Burlington Coat Factory Investments Holdings, Inc.
Form 10-Q
June 12, 2014
Table of Contents

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 May 3, 2014

OR

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

For the transition period from _________ to _________.

Commission File Number 333-137916-110

BURLINGTON COAT FACTORY

INVESTMENTS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. * Yes ¨ No 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 x 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 June 12, 2014, the registrant has 1,000 shares of common stock outstanding, all of which are owned by Burlington Coat Factory Holdings, LLC, the registrant s parent holding company, and are not publicly traded.

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

Table of Contents

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.

INDEX

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(All amounts in thousands, except share and per share data)

	May 3, 2014	February 1, 2014	May 4, 2013
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 68,461	$ 129,460	$ 102,348
Restricted Cash and Cash Equivalents	32,100	32,100	34,800
Accounts Receivable, Net of Allowances for Doubtful Accounts	44,072	35,678	46,362
Merchandise Inventories	707,627	720,052	727,219
Deferred Tax Assets	14,850	13,475	9,337
Prepaid and Other Current Assets	77,492	77,701	74,294
Prepaid Income Taxes	5,326	4,523	7,002
Total Current Assets	949,928	1,012,989	1,001,362
Property and Equipment Net of Accumulated Depreciation and Amortization	907,772	902,657	871,610
Tradenames	238,000	238,000	238,000
Favorable Leases Net of Accumulated Amortization	285,933	292,553	313,200
Goodwill	47,064	47,064	47,064
Other Assets	116,073	120,673	111,209
Total Assets	$ 2,544,770	$ 2,613,936	$ 2,582,445
LIABILITIES AND STOCKHOLDER S DEFICIT			
Current Liabilities:			
Accounts Payable	$ 575,912	$ 542,987	$ 630,660
Other Current Liabilities	265,443	312,343	217,544
Current Maturities of Long Term Debt	1,070	1,026	9,737
Total Current Liabilities	842, 425	856,356	857,941
Long Term Debt	1,297,258	1,301,012	1,328,352
Other Liabilities	255,296	255,555	230,337
Deferred Tax Liabilities	235,986	242,708	251,167
Commitments and Contingencies (Notes 3, 4, 7, 8, 9 and 12)			
Stockholder s Deficit:			
Common Stock (Par Value $0.01; 1,000 Shares Issued and Outstanding)			
Capital in Excess of Par Value	414,045	474,396	475,191
Accumulated Deficit	(500,240)	(516,091)	(560,543)
Total Stockholder s Deficit	(86,195)	(41,695)	(85,352)
Total Liabilities and Stockholder s Deficit	$ 2,544,770	$ 2,613,936	$ 2,582,445

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(All amounts in thousands, except per share data)

	Three Months Ended	
	May 3, 2014	**May 4, 2013**
REVENUES:		
Net Sales	$ 1,128,269	$ 1,065,013
Other Revenue	7,589	7,976
Total Revenue	1,135,858	1,072,989
COSTS AND EXPENSES:		
Cost of Sales	698,461	667,653
Selling and Administrative Expenses	346,969	327,704
Costs Related to Debt Amendments and Secondary Offering	366	8,855
Stock Option Modification Expense	828	
Restructuring and Separation Costs (Note 4)		1,625
Depreciation and Amortization	41,208	43,992
Impairment Charges Long-Lived Assets	19	51
Other Income, Net	(1,896)	(2,548)
Loss on Extinguishment of Debt	87	
Interest Expense (Inclusive of Gain (Loss) on Interest Rate Cap Agreements)	23,760	26,589
Total Costs and Expenses	1,109,802	1,073,921
Income (Loss) Before Income Tax Expense (Benefit)	26,056	(932)
Income Tax Expense (Benefit)	10,205	(230)
Net Income (Loss)	$ 15,851	$ (702)
Total Comprehensive Income (Loss)	$ 15,851	$ (702)

See Notes to Condensed Consolidated Financial Statements.

