 31, 2009.

Nine Month Period Ended October 30, 2010 Compared With Nine Month Period Ended October 31, 2009

We experienced an increase in net sales for the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009. Consolidated net sales increased $78.2 million, or 3.3%, to $2,481.6 million for the nine months ended October 30, 2010 from $2,403.4 million for the nine months ended October 31, 2009. This increase was primarily attributable to sales generated by new stores and stores previously opened that are not included in our comparative store sales partially offset by a decrease in comparative store sales. We believe the comparative store sales (as discussed below under the caption “Key Performance Measures”) decrease was due to warmer weather during September and October of 2010 as compared with the same period in the prior year, partially offset by gains made as part of our ongoing initiatives to improve our comparative store sales, as discussed below (refer to the section below entitled “Nine Month Period Ended October 30, 2010 Compared With Nine Month Period Ended October 31, 2009” for further explanation).

Our gross margin as a percentage of sales increased slightly to 37.6% during the nine month period ended October 30, 2010 compared with 37.5% for the nine month period ended October 31, 2009 as a result of fewer markdowns.

Selling and administrative expenses as a percentage of sales during the nine months ended October 30, 2010 remained in line with the nine months ended October 31, 2009 at 33.7%.

Total selling and administrative expenses increased $25.7 million, or 3.2% during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009. The increase in our selling and administrative expenses was primarily due to new store openings. At October 30, 2010, we operated 459 stores compared with 442 stores at October 31, 2009.

We recorded a net loss of $38.1 million for the nine month period ended October 30, 2010 compared with a net loss of $41.9 million for the nine month period ended October 31, 2009. The improvement in our operating results during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009 was primarily attributable to the results discussed above, as well as fewer impairment charges, partially offset by increased interest expense, during the nine months ended October 30, 2010 compared with the nine months ended October 31, 2009.

Current Conditions

Store Openings, Closings, and Relocations

During the nine months ended October 30, 2010, we opened 24 Burlington Coat Factory Warehouse Stores (BCF Stores) and closed seven BCF Stores, four of which were in locations within the same trading market as four of the new stores that were opened prior to Fiscal 2010, and two that were in locations within the same trading market as two of the new stores that we opened during the nine month period ended October 30, 2010. As of October 30, 2010, we operated 459 stores under the names "Burlington Coat Factory Warehouse" (442 stores), "Cohoes Fashions" (two stores), "MJM Designer Shoes" (14 stores) and "Super Baby Depot" (one store).

We continue to pursue our growth plans and invest in capital projects that meet our financial requirements. We currently plan to open two new stores during the remainder of Fiscal 2010.

Ongoing Initiatives for Fiscal 2010

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

I. Offering a Leading Selection of Branded Apparel at Every Day Low Prices (EDLP): We offer a merchandise selection substantially broader than that of our off-price competitors and similar to the selection found at a department store. In contrast to merchandise at department and specialty stores, our merchandise is offered at EDLP, allowing customers to obtain the best value at our stores without waiting for sales or promotions. We focus on delivering exceptional values that fit within a good, better, and best pricing strategy.

II. Transition our Open to Buy Model and Improve Merchandising: Our "open to buy" paradigm, in which we purchase both pre-season and in-season merchandise, improves our receipt-to-reduction ratio and enables more flexibility for buying "wear-now" products. From fiscal 2006 to 2009, a significant portion of our purchasing was pre-season with the balance in-season and opportunistic. With our new model, we have moved towards purchasing less pre-season, with the majority in-season and opportunistically. This enables us to determine and stock for trends with better consumer data as well as drive better terms with our suppliers. By maximizing our in-season buys, we believe that we are able to take advantage of known trends and emerging businesses. We are also able to better focus on our core female customer by enhancing our merchandise content as well as keeping inventory fresh.

III. Refining Our Store Experience Through the Eyes of the Customer: We have empowered our store teams to provide an outstanding customer experience for every customer in every store, every day. We have, and will continue to strive, to streamline processes to create opportunities for fast and effective customer interactions. Our mission is to have stores that reflect clean, organized merchandise presentations that highlight the brands, value and diversity of our selection within our assortments. Through proper staffing flexibility we provide sales floor coverage during peak shopping hours to better serve the customer on the sales floor and at the check-out.

We are executing these initiatives during Fiscal 2010 by:

a) Continuing with our in-store customer satisfaction survey and program that measures 13 different aspects of customer satisfaction. Examples include: friendliness of associates, interior cleanliness and selection of merchandise.

b) Continuing the implementation of a store refresh program with respect to stores that we have identified as having certain needs such as new carpet, painting, fitting room improvements and various other improvements. We have completed store refreshes at more than 50 stores over the past two fiscal years and we expect to continue an aggressive refresh program going forward.

c) Continuing the implementation of upgraded lighting retrofits in our stores which will make them more energy efficient and easier for customers to navigate. We have completed upgraded lighting retrofits at more than 130 stores over the last two fiscal years and expect to continue an aggressive lighting retrofit program going forward.

