Linens 'N Things Center, Inc.
Form 10-K
March 20, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 29, 2007

Or

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

Commission file numbers: **333-135646-12**
001-12381
333-135646-11

LINENS HOLDING CO.

LINENS N THINGS, INC.

LINENS N THINGS CENTER, INC.

(Exact names of registrants as specified in their charters)

Delaware	**20-4192917**
Delaware	**22-3463939**
California	**59-2740308**
(States or other jurisdictions of incorporation or organization)	(I.R.S. Employer Identification Nos.)

6 Brighton Road, Clifton, New Jersey 07015

(Address of principal executive offices) (Zip Code)

(973) 778-1300

(Registrants telephone number, including area code)

Securities registered pursuant to Section 12(b) or 12(g) of the Act:

None

Indicate by check mark if the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act:

Yes o No x

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or 15(d) of the Act:

Yes o No x

Indicate by check mark whether the registrants (1) have 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 registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days:

Yes x No o

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

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, or non-accelerated filers. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act):

Yes o No x

As of March 1, 2008, there were 13,013,000 shares of Linens Holding Co. common stock, $0.01 par value, outstanding; 1,000 shares of Linens n Things, Inc. common stock, $0.01 par value, outstanding; and 100 shares of Linens n Things Center, Inc. common stock, no par value, outstanding. None is publicly traded.

DOCUMENTS INCORPORATED BY REFERENCE

None

Table of Contents

Form 10-K Item No.	Name of Item	Page
	PART I	
Item 1.	Business	4
Item 1A.	Risk Factors	13
Item 1B.	Unresolved Staff Comments	22
Item 2.	Properties	23
Item 3.	Legal Proceedings	25
Item 4.	Submission of Matters to a Vote of Security Holders	25
	PART II	
Item 5.	Market for Registrants Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	26
Item 6.	Selected Financial Data	27
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	32
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	52
Item 8.	Financial Statements and Supplementary Data	54
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	106
Item 9A.	Controls and Procedures	106
Item 9B.	Other Information	106
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	107
Item 11.	Executive Compensation	111
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	124
Item 13.	Certain Relationships and Related Transactions, and Director Independence	125
Item 14.	Principal Accountant Fees and Services	127
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules	128
	Signatures	132

EXPLANATORY NOTE

In November 2005, Affiliates of Apollo Management, L.P., National Realty & Development Corp. and Silver Point Capital Fund Investments LLC (collectively, the Sponsors) formed Linens Holding Co. (the Company) to serve as a holding company. On February 14, 2006, the Company acquired Linens n Things, Inc. when its newly formed subsidiary, Linens Merger Sub Co., merged with and into Linens n Things, Inc. (the Merger), and Linens n Things, Inc., as the surviving corporation, became a wholly owned subsidiary of the Company. The Merger was financed in part by the issuance of $650.0 million aggregate principal amount of Senior Secured Floating Rate Notes (the Notes) due 2014 of Linens n Things, Inc. and Linens n Things Center, Inc., a wholly owned subsidiary of Linens n Things, Inc. The Notes are guaranteed by the Company and each of its domestic subsidiaries (other than Linens n Things, Inc. and Linens n Things Center, Inc.). This report also contains the consolidated financial statements of the Company s predecessor entity, Linens n Things, Inc. and its subsidiaries, for the period January 1, 2006 to February 13, 2006 and for the fiscal year ended December 31, 2005. The accompanying consolidated financial statements are those of Linens Holding Co. and its subsidiaries. The Company has not presented separate financial statements for Linens n Things, Inc. and its subsidiaries or Linens n Things Center, Inc. and its subsidiaries (collectively, the Issuers as described in Note 18 to the consolidated financial statements) because management has determined that the differences in such financial statements are minor. Unless the context requires otherwise, we, us, our or the Company refer to Linens Holding Co. and its subsidiaries and, for periods prior to February 14, 2006, the Company s predecessor entity and its subsidiaries.

FORWARD-LOOKING STATEMENTS

This report may contain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) with respect to the Company s financial condition, results of operations and business that is not historical information. All statements, other than statements of historical fact, included in this report are forward looking statements. In particular, statements that the Company makes relating to its overall volume trends, industry forces, margin trends, anticipated capital expenditures and its strategies are forward looking statements. When used in this document, the words believe, expect, anticipate, intend, estimate, project, plan, and similar expressions, as well as future or conditional verbs such as will, should, could, are intended to identify forward looking statements.