4

Table of Contents

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(All amounts in thousands)

	Three Months Ended	
	May 3, 2014	May 4, 2013
OPERATING ACTIVITIES		
Net Income (Loss)	$ 15,851	$ (702)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	41,208	43,992
Amortization of Deferred Financing Costs	2,041	1,520
Impairment Charges Long-Lived Assets	19	51
Accretion of Senior Notes	461	488
Interest Rate Cap Contracts Adjustment to Market	1	60
Provision for Losses on Accounts Receivable	37	34
Deferred Income Tax (Benefit)	(8,098)	(5,376)
Loss (Gain) on Disposition of Fixed Assets and Leasehold Improvements	194	(39)
Non-Cash Loss on Extinguishment of Debt Write-off of Deferred Financing Costs and Original Issue Discount	87	
Non-Cash Stock Compensation Expense	1,367	510
Non-Cash Rent Expense	(5,539)	(3,284)
Deferred Rent Incentives	8,729	7,386
Excess Tax Benefit (Expense) from Stock Based Compensation	3,404	(64)
Insurance Recoveries		830
Changes in Assets and Liabilities:		
Accounts Receivable	(10,426)	(7,338)
Merchandise Inventories	12,425	(47,029)
Prepaid and Other Current Assets	(592)	(7,835)
Accounts Payable	32,925	130,254
Other Current Liabilities	(40,797)	(18,732)
Other Long Term Assets and Long Term Liabilities	898	654
Net Cash Provided by Operating Activities	54,195	95,380
INVESTING ACTIVITIES		
Cash Paid for Property and Equipment	(45,985)	(29,764)
Proceeds from Sale of Property and Equipment and Assets Held for Sale	108	114
Net Cash Used in Investing Activities	(45,877)	(29,650)
FINANCING ACTIVITIES		
Proceeds from Long Term Debt ABL Line of Credit	115,000	155,000
Principal Payments on Long Term Debt ABL Line of Credit	(115,000)	(155,000)
Principal Payments on Long Term Debt Term Loan	(3,955)	
Payment of Dividends	(65,789)	(4,955)
Proceeds from Direct Parent Investment	667	
Repayment of Capital Lease Obligations	(240)	(253)
Stock Option Exercises and Related Tax Benefits		64
Deferred Financing Costs		(1,574)

Net Cash Used in Financing Activities	(69,317)	(6,718)
(Decrease) Increase in Cash and Cash Equivalents	(60,999)	59,012
Cash and Cash Equivalents at Beginning of Period	129,460	43,336
Cash and Cash Equivalents at End of Period	$ 68,461	$ 102,348
Supplemental Disclosure of Cash Flow Information		
Interest Paid	$ 33,035	$ 35,797
Net Income Tax Payments	$ 35,193	$ 1,150
Non-Cash Investing Activities:		
Accrued Purchases of Property and Equipment	$ 14,763	$ 10,427
Acquisition of Capital Lease	$	$ 1,538

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

May 3, 2014

(UNAUDITED)

1. Summary of Significant Accounting Policies

Basis of Presentation

As of May 3, 2014, Burlington Coat Factory Investments Holdings, Inc. and its subsidiaries (the Company or Holdings), a Delaware Corporation, through its direct subsidiary Burlington Coat Factory Warehouse Corporation (BCFWC), operated 523 retail stores, inclusive of an internet store.

These unaudited Condensed Consolidated Financial Statements include the accounts of Burlington Coat Factory Investments Holdings, Inc. and its subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation. 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 audited Consolidated Financial Statements and notes included in the Company s Annual Report on Form 10-K for the fiscal year ended February 1, 2014 (Fiscal 2013 10-K). The balance sheet at February 1, 2014 presented herein has been derived from the audited Consolidated Financial Statements contained in the Fiscal 2013 10-K. Because the Company s business is seasonal in nature, the operating results for the three month period ended May 3, 2014 are not necessarily indicative of results for the fiscal year ending January 31, 2015 (Fiscal 2014).

The Company has 1,000 shares of common stock issued and outstanding, all of which are owned by Burlington Coat Factory Holdings, LLC (Direct Parent). Burlington Coat Factory Holdings, LLC is indirectly owned by Burlington Stores, Inc. (Parent). The Company has no operations and its only asset is 100% of the stock BCFWC.

Accounting policies followed by the Company are described in Note 1 to the Fiscal 2013 10-K.