IV. Deliver Consistent Gross Margin: We continue to focus on having stable gross margin as a percentage of net sales.

We are executing this initiative during Fiscal 2010 by:

a) Continuing to manage our inventory receipt to reduction ratio. By matching receipt dollars to sales dollars we will continue to be able to take advantage of in season buying opportunities and to capitalize on those businesses that are trending well.

b) Continuing to ensure adequate open to buy and buying more opportunistically in season. By staying liquid, we put ourselves in a position to be able to take advantage of opportunistic in-season buys that will maximize our sales.

c) Continuing to improve the amount of current inventory as a percentage of our total inventory. By having more current inventory in our merchandise mix, we will be afforded more pricing flexibility to provide additional value to our customers without reducing our overall margins.

d) Reducing our shrink as a percentage of net sales. We have added additional resources to help improve existing controls and processes to reduce our shrink as a percentage of net sales without negatively impacting the store experience. We expect improved results to occur over time becoming more apparent in the fiscal year ending January 28, 2012.

V. The Continued Reduction of Our Cost Structure:

a) Reduce store payroll costs. We are planning to implement an automated workforce management system in our stores which will be piloted in early 2011 and completed prior to the fourth quarter of Fiscal 2011. This new

scheduling system will provide numerous efficiencies including, but not limited to, better forecasting of volume and workload, improved allocation of manpower to meet customer demand, and will support our store experience and service initiatives. The majority of these efficiencies are expected to be fully recognized in Fiscal 2012. We believe that these actions will allow us to operate our business more efficiently without sacrificing our ability to serve our customers.

b) Supply chain efficiencies. We continue to work on several logistics initiatives to improve supply chain efficiencies and service levels. We have consolidated our Burlington, New Jersey distribution center into our Edgewater Park, NJ distribution center and have implemented a new warehouse management system within the Edgewater Park, NJ and San Bernardino, CA distribution centers. This new system allows for further improvements in productivity by providing functionality not previously available and allows for flexibility in processing any goods received at either of the two facilities. Accordingly, both facilities can process all receipts in a more efficient manner, continuing to reduce the amount of transportation miles required to service our stores. Finally, we have implemented a performance management program designed to drive productivity improvements within the four walls of our distribution centers.

Uncertainties and Challenges

As management strives 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 customers' spending, 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.

General Economic Conditions. Consumer spending habits, including spending for the merchandise that we sell, are affected by, among other things, prevailing economic conditions, inflation, levels of employment, salaries and wage rates, prevailing interest rates, housing costs, energy costs, income tax rates and policies, consumer confidence and consumer perception of economic conditions. In addition, consumer purchasing patterns may be influenced by consumers' disposable income, credit availability and debt levels. A continued or incremental slowdown in the U.S. economy, an uncertain economic outlook or an expanded credit crisis could continue to adversely affect consumer spending habits resulting in lower net sales and profits than expected on a quarterly or annual basis. Beginning in Fiscal 2009, there was significant deterioration in the global financial markets and economic environment, which we believe continues to negatively impact consumer spending at many retailers, including us. We continue to take steps to increase opportunities to profitably drive sales and to curtail operating expenses where prudent. Where appropriate, we have reinvested some of these savings back into our business and store experience.

We closely monitor our net sales, gross margin, expenses and working capital. We have performed scenario planning such that if our net sales decline, we have identified variable costs that could be reduced to partially mitigate the impact of these declines. If adverse economic trends continue to deteriorate, or if our efforts to counteract the impacts of these trends are not sufficiently effective, there could be a negative impact on our financial performance and position in future fiscal periods. For further discussion of the risks to us regarding general economic conditions, please refer to the section below entitled "Liquidity and Capital Resources" and Part II, Item 1A of this report entitled "Risk Factors."

Key Performance Measures

We consider numerous factors in assessing our performance. Key performance measures used by management include comparative store sales, gross margin, inventory levels, receipt-to-reduction ratio, liquidity and store payroll as a percentage of net sales.

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 method of calculating comparative store sales varies across the retail industry. As a result, our definition of comparative store sales may differ from other retailers.

During the Transition Period, we changed our definition of comparative store sales. We now define comparative store sales as sales of those stores commencing on the first day of the fiscal month one year after the end of their grand opening activities, which normally conclude within the first two months of operations. Previously, we defined comparative store sales as sales of those stores (net of sales discounts) following their four hundred and twenty-fifth day of operation (approximately one year and two months). This change aligns our external reporting of comparative store sales with how the metric is reviewed internally by management. For the three and nine months ended October 30, 2010, we experienced decreases in comparative store sales of 5.6% and 0.8%, respectively, compared with the

three and nine month periods ended October 31, 2009, respectively.

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

Gross Margin. Gross margin is a measure used by management to indicate whether we are selling merchandise at an appropriate gross profit. Gross margin is the difference between net sales and the cost of sales. Our cost of sales and gross margin may not be comparable to those of other entities, since some entities include all of the costs related to their buying and distribution functions in cost of sales. We include certain of these costs in the "Selling and Administrative Expenses" and "Depreciation and Amortization" line items in our Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income. We include in our "Cost of Sales" line item all costs of merchandise (net of purchase discounts and certain vendor allowances), inbound freight, distribution center outbound freight and certain merchandise acquisition costs, primarily commissions and import fees. Gross margin as a percentage of net sales was 38.6% and 37.6% for the three and nine months ended October 30, 2010 compared with 40.0% and 37.5% for the three and nine months ended October 31, 2009. Refer to the sections below entitled "Three Month Period Ended October 30, 2010 Compared With Three Month Period Ended October 31, 2009" and "Nine Month Period Ended October 30, 2010 Compared With Nine Month Period Ended October 31, 2009" for further explanation of the fluctuations in our gross margin.