These statements are based on assumptions and assessments made by the Company s management in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes to be appropriate. The Company believes there is a reasonable basis for its expectations and beliefs, but they are inherently uncertain, the Company may not realize its expectations and its beliefs may not prove correct. Any forward looking statements are not guarantees of the Company s future performance and are subject to risks and uncertainties that could cause actual results, developments and business decisions to differ materially from those described or implied by any such forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Such factors include, without limitation: general economic conditions; changes in the retailing environment and consumer spending habits; inclement weather and natural disasters; competition from existing and potential competitors; the amount of merchandise markdowns; loss or retirement of key members of management; increases in the costs of borrowings and unavailability of additional debt or equity capital; impact of the Company s substantial indebtedness on its operating income and its ability to grow; the cost of labor; labor disputes; increased healthcare benefit costs; other costs and expenses; and other important factors that could cause actual results to differ materially from those described or implied by the forward-looking statements contained in this report.

PART I FINANCIAL INFORMATION

Item 1. Business

About the Company

Linens Holding Co, a Delaware corporation (the Company), together with its wholly owned consolidated subsidiaries, including Linens n Things, Inc. and Linens n Things Center, Inc., is an entity that was formed in connection with the acquisition of all of the outstanding shares of common stock of Linens n Things, Inc. for aggregate consideration of approximately $1.3 billion. The Company was incorporated on November 7, 2005.

In November 2005, Affiliates of Apollo Management, L.P., National Realty & Development Corp. and Silver Point Capital Fund Investments LLC (collectively, the Sponsors) formed the Company to serve as a holding company. On February 14, 2006, the Company acquired Linens n Things, Inc. when its newly formed subsidiary, Linens Merger Sub Co., merged with and into Linens n Things, Inc. in the merger described in Note 3 to the consolidated financial statements included elsewhere in this report (the Merger), and Linens n Things, Inc., as the surviving corporation, became a wholly owned subsidiary of the Company.

Linens n Things, Inc., a Deleware corporation, was incorporated on September 10, 1996 and was a wholly owned subsidiary of CVS Corporation (CVS), formerly Melville Corporation, until November 26, 1996, when CVS completed an initial public offering of the Linens n Things, Inc. common stock. Linens n Things Center, Inc., a California corporation and wholly owned subsidiary of Linens n Things, Inc., was incorporated on January 12, 1996.

The Company is the second largest specialty retailer of home textiles, housewares and home accessories in North America operating 589 stores in 47 U.S. states and seven Canadian provinces as of December 29, 2007. The Company is a destination retailer, offering one of the broadest and deepest selections of high quality brand-name as well as private label home furnishings merchandise in the industry. The Company s average store size of approximately 33,000 gross square feet enables it to offer a more comprehensive product and brand selection than department stores and other retailers that sell home furnishings. The Company believes its store format coupled with its knowledgeable sales assistance and attentive service to its customers, who the Company refers to as its guests, creates an enjoyable shopping experience. The Company s primary target guest is female between the ages of 25 and 55 who is fashion and brand conscious, has good-to-better income and focuses on the home as a reflection of her individuality.

The Company is committed to providing its guests with a one-stop shopping destination for home furnishings. The Company s extensive merchandise offering enables its guests to select from a wide assortment of styles, brands, colors and designs across varying price points at competitive values. The Company s linens product line includes home textiles such as bedding, towels, window treatments and table linens. Its things product line includes housewares and home accessories such as cookware, dinnerware, glassware, small appliances, candles, picture frames and storage and cleaning products. The Company offers a wide array of national home furnishing brands, including All-Clad, Braun, Calphalon, Conair, Croscill, Cuisinart, Henckels, Krups, KitchenAid, Nautica, OXO, Wamsutta and Yankee Candle. It also offers products under its LNT Home private label brand, which is designed to complement its brand name products by offering its guests quality merchandise at value prices. The Company also carries a number of exclusive products, including several high-fashion home textile patterns from the Waverly collection.

The Company s store format features an efficient racetrack layout in a visually appealing format that encourages guests to shop the entire store. It operates various store size formats generally ranging from 25,000 to 40,000 gross square feet. This allows the Company to match the size of its stores with the market potential of each location. The Company s stores are located predominately in power strip centers adjacent to complementary broad-based retail chains. In addition, its stores are generally located in geographic trading areas with at least 150,000 people within a 5 to 10 mile radius and with demographic characteristics that match its target guest profile.

Business Strategy

Under the leadership of Robert J. DiNicola, who assumed the role of Chairman and Chief Executive Officer in 2006, the Company intends to focus on growing its sales per square foot to improve the productivity of its existing store base, which the Company believes is key to improving its profitability and cash flow.

Beginning in March 2006, the Company instituted a long-term three phase multi-year plan to turn the Company around. The first phase consists of getting back to basics, which the Company is now deeply committed to.