On February 28, 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-04, Joint and Several Obligations (ASU 2013-04). In accordance with ASU 2013-04, an entity is required to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date. Required disclosures include a description of the joint and several arrangements and the total outstanding amount of the obligation for all joint parties. ASU 2013-04 became effective for all annual and interim periods in fiscal years beginning after December 15, 2013 and did not have a material impact on the Company s financial position or results of operations.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11). ASU 2013-11 states that an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, if available at the reporting date under the applicable tax law to settle any additional income taxes that would result from the disallowance of a tax position. If the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability. The amendments in ASU 2013-11 became effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and did not have a material impact on the Company s financial position or results of operations.

In April 2014, the FASB issued Accounting Standards Update No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08). ASU 2014-08 is aimed at reducing the frequency of disposals reported as discontinued operations by focusing on strategic shifts that have or are expected to have a major effect on an entity s operations and financial results. Such a shift could include the disposal of a major line of business, a major geographical area, a major equity method investment or other major parts of the entity. ASU 2014-08 also permits companies to have continuing cash flows and significant continuing involvement with the disposed component. ASU 2014-08 requires expanded disclosures for discontinued operations and new disclosures for individually material disposals that do not meet the definition of a discontinued operation. The Company has early adopted ASU 2014-08 effective February 2, 2014. ASU 2014-08 did not have a material impact on the Company s financial position or results of operations.

There were no other new accounting standards that had a material impact on the Company s Condensed Consolidated Financial Statements during the three month period ended May 3, 2014, and there were no new accounting standards or pronouncements that were issued but not yet effective as of May 3, 2014 that the Company expects to have a material impact on its financial position or results of operations upon becoming effective.

Parent s Initial Public Offering

On October 7, 2013, Parent completed its initial public offering (the Offering). Prior to the Offering, each outstanding share of Parent s Class A common stock was automatically cancelled and then each outstanding share of Parent s Class L common stock was automatically converted into one share of Parent s Class A common stock. Parent then effected an 11-for-1 split of its Class A common stock and then reclassified its Class A common stock into its Common Stock. Collectively, these transactions are referred to as the Reclassification. Unless otherwise indicated, all share data presented within these Condensed Consolidated Financial Statements gives effect to the stock split.

Table of Contents

Secondary Offering

On April 28, 2014, Parent commenced a public secondary offering of its common stock (the Secondary Offering). On May 6, 2014, Parent closed the Secondary Offering, in which 12,000,000 shares of Parent s common stock were sold by certain of Parent s stockholders. In connection with the Secondary Offering, the selling stockholders granted the underwriters, and the underwriters subsequently exercised, an option to purchase 1,800,000 additional shares of Parent s common stock. All of the shares sold in the Secondary Offering were offered by selling stockholders. The Company did not receive any of the proceeds from the Secondary Offering. As of May 3, 2014, the Company incurred $0.4 million in offering costs related to the Secondary Offering, which are included in the line item Costs Related to Debt Amendments and Secondary Offering on the Company s Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Reclassification

During the first quarter of Fiscal 2014, the Company corrected the classification of amounts included within the line item Earnings (Loss) from Equity Investment, Net of Taxes in the Condensed Consolidating Statements of Operations and Comprehensive Income (Loss) for the three months ended May 3, 2014 and May 4, 2013. Refer to Note 12, Consolidated Guarantor Data, for further discussion. There was no impact on the Company s Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for any of the periods presented.

During the first quarter of Fiscal 2014, the Company corrected the classification of its intercompany transactions between BCFW and the Guarantor subsidiaries in the Condensed Consolidating Statements of Cash Flows for the three months ended May 3, 2014 and May 4, 2013. Refer to Note 12, Consolidated Guarantor Data, for further discussion. There was no impact on the Company s Condensed Consolidated Statements of Cash Flows for any of the periods presented.