Inventory Levels. Inventory at October 30, 2010 was $892.2 million compared with $613.3 million as of January 30, 2010. Average store inventory at October 30, 2010 increased approximately 40.1% to $1.9 million per store compared with average store inventory of $1.4 million at January 30, 2010. This increase is the result of the seasonality of our business as January typically represents the low point of our inventory and as of the end of October we had begun building our inventory levels for the holiday selling season.

Inventory at October 30, 2010 increased $46.2 million from $846.0 million at October 31, 2009. Average store inventory at October 30, 2010 increased approximately 1.6% to $1.9 million per store compared with average store inventory at October 31, 2009. Average inventory per comparative store increased 0.5%. The increase in average inventory per comparative store was a result of the timing of inventory receipts at the stores. As part of our holiday selling season plan, we accelerated certain inventory shipments to the stores in order to ensure they were properly merchandised for the holiday season.

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

Receipt-to-Reduction Ratio. We are in the process of developing a more consistent merchandise flow based on a receipt-to-reduction ratio. We are attempting to match forecasted levels of receipts to forecasted sales, taking into consideration the levels of markdown dollars on a monthly basis. We believe this will result in a more normalized receipt cadence and minimize peaks and valleys in our receiving process, ultimately leading to an improved inventory turnover ratio.

Inventory turnover is a measure that indicates how efficiently inventory is bought and sold. It measures the length of time that we own our inventory. This is significant because usually the longer the inventory is owned, the more likely markdowns may be required to sell the inventory. Inventory turnover is calculated by dividing retail sales before sales discounts by the average retail value of the inventory for the period being measured. Our annualized inventory turnover rate as of October 30, 2010 increased to 2.7 turns per year over the annualized inventory turnover rate as of October 31, 2009 of 2.5 turns per year, which represents an 8.0% increase over the prior year.

Liquidity. Liquidity measures our ability to generate cash. Management measures liquidity through cash flow and working capital position. Cash flow is the measure of cash generated from operating, financing, and investing activities. We experienced an increase in cash and cash equivalents of $29.0 million during the nine month period

ended October 30, 2010. During the nine month period ended October 31, 2009 we experienced an increase in cash and cash equivalents of $22.7 million. The increase during the nine month period ended October 30, 2010 was primarily due to increased accounts payable at October 30, 2010 compared with January 30, 2010 as a result of our working capital management strategy at the end of the Transition Period. Based on the working capital management strategy we accelerated certain payments that typically would not have been made until the first quarter of Fiscal 2010, which lowered our accounts payable balance at the end of the Transition Period. As our accounts payable balance returned to historical levels at October 30, 2010, this created additional cash flow. Partially offsetting this increase was an increase in merchandise inventory and increased net repayments on our ABL Line of Credit. During the nine months ended October 30, 2010 and October 31, 2009, we made net repayments on our ABL Line of Credit of $121.2 million and $30.0 million, respectively. Cash and cash equivalents increased $29.0 million from January 30, 2010 to $53.7 million at October 30, 2010 (discussed in more detail under the caption below entitled “Liquidity and Capital Resources”).

Changes in working capital also impact our cash flows. Working capital equals current assets (exclusive of restricted cash and cash equivalents) minus current liabilities. Working capital at October 30, 2010 was $160.7 million compared with $349.7 million at January 30, 2010. The decrease in working capital from January 30, 2010 was primarily attributable to an increase in accounts payable related to the Company’s year end working capital management strategy, partially offset by increased levels of merchandise inventory.

Working capital at October 30, 2010 increased $5.6 million to $160.7 million at October 30, 2010 from $155.1 million at October 31, 2009. The increase in working capital was primarily attributable to an increase in accounts payable, partially offset by an increase in inventory.

Store Payroll as a Percentage of Net Sales. Store payroll as a percentage of net sales measures our ability to manage our payroll in accordance with increases or decreases in net sales. The method of calculating store payroll varies across the retail industry. As a result, our store payroll as a percentage of net sales may differ from other retailers. Store payroll as a percentage of net sales was 10.8% and 10.9% during the three and nine months ended October 30, 2010 compared with 10.9% and 11.2% during the three and nine months ended October 31, 2009.

The improvement in store payroll as a percentage of net sales for both the three and nine month periods ended October 30, 2010 compared with both the three and nine months ended October 31, 2009, is due to our ongoing initiative to reduce store payroll costs, as further described above under the caption "Ongoing Initiatives for Fiscal 2010".

Critical Accounting Policies and Estimates

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

Our critical accounting policies and estimates are consistent with those disclosed in our Transition Report on Form 10-K/T.