As part of this committment, the Company intends to pursue the following initiatives:

Improve Its Overall Merchandise Assortments. The Company intends to maximize merchandise productivity by continuing to implement the following assortment planning initiatives:

- Reduce its overall SKUs and increase the in-stock positions of its most popular merchandise;
- Re-allocate space in its stores to more productive categories; and,
- Selectively expand existing merchandise categories and key vendor assortments as well as introduce new merchandise product lines that better reflect the style preferences of its guests.

Establish a Key Item Program. The Company has established a Best Bets program in order to provide its guests superior value on the Company s top 100 selling items. The Company prices these key items competitively and maintains deep in-stock positions to meet guest demand. The Company believes that its key item program will help drive store traffic, improve sales per square foot and strengthen the Linens n Things brand over the long-term.

Increase the Effectiveness of Its Marketing Expenditures. The Company has implemented an aggressive new, multi-tiered marketing campaign that re-invigorates the Linens n Things brand, emphasizes its commitment to its Best Bets program and drives traffic to its stores. Its marketing expenditures were approximately $157.0 million in fiscal 2007, or 5.6% of net sales. The Company expects marketing expenditures in fiscal 2008 to be similar to the prior year, broadening its reach with a more diversified mix of marketing utilizing broadcast media, preprint, newspaper advertising and direct mail. The Company believes that these changes, coupled with a greater emphasis on national advertising, will be more effective in communicating its merchandising strategy while attracting new guests into its stores and enhancing its brand.

Improve Its Guests Shopping Experience. The Company s goal is to exceed its guests expectations in every store, every day. It intends to achieve this goal by building on its existing service philosophy and by creating a more inviting atmosphere for its guests. The Company believes it can make its guests shopping experience more efficient and enjoyable through enhanced merchandise presentation, including more stimulating product displays and clearer in-store signage.

Improve Its Operating Free Cash Flow. The Company is highly committed to increasing its operating free cash flow. As a result, it plans to reduce new store openings over the next few years and focus on improving the operations of its existing stores. During fiscal 2007, the Company opened 18 new stores as opposed to an average of approximately 47 new stores per year during the three fiscal years preceding fiscal 2007. The Company currently expects to open approximately 10 new stores in fiscal 2008. As a result, the Company currently expects its fiscal 2008 capital expenditures to be approximately $25 million, as opposed to $37.0 million in fiscal 2007. In addition, in connection with its merchandise assortment planning and sales productivity initiatives, the Company expects to improve its inventory turns and reduce its working capital. Its new business strategy does not require any out of the ordinary or one-time capital expenditures.

Realize Improved Financial Performance as Recently Opened Stores Mature. As of December 29, 2007, the Company operates 589 stores, 104 of which were opened since the beginning of 2005. These 104 stores have not yet reached sales and store-level EBITDA consistent with the Company s stores that were opened before 2005. Store-level EBITDA represents operating profit derived for each store, before depreciation for all fixed assets located at each store and amortization, where operating profit is based on each store s actual sales less direct expenses

---

excluding an allocation of overhead. Historically, new stores take four to five years to reach the financial performance of a mature store.

Competitive Strength

Strong Brand Name Recognition. The Linens n Things brand name has a strong reputation as a leading provider of home furnishings. Its brand recognition is reinforced by its national footprint and highly visible store locations. Additionally, the Company utilizes extensive national and local advertising through multiple formats to reinforce its guest recognition and support its promotional events. According to the Company s most recent study, nine out of 10 U.S. households located in its markets recognize the Linens n Things brand.

Leading Destination for Home Furnishings. The Company is the second largest specialty retailer of home textiles, housewares and home accessories in North America and operates 589 stores in 47 U.S. states and seven Canadian provinces with an aggregate of approximately 19.4 million gross square feet as of December 29, 2007. With over 25,000 SKUs, the Company markets one of the broadest and deepest selections of home furnishings in the industry, providing the Company with a competitive advantage over department stores and mass merchants who offer a more limited product selection. The Company s more comprehensive product and brand selection provides its guests with a one-stop shopping destination for their home furnishing needs.

Well Maintained Store Base with Attractive Real Estate. The Company s portfolio of stores is primarily located in high traffic suburban locations that are convenient and accessible to its core guests and in close proximity to other high quality, national retailers. According to its most recent study, the Company s real estate is extremely competitive as to location and size with other national specialty retailers of home furnishings. The Company s store base is up to date with an average age per store of approximately seven years. The Company believes that the average age of its store base minimizes its near-term maintenance and remodeling capital expenditure requirements.