2. Stockholder s Deficit

Activity for the three month periods ended May 3, 2014 and May 4, 2013 in the Company s stockholder s deficit are summarized below:

	(in thousands)			
	Common Stock	**Capital in Excess of Par Value**	**Accumulated Deficit**	**Total**
Balance at February 1, 2014	$	$ 474,396	$ (516,091)	$ (41,695)
Net Income			15,851	15,851
Stock Based Compensation		1,367		1,367
Dividends		(65,789)		(65,789)
Tax Benefits Related to Exercise of Parent s Stock Options		3,404		3,404
Direct Parent Investment		667		667
Balance at May 3, 2014	$	$ 414,045	$ (500,240)	$ (86,195)

	(in thousands)			
	Common Stock	**Capital in Excess of Par Value**	**Accumulated Deficit**	**Total**
Balance at February 2, 2013	$	$ 479,572	$ (559,841)	$ (80,269)
Net Loss			(702)	(702)
Stock Options Exercised and Related Tax Benefits		64		64
Stock Based Compensation		510		510
Dividends		(4,955)		(4,955)
Balance at May 4, 2013	$	$ 475,191	$ (560,543)	$ (85,352)

3. Long Term Debt

Long term debt consists of:

	(in thousands)		
	May 3, 2014	**February 1, 2014**	**May 4, 2013**
$1,000,000 Senior Secured Term Loan Facility, LIBOR (with a floor of 1.0%) plus 3.3%, matures on February 23, 2017.	$ 825,369	$ 828,839	$ 863,572
$450,000 Senior Notes, 10%, due at maturity on February 15, 2019, semi-annual interest payments on August 15 and February 15, from August 15, 2014 to February 15, 2019.	450,000	450,000	450,000
Capital Lease Obligations	22,959	23,199	24,517
Total debt	1,298,328	1,302,038	1,338,089
Less: current maturities	(1,070)	(1,026)	(9,737)
Long-term debt, net of current maturities	$ 1,297,258	$ 1,301,012	$ 1,328,352

$1 Billion Senior Secured Term Loan Facility

On February 24, 2011, the Company entered into a $1.0 billion senior secured term loan facility (the Term Loan Facility). The Term Loan Facility was issued pursuant to a new credit agreement (Term Loan Credit Agreement), dated February 24, 2011, among BCFWC, the guarantors signatory thereto, and JPMorgan Chase Bank, N.A., as administrative agent (in such capacity, the Term Loan Administrative Agent) and as collateral agent, the lenders party thereto, J.P. Morgan Securities LLC and Goldman Sachs Lending Partners LLC, as joint bookrunners and J.P. Morgan Securities LLC, Goldman Sachs Lending Partners LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Securities, LLC, as joint arrangers, governing the terms of the Term Loan Facility.

On May 16, 2012, the Company entered into Amendment No. 1 (First Amendment) to the Term Loan Credit Agreement, which, among other things, reduced the applicable margin on the interest rates applicable to the Term Loan Facility by 50 basis points. To accomplish this interest rate reduction, the First Amendment provided for a replacement of the previously outstanding $950.5 million principal amount of term B loans (Term B Loans) with a like aggregate principal amount of term B-1 loans (Term B-1 loans). The Company offered existing term loan lenders the option to convert their Term B Loans into Term B-1 Loans on a non-cash basis. The $119.3 million of Term B Loans held by existing lenders electing not to convert their Term B Loans into Term B-1 Loans were prepaid in full on the effective date of the First Amendment from the proceeds of new Term B-1 Loans. The Term B-1 Loans have the same maturity date that was applicable to the Term B Loans. The Term Loan Credit Agreement provisions relating to the representations and warranties, covenants and events of default applicable to the Company and the guarantors were not modified by the First Amendment. As a result of the First Amendment, mandatory quarterly payments of $2.4 million were payable as of the last day of each quarter beginning with the quarter ended July 28, 2012. The Company elected to make prepayments of $9.5 million in May 2012 and $70.0 million in January 2013, all of which offset the mandatory quarterly payments through the maturity date.

On February 15, 2013, BCFWC entered into Amendment No. 2 (Second Amendment) to the Term Loan Credit Agreement. The Second Amendment created a restricted payments basket of $25.0 million and permits the Company to use the available amount to make restricted payments (which basket includes retained excess cash flow, in an amount not to exceed 50% of BCFWC s consolidated net income (as defined in the indenture governing the 10% Senior Notes due 2019) since the second quarter of Fiscal 2011), in each case so long as certain conditions are satisfied. In connection with the Second Amendment, the Company incurred a $1.6 million amendment fee that was capitalized and included in the line item Other Assets on the Company s Condensed Consolidated Balance Sheets. Additionally, the Company incurred $8.9 million of additional fees, inclusive of an $8.6 million fee payable to Bain Capital, for various consulting and advisory services. These fees are included in the line item Costs Related to Debt Amendments and Secondary Offering on the Company s Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

In conjunction with the Second Amendment, on February 20, 2013, Burlington Holdings, LLC (Indirect Parent), the indirect parent company of Holdings, and Burlington Holdings Finance, Inc., the wholly-owned subsidiary of Indirect Parent (collectively the Issuers), completed the offering of $350.0 million aggregate principal amount of Senior Notes due 2018 (Holdco Notes) at an issue price of 98.00%. The Holdco Notes are senior unsecured obligations of the Issuers, and the Issuers are not obligors or guarantors under BCFWC s existing senior secured credit facilities or indenture. As none of the Issuers subsidiaries are obligors or guarantors under the Holdco Notes, the debt is recorded on the Issuers financial statements and is not included in the Company s financial statements. The Company paid a dividend to the Issuers of $5.0 million in order to pay certain fees in connection with the issuance of the Holdco Notes, inclusive of a $3.5 million fee to Bain Capital for various consulting and advisory services.

The Holdco Notes mature on February 15, 2018. Interest on the Holdco Notes is payable entirely in cash, unless certain conditions are satisfied, in which case the Issuers will be entitled to pay, to the extent described in the indenture governing the Holdco Notes, interest by increasing the principal amount or by issuing new notes (such increase being referred to herein as PIK interest). Cash interest accrues at the rate of 9.00% per annum and PIK interest will accrue at the rate of 9.75% per annum and is payable semi-annually in arrears on February 15 and August 15 of each year. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months. The Company intends to pay Indirect Parent a semiannual dividend in order for Indirect Parent to make semiannual cash interest payments on the Holdco Notes. During the three months ended May 3, 2014, the Company paid Indirect Parent a dividend of $5.8 million representing interest on the Holdco Notes.

On April 4, 2014, the Issuers redeemed $58.0 million aggregate principal amount of the Holdco Notes outstanding. The Company paid Indirect Parent a dividend of $59.9 million in order for Indirect Parent to make the redemption payment on the Holdco Notes representing $58.0 million aggregate principal amount of the Holdco Notes, $0.7 million of accrued interest on the Holdco Notes and $1.2 million of redemption premiums.

On May 17, 2013, BCFWC entered into Amendment No. 3 (Third Amendment) to the Term Loan Credit Agreement, in order to, among other things, reduce the interest rates applicable to the Term Loan Facility by 100 basis points (provided that such interest rates shall be further reduced by 25 basis points if BCFWC s consolidated secured leverage ratio is less than or equal to 2.25:1) and to reduce the LIBOR floor by 25 basis points. The Third Amendment was accomplished by replacing the outstanding $871.0 million principal amount of the Term B-1 Loans with a like aggregate principal amount of term B-2 loans (the Term B-2 Loans). The Term B-2 Loans have the same maturity date that was applicable to the Term B-1 Loans. The Term Loan Credit Agreement provisions relating to the representations and warranties, covenants and events of default applicable to the Company and the guarantors were not modified by the Third Amendment. As a result of the Third Amendment, mandatory quarterly payments of $2.2 million were payable as of the last day of each quarter. In January 2014, the Company elected to make a prepayment of $30.0 million, which offset the mandatory quarterly payments through the maturity date.

Based on our excess cash flow calculation as of February 1, 2014, the Company was required to make an additional payment of $4.0 million on the Term Loan Facility during the first quarter of Fiscal 2014. In accordance with Topic No. 470, the Company recognized a loss on the extinguishment of debt of $0.1 million, representing the write off of deferred financing costs and unamortized original issue discount, which is recorded in the line item Loss on Extinguishment of Debt in the Company s Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

The Term Loan Facility contains financial, affirmative and negative covenants and requires that BCFWC, exclusive of subsidiaries (referred to herein as BCFW), among other things, maintain on the last day of each fiscal quarter a consolidated leverage ratio not to exceed a maximum amount and maintain a consolidated interest coverage ratio of at least a certain amount. The consolidated leverage ratio compares total debt to Covenant EBITDA, as each term is defined in the Term Loan Credit Agreement, for the trailing twelve months, and such ratios may not exceed 5.50 to 1 through November 1, 2014; 5.00 to 1 through October 31, 2015; and 4.75 to 1 at January 30, 2016 and thereafter. The consolidated interest coverage ratio compares consolidated interest expense to Covenant EBITDA, as each term is defined in the Term Loan Credit Agreement, for the trailing twelve months, and such ratios must exceed 2.00 to 1 through October 31, 2015; and 2.10 to 1 at January 30, 2016 and thereafter. The consolidated leverage ratio and interest coverage ratio as of May 3, 2014 were 4.0 and 3.8, respectively.