Strong and Diversified Vendor Relationships. The Company is one of the largest purchasers of home furnishings in the United States and has developed strong long-term relationships with its vendors, from whom it consistently purchases large quantities of quality merchandise. The Company believes that its strong and diversified vendor relationships coupled with its buying power provides it a competitive advantage in the U.S. home furnishings market. In addition, due to its broad range of branded products, the Company s success is not dependent on any one specific product or vendor. In fiscal 2007, the Company s largest single vendor accounted for approximately 7% of its purchases.

Strong Guest Base. The Company has cultivated a strong base of loyal guests who return to its stores time and again. This is complemented by its Internet website which allows guests both to purchase its products and receive product information. The Company has a large customer database that it uses to reach its target guests through, among other things, direct mail events. The Company defines active guests as those who have visited its stores at least once in the last 12 months. The Company has over 10 million active guests in its database, who on average visit its stores approximately 2.0 times each year. To further strengthen its guest base, the Company also offers a private label charge card program, which has built-in loyalty programs to encourage more frequent visits and allows it to more efficiently target its direct mail efforts.

Products and Merchandising

The Company offers quality home textiles, housewares and home accessories at compelling values. The Company s extensive merchandise offering of over 25,000 SKUs in an average store enables its guests to select from within each of its major product lines a wide assortment of

styles, brands, colors and designs that exceed the selection generally available in department stores. The Company s linens product line includes home textiles such as bedding, towels, window treatments and table linens. Its things product line includes housewares, home accessories and storage and cleaning, such as cookware, dinnerware, glassware, small appliances, candles and picture frames. The Company is committed to maintaining a consistent in-stock inventory position and ensuring that its stores carry a broad and deep merchandise selection.

The Company also intends to continue to implement its assortment planning and space management initiatives to maximize productivity. It will continue to re-allocate space in its stores to merchandise categories that better reflect guest demand. This effort allows the Company the opportunity to maximize productivity by expanding high-growth categories. As a result, the Company s stores now carry a deeper, more balanced selection of merchandise that more closely corresponds with the preferences of its guests. In addition, the Company s merchandise is displayed with impactful presentations in groups of related product lines, and seasonal merchandise and impulse items are prominently displayed in the front of the store. The presentation of its merchandise is designed to maximize customer convenience and reinforce its guests impression that the Company offers a wide selection. For fiscal 2008, the Company intends to continue its focus on adding more newness in its assortment by offering updated merchandise and building brands both within a category and across categories. As part of its back to basics approach, the Company will continue to clear aged and non-productive inventory, reinvesting those dollars into more productive categories, classifications and key items, particularly in support of the Best Bets program to highlight the top 100 best selling core items, reinvigorating the textile side of the business with a concerted effort to focus on sheets, towels, pillows and comforters, and emphasizing tabletop beginning with a focus on dinnerware, glassware and flatware. In addition, the Company intends to focus on improving the in-store experience with enhanced merchandise presentation and clearer signage.

Merchandise and sample brands offered in each major department are highlighted below:

Department	Items Sold	Sample Brands
Bath	Towels, shower curtains, waste baskets, bathroom rugs and wall hardware	Croscill, Nautica and Wamsutta
Home Accessories	Decorative pillows, napkins, tablecloths, placemats, lamps, gifts, picture frames, candles and framed art	Colonial Candle, Waverly and Yankee Candle
Housewares	Cookware, cutlery, kitchen gadgets, small electric appliances (such as blenders and coffee makers), dinnerware, flatware and glassware	All-Clad, Black & Decker, Braun, Calphalon, Circulon, Cuisinart, Farberware, Henckels, KitchenAid, Krups and OXO
Storage and Cleaning	Closet-related items (such as hangers, organizers and shoe racks), cleaning and laundry care products	Bissell, Dyson, Euro-Pro, Hoover, Rowenta and Rubbermaid
Bedding	Sheets, comforters, comforter covers, bedspreads, bed pillows, blankets and mattress pads	Croscill, Liz Claiborne, Nautica, Wamsutta and Waverly
Window Treatment	Curtains, valances and window hardware	Croscill, Nautica, Wamsutta and Waverly

The Company s merchandise procurement is done centrally rather than in store operations. The Company utilizes an auto-replenishment system, whereby approximately 95% of its core products are replenished from a centralized monitoring system, accounting for approximately 60% of the Company s receipts.

Guest Service and Marketing

The Company treats every customer as a guest. The Company s philosophy is to enhance its guests entire shopping experience so that it will become the store of first choice for its guests home furnishing needs. To facilitate the ease of shopping, the Company s assisted self-service culture is complemented by trained department specialists, zoned floor coverage, product information displays and videos, self-demonstrations and in-store product seminars. The entire store team is trained to be highly visible in order to assist guests with their selections. The use of modern technologies reduces the need for its associates to manage back office activities so that the majority of their time can be focused on greeting and assisting guests and delivering attentive service. Sophisticated management systems that provide efficient guest service and the Company s fair return policies are geared toward making each guest s visit a convenient, efficient and pleasant experience.