Covenant EBITDA is a non-GAAP financial measure of the Company s liquidity. Covenant EBITDA starts with BCFWC s 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. Covenant EBITDA is used to calculate the consolidated leverage ratio and the interest coverage ratio. Covenant EBITDA provides management, including the Company s chief operating decision maker, with helpful information with respect to its operations such as its ability to meet its future debt service, fund its capital expenditures and working capital requirements, and comply with various covenants in each indenture governing its outstanding notes and the credit agreements governing its senior secured credit facilities which are material to its financial condition and financial statements.

The interest rates for the Term Loan Facility are based on: (i) for LIBO rate loans for any interest period, at a rate per annum equal to the greater of (x) the LIBO rate, as determined by the Term Loan Facility Administrative Agent, for such interest period multiplied by the Statutory Reserve Rate (as defined in the Term Loan Credit Agreement) and (y) 1.00% (the Term Loan Adjusted LIBO Rate), plus an applicable margin; and (ii) for prime rate loans, a rate per annum equal to the highest of (a) the variable annual rate of interest then announced by JPMorgan Chase Bank, N.A. at its head office as its prime rate, (b) the federal funds rate in effect on such date plus 0.50% per annum, and (c) the Term Loan Adjusted LIBO Rate for the applicable class of term loans for one-month plus 1.00%, plus, in each case, an applicable margin. At May 3, 2014 and May 4, 2013, the Company s borrowing rates related to the Term Loan Facility were 4.3% and 5.5%, respectively.

$450 Million Senior Notes

On February 24, 2011, BCFW issued $450.0 million aggregate principal amount of 10% Senior Notes due 2019 at an issue price of 100% (the Senior Notes). The Senior Notes were issued pursuant to an indenture, dated February 24, 2011, among BCFWC, the guarantors signatory thereto, and Wilmington Trust FSB.

The Senior Notes are senior unsecured obligations of BCFW and are guaranteed on a senior basis by the Company and each of BCFW s U.S. subsidiaries to the extent such guarantor is a guarantor of BCFW s obligations under the Term Loan Facility. Interest is payable on the Senior Notes on each February 15 and August 15.

ABL Line of Credit

On September 2, 2011, the Company completed an amendment and restatement of the credit agreement governing the Company s $600.0 million ABL Line of Credit, which, among other things, extended the maturity date to September 2, 2016. The aggregate amount of commitments under the amended and restated credit agreement is $600.0 million and, subject to the satisfaction of certain conditions, the Company may increase the aggregate amount of commitments up to $900.0 million. Interest rates under the amended and restated credit agreement are based on LIBO rates as determined by the administrative agent plus an applicable margin of 1.75% to 2.25% based on daily availability, or various prime rate loan options plus an applicable margin of 0.75% to 1.25% based on daily availability. The fee on the average daily balance of unused loan commitments is 0.375%. The ABL Line of Credit is collateralized by a first lien on the Company s inventory and receivables and a second lien on the Company s real estate and property and equipment.

At May 3, 2014, the Company had $508.2 million available under the ABL Line of Credit and no outstanding borrowings. The maximum borrowings under the facility during the three month period ended May 3, 2014 amounted to $75.0 million. Average borrowings during the three month period ended May 3, 2014 amounted to $8.9 million, at an average interest rate of 1.9%.

At May 4, 2013, the Company had $484.8 million available under the ABL Line of Credit and no outstanding borrowings. The maximum borrowings under the facility during the three month period ended May 4, 2013 amounted to $125.0 million. Average borrowings during the three month period ended May 4, 2013 amounted to $24.5 million, at an average interest rate of 2.0%. There was no outstanding balance under the ABL Line of Credit at February 1, 2014.

As of May 3, 2014, the Company was in compliance with all of its debt covenants. The credit agreements governing the ABL Line of Credit and the Senior Secured Term Loan Facility, as well as the indenture governing the Senior 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 $24.5 million, $26.6 million and $24.9 million in deferred financing costs, net of accumulated amortization, as of May 3, 2014, February 1, 2014 and May 4, 2013, respectively, related to its debt instruments recorded in the line item Other Assets on the Company s Condensed Consolidated Balance Sheets. Amortization of deferred financing costs amounted to $2.0 million and $1.5 million for the three month periods ended May 3, 2014 and May 4, 2013, respectively, and is included in the line item Interest Expense in the Company s Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). During the three months ended May 3, 2014, the Company wrote off $0.1 million related to the $4.0 million excess cash flow Term Loan Repayment.

4. Restructuring and Separation

The Company accounts for restructuring and separation costs in accordance with ASC Topic No. 420, *Exit or Disposal Cost Obligations.* In an effort to improve workflow efficiencies and realign certain responsibilities, the Company effected a reorganization of certain positions within its field and corporate locations. There were no severance charges recorded during the three month period ended May 3, 2014. During the three month period ended May 4, 2013, severance charges of $1.6 million were recorded in the line item Restructuring and Separation Costs in the Company s Condensed Consolidated Statement of Operations and Comprehensive Income (Loss).

The table below summarizes the charges and payments related to the Company s restructuring and separation costs, which are included in the line items Other Current Liabilities in the Company s Condensed Consolidated Balance Sheets as of May 3, 2014 and May 4, 2013:

	(in thousands)				
	February 1, 2014	**Charges**	**Cash Payments**	**Other**	**May 3, 2014**
Severance Separation Cost	$ 233	$	$ (172)	$	$ 61

	(in thousands)				
	February 2, 2013	**Charges**	**Cash Payments**	**Other**	**May 4, 2013**
Severance Restructuring	$	$ 758	$ (127)	$	$ 631
Severance Separation Cost	597	867	(420)		1,044
Total	$ 597	$ 1,625	$ (547)	$	$ 1,675

10

Table of Contents

5. 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 May 3, 2014, February 1, 2014 and May 4, 2013 included cash equivalents and interest rate cap agreements. The Company s financial assets as of May 4, 2013 also included a note receivable. The Company s financial liabilities are discussed below. The carrying amounts of cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of these instruments. 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.

The fair value of the note receivable was based on a discounted cash flow analysis whose inputs are unobservable, and therefore it fell 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		
	May 3, 2014	**February 1, 2014**	**May 4, 2013**
Assets:			
Level 1			
Cash equivalents (including restricted cash)	$ 32,326	$ 32,324	$ 34,985
Level 2			
Interest rate cap agreements(a)	$	$ 1	$ 9
Level 3			
Note Receivable(b)	$	$	$ 385

(a) Included in Other Assets within the Company s Condensed Consolidated Balance Sheets (refer to Note 6 of the Company s Condensed Consolidated Financial Statements, Derivative Instruments and Hedging Activities, for further discussion regarding the Company s interest rate cap agreements).

(b) As of May 4, 2013, this note receivable was included in Prepaid and Other Current Assets on the Company s Condensed Consolidated Balance Sheets. The change in the fair value of the Level 3 note receivable is related to the Company receiving full payment on the note during Fiscal 2013.

11

Table of Contents

Financial Liabilities

The fair value of the Company s debt as of May 3, 2014, February 1, 2014 and May 4, 2013 is noted in the table below:

	(in thousands)					
	May 3, 2014		**February 1, 2014**		**May 4, 2013**	
	Carrying Amount (b)	**Fair Value (b)**	**Carrying Amount (b)**	**Fair Value (b)**	**Carrying Amount (b)**	**Fair Value (b)**
$1,000,000 Senior Secured Term Loan Facility, LIBOR (with a floor of 1.0%) plus 3.3%, matures on February 23, 2017	$ 825,369	$ 830,871	$ 828,839	$ 836,091	$ 863,572	$ 876,526
$450,000 Senior Notes, 10% due at maturity on February 15, 2019, semi-annual interest payments on August 15 and February 15, from February 15, 2014 to February 15, 2019	450,000	497,250	450,000	501,458	450,000	504,563
Total debt	$ 1,275,369	$ 1,328,121	$ 1,278,839	$ 1,337,549	$ 1,313,572	$ 1,381,089