Sales Associates

The Company seeks to maintain a sales force of knowledgeable, professional and well-trained sales associates to deliver personal attention and service to its guests. The Company offers competitive wages and on-going training and personnel development in order to attract and retain qualified, motivated associates committed to providing superior guest service. Training at the sales associate level focuses on the areas of guest interaction, product knowledge and store systems usage.

Marketing and Advertising

The Company uses its advertising programs to communicate, build and strengthen the Linens n Things brand. The Company has implemented an aggressive new, multi-tiered marketing campaign that re-invigorates the Linens n Things brand, emphasizes the Company s commitment to its Best Bets key-item program and drives traffic to its stores. The Company expects marketing expenditures in fiscal 2008 to be similar to the prior year and to continue its initiatives started in fiscal 2006 to broaden its reach with a more diversified mix of marketing utilizing broadcast media, preprint and newspaper advertising and direct mail. The Company believes that these changes, coupled with a greater emphasis on national advertising, will be more effective in communicating its merchandising strategy while attracting new guests into its stores and enhancing its brand. The Company focuses its advertising programs during key selling seasons such as spring/summer, back-to-school and holidays. In addition, it utilizes its proprietary marketing database to track the buying habits of its guests.

Private Label Charge Card

To further strengthen its guest base and build guest loyalty, the Company offers a private label charge card program. Through a points program, guests receive enhanced value by using the card. The program also allows the Company to provide consistent and effective communication with its guests, while increasing its information base of its guests purchasing patterns. Subject to customary exceptions, credit risk relating to this program is borne by GE Money, a top issuer of private label credit cards.

Vendor Relationships

The Company s merchandise assortment consists of a wide selection of high quality, brand name fashion home textiles, housewares and home accessories from both established and emerging vendors. The Company communicates with its vendors frequently, providing feedback on current demand for their products. Many of the Company s key vendors limit the number of retail channels they use to sell their merchandise, and competition among retailers to obtain and sell these key-vendor-sourced goods is intense. The Company s relationships with its vendors have been a significant contributor to its past success. The Company monitors and evaluates the sales and profitability performance of each vendor and adjusts its future purchasing decisions from time to time based upon the results of this analysis. The Company has no guaranteed supply arrangements with its principal merchandising sources.

The Company purchases its merchandise from a diverse vendor base of approximately 1,000 suppliers, of which approximately 18% are located overseas. In fiscal 2007, products supplied by the Company s 25 largest vendors represented approximately 43% of its purchases, with its top three vendors supplying approximately 13% of its purchases and its largest single vendor supplying approximately 7% of its purchases. The Company believes that this buying power and its ability to make centralized purchases generally allow it to acquire products at favorable terms.

In addition, the breadth of the Company s sourcing helps mitigate risks associated with a single brand or designer.

Store Operations

Store Management and Operations

The Company places a strong emphasis on its people, their development and their opportunity for advancement, and is committed to maintaining a high internal promotion rate. The Company s practice is to open each new store with a seasoned management team, which usually includes managers who have significant experience with the Company. Additionally, the Company s structured management-training program requires that each new manager learn all facets of the business within the framework of a fully operational store. This program includes, among other things, product knowledge, merchandise presentation, business and sales perspective, employee relations and manpower planning. At the sales associate level, the Company focuses its training on guest interaction, product knowledge and store systems usage. The Company believes that its policy of promoting from within, as well as the opportunities for advancement from its store expansion program, serve as incentives to attract and retain quality individuals.

Linens n Things stores are open seven days a week, generally from 9:00 am to 9:30 pm Monday through Saturday and 10:00 am to 7:00 pm on Sunday unless affected by local laws.

Distribution

The Company currently operates distribution centers in Shepherdsville, Kentucky; Swedesboro, New Jersey and Greensboro, North Carolina. It also uses third-party logistics companies to supplement its distribution centers. The Company believes that the utilization of centralized distribution centers has resulted in lower average freight expense, more timely control of inventory shipments to stores and improved information flow. The Company also believes strong distribution support for its stores is a critical element in its strategy and is central to its ability to maintain a low cost operating structure.

The Company manages the distribution process centrally from its corporate headquarters. Purchase orders issued by the Company are electronically transmitted to nearly all of its suppliers. The Company plans to continue its efforts to ship as much merchandise through its distribution centers as possible to ensure all benefits of its logistics strategy are fully utilized. Continued growth will also facilitate new uses of electronic data interchange technologies between its suppliers and the Company to exploit the most productive and beneficial use of its assets and resources. In order to realize greater efficiency, the Company also uses third-party freight carriers to ship its merchandise from its distribution centers to its stores.

Management Information Systems

The Company continually evaluates and upgrades its management information systems to enhance the quantity, quality and timeliness of information available to management. The Company believes its management information systems have fully integrated its stores, headquarters and distribution process. Over the last several years, the Company has made significant investments in technology to improve guest service such as Internet and online bridal and gift registry tools. The Company operates an IBM AS/400 management information system that integrates all major aspects of its business, including sales, distribution, purchasing, inventory control, merchandise planning and replenishment and financial systems. Information obtained from management information systems results in automatic inventory replenishment in response to specific

requirements of each store, thereby improving in-stock positions and enhancing guest service. The Company also utilizes hand-held scanners with inventory status and price look-up capabilities, which allow its sales associates to remain accessible to guests on the selling floor.

Competition

The U.S. retail home furnishings market is highly fragmented. The market includes many different types of retailers including, among others, department stores, mass merchandisers and discounters, specialty retailers, home improvement centers and warehouse clubs. The Company believes that its ability to compete successfully in its

market is influenced by several factors, including price, breadth and quality of product selection, in-stock availability of merchandise, effective merchandise presentation, guest service and superior store locations. The Company believes that it is well positioned to compete on the basis of these factors. Nevertheless, there can be no assurance that any or all of the factors that enable the Company to compete favorably will not be adopted by companies having greater financial and other resources. The Company generally classifies its competition as follows:

Department Stores

This category includes national and regional department stores such as J.C. Penney Company Inc., Sears, Roebuck and Co., a wholly owned subsidiary of Sears Holdings Corporation, and the department store chains operated by Federated Department Stores, Inc. These retailers offer name brand merchandise as well as their own private label furnishings. In general, department stores offer a more limited selection of home furnishings merchandise than the Company does. The prices offered by department stores during off-sale periods generally are significantly higher than those of the Company and during on-sale periods are comparable to or slightly higher than those of the Company.

Mass Merchandisers

This category includes companies such as Wal-Mart Stores, Inc. and Target Corporation. Fashion home furnishings generally represent only a small portion of the total merchandise sales in these stores; however, this channel of distribution makes up the largest portion of home furnishings sales. These stores generally offer a more limited merchandise selection with fewer high quality name brands and lower quality merchandise at lower price points. In addition, these mass merchandisers typically have more limited guest service staffing than the Company does.

Specialty Stores/Retailers

This category includes large format home furnishings retailers including Bed Bath & Beyond, Inc., Home Goods, a division of TJX Companies, Inc. and smaller format retailers such as Pier One Inc., Crate & Barrel and Williams-Sonoma, Inc. The Company estimates that the large format stores range in size from approximately 25,000 to 70,000 gross square feet offering home furnishing merchandise selection of approximately 15,000 to 40,000 SKUs. These retailers attempt to develop loyal guests and increase guest traffic by providing a single outlet to satisfy the guest s household needs. The smaller format retailers generally offer a more limited selection of merchandise within a specific niche and generally range in size from 2,000 to 20,000 gross square feet.

Other Retailers

This category includes mail order retailers, such as Domestications; off-price retailers, such as Kohl s Corporation; the T.J. Maxx and Marshall s divisions of the TJX Companies, Inc.; home improvement stores, such as The Home Depot, Inc. and Lowe s Companies, Inc.; warehouse clubs, such as Costco Wholesale Corporation and Sam s Club and smaller local retail stores. These retailers, with the exception of off-price retailers, generally offer a more limited selection of merchandise. Off-price retailers typically offer closeout or out of season name brand merchandise at competitive prices.

Seasonality and Inflation

The Company s business is subject to substantial seasonal variations. Historically, the Company has realized a significant portion of its net sales and, prior to the Merger before the Company became highly leveraged, substantially all of its net income for the year during the third and fourth quarters. The Company s quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including the timing of new store openings. The Company believes this is the general pattern associated with its segment of the retail industry

and expects this pattern will continue in the future. Consequently, comparisons between quarters are not necessarily meaningful and the results for any quarter are not necessarily indicative of future results.

The Company does not believe that its operating results have been materially affected by inflation during the past year. There can be no assurance; however, that the Company s operating results will not be affected by inflation in the future.

Intellectual Property

The Company uses Linens n Things and LNT as trademarks and as service marks in connection with retail services. The Company has registered the Linens n Things and LNT marks with both the United States Patent and Trademark Office and the Canadian Intellectual Property Office. The Company believes that the name Linens n Things and its related marks are important elements of its business. Its corporate website address is *www.lnt.com.*

Employees

As of December 29, 2007, the Company employed approximately 17,500 individuals, of whom approximately 6,600 were full-time employees and 10,900 were part-time employees. None of its employees is represented by a union, and the Company believes that it has a good relationship with its employees.

Government Regulation

The Company s operations are affected by numerous federal and state laws that impose disclosure and other requirements upon the origination, servicing and enforcement of credit accounts and limitations on the maximum amount of finance charges that may be charged by a credit provider. In addition to its proprietary credit cards, credit to its guests is also provided through third parties such as American Express, Visa and MasterCard. Any change in the regulation of credit that would materially limit the availability of credit to its guest base could adversely affect the Company s results of operations or financial condition.

The Company s and its competitors practices are subject to review in the ordinary course of business by the Federal Trade Commission and are subject to numerous federal and state laws. Additionally, the Company is subject to certain customs, truth-in-advertising and other laws, including consumer protection regulations that regulate retailers generally and/or govern the importation, promotion and sale of merchandise. The Company undertakes to monitor changes in these laws and believes that it is in material compliance with all applicable state and federal regulations with respect to such practices.

Foreign Sales

The Company s current international business is in Canada. The following table represents a summary of net sales and long-lived assets:

	Fiscal 2007		February 14, 2006 to December 30, 2006		January 1, 2006 to February 13, 2006		Fiscal 2005	
				(in millions)				
Net sales from stores located within:								
United States	$ 2,539.4	90.9%	$ 2,346.2	92.6%	$ 267.5	93.9%	$ 2,535.5	94.1%
Canada	255.4	9.1%	188.2	7.4%	17.5	6.1%	159.2	5.9%
Total	$ 2,794.8	100.0%	$ 2,534.4	100.0%	$ 285.0	100.0%	$ 2,694.7	100.0%
Long-lived assets(1)(2)								
United States	$ 811.8	92.3%	$ 922.3	93.8%	$ 1,010.9	94.3%	$ 601.2	93.6%
Canada	67.6	7.7%	60.9	6.2%	61.1	5.7%	41.2	6.4%
Total	$ 879.4	100.0%	$ 983.2	100.0%	$ 1,072.0	100.0%	$ 642.4	100.0%

---

(1) Includes property and equipment, net of accumulated depreciation; identifiable intangible assets, net of accumulated amortization; goodwill and deferred financing costs and other noncurrent assets, net.

(2) Amounts presented at February 13, 2006 are after purchase accounting adjustments in connection with the Merger of Linens n Things, Inc.

Available Information

Prior to the consummation of the Merger on February 14, 2006, when the common stock of Linens n Things, Inc. was publicly traded on the New York Stock Exchange, the Company made available free of charge through its website, *www.lnt.com*, all materials that Linens n Things, Inc. filed electronically with the Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after electronically filing such materials with, or furnishing them to, the SEC.

As a result of becoming a privately-held company upon the consummation of the Merger and the issuance in a private placement of the Senior Secured Floating Rate Notes due 2014, the Company was not required to file these reports with the SEC. However, in accordance with the indenture governing these notes, reports were prepared on a basis that was equivalent to, but not filed with, the SEC, and such reports were furnished to noteholders by making them available on the Company s website. In August 2006 the notes were exchanged for new notes with terms that were identical to the original notes except that the exchange notes were registered under the Securities Act. At such time, the Company once again became subject to filing obligations with the SEC pursuant to the Securities Exchange Act. The Company has made available free of charge through its website all materials subsequently filed by the Company electronically with the SEC, including its Registration Statement on Form S-4, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports filed or

furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act, as soon as reasonably practicable after electronically filing such materials with, or furnishing them to, the SEC.

Investors may also read and copy any materials filed by the Company with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, DC 20549-0102. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website, *www.sec.gov*, that contains reports, proxy and information statements and other information which the Company or its predecessor, Linens n Things, Inc., filed electronically with the SEC.

Item 1A. Risk Factors

The following risks comprise all the material risks of which the Company is aware of; however, these risks and uncertainties may not be the only ones the Company faces. Additional risks and uncertainties not presently known to the Company or that it currently believes are immaterial may also adversely affect the Company s business or financial performance. The following risks could materially harm the Company s business, financial condition, future results of operations and cash flow.

Risks Related to the Company s Business

The Company s profitability would be adversely affected if its merchandise selections do not match guest preferences.

The retail industry is subject to changing merchandise trends and consumer preferences. The Company s success depends in large part on its ability to identify merchandise trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. The Company cannot give assurance that its merchandise selections will accurately reflect the preferences of its guests at any given time. In addition, any decline in the popularity or quality of any of its key brands could adversely affect its business. Furthermore, the products the Company sells often require long lead times to order and must appeal to consumers whose preferences cannot be predicted with certainty and often change rapidly. Consequently, the Company must stay abreast of changing lifestyle and consumer trends and anticipate trends and fashions that will appeal to its guests. If the Company miscalculates the market for its merchandise or the purchasing preferences of its guests, its business and financial results could be adversely affected.

The Company does not have long-term contracts with any of its vendors and if the Company is unable to purchase suitable merchandise in sufficient quantities at competitive prices, it may be unable to offer a merchandise mix that is attractive to its guests and its sales may be harmed.

Third-party vendors manufacture virtually all of the products that the Company offers. In fiscal 2007, the Company purchased its merchandise from approximately 1,000 vendors. Many of the Company s key vendors limit the number of retail channels they use to sell their merchandise and competition among retailers to obtain and sell these goods is intense. In addition, nearly all of the brands of its top vendors are sold by competing retailers, and some of its top vendors also have their own dedicated retail stores. Moreover, the Company typically buys products from its vendors on a purchase order basis. The Company has no long-term purchase contracts with any of its vendors and, therefore, has no contractual assurances of continued supply, pricing or access to products, and any vendor could change the terms upon which they sell to the Company or discontinue selling to the Company at any time. In fiscal 2007, products supplied by its 25 largest vendors represented approximately 43% of its purchases, with its top three vendors supplying approximately 13% and its largest single vendor supplying approximately 7% of its purchases for the year.

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

Delays in receipt of merchandise in connection with either the manufacturing or shipment of such merchandise could affect the Company s performance.

Virtually all of the Company s merchandise is delivered to it by its vendors as finished goods and is manufactured in numerous locations. The Company s vendors rely on third-party carriers to deliver merchandise to its distribution facilities. In addition, the Company s success depends on its ability to efficiently source and distribute merchandise to its retail stores and online guests. Events such as labor disputes, natural disasters, availability of raw materials, vendor financial liquidity, general conditions in the credit markets, including increased challenges faced by vendors seeking to factor or insure their receivables from their retail customers, inclement

weather, work stoppages or boycotts affecting the manufacturing or transportation sectors could increase the cost or reduce the supply of merchandise available to the Company and could adversely affect its results of operations. Upon the loss of one or more of its vendors, the Company may not be able to develop relationships with new vendors, and products from alternative sources, if available, may be more expensive or of a different or inferior quality from the ones the Company currently sells.

In addition, a significant portion of the Company s merchandise is currently sourced by it or by its domestic suppliers from foreign vendors. As a result, events resulting in the disruption of trade from other countries or the imposition of additional regulations relating to duties upon imports could cause significant delays or interruptions in the supply of its merchandise or increase its costs, either of which could have a material adverse effect on its business. Examples of such events include:

- political unrest, terrorist activities, war or other hostilities;
- strikes and labor problems;
- economic upheaval;
- import duties and quotas; and
- loss or change in Most Favored Nation status of the United States with a particular foreign country.

An increase in the cost to manufacture, or a disruption in shipment to the Company of, foreign-sourced products could decrease its sales and profitability.

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

The Company relies heavily on print advertising, including direct mail, to promote new store openings, to increase consumer awareness of its product offerings and pricing and to drive store traffic. In addition, the Company relies and will increasingly rely on other forms of media advertising. The Company s future growth and profitability will depend in large part upon the effectiveness and efficiency of its advertising and marketing programs. In order for its advertising and marketing programs to be successful, it must:

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

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

The Company s planned advertising and marketing expenditures may not result in increased total or comparable store sales or generate sufficient levels of product awareness. The Company may not be able to manage its advertising and marketing expenditures on a cost-effective basis.

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

Weak economic conditions may significantly impact discretionary consumer spending and reduce the Company s sales and profitability.

Most of the products that the Company sells are not consumer necessities. Purchases of the Company s merchandise are largely dependent upon discretionary spending by its guests. A number of external economic factors could affect purchases by its guests of the type of merchandise it offers, including:

- disposable income or consumer confidence in future economic conditions;
- general economic and business conditions; and
- increased interest rates or consumer debt levels.

Decreases in consumer confidence and consumer spending could adversely impact the Company s sales and results of operations. Reduced consumer spending may also require increased markdowns and increased promotional expenses, which would adversely impact its results of operations.

Competitive factors could reduce the Company s sales and profitability.

The U.S. retail home furnishings market is highly fragmented and intensely competitive. The Company competes with many different types of retailers, including among others department stores, mass merchandisers and discounters, specialty retail stores, home improvement centers, warehouse clubs and other retailers. Some of the Company s competitors sell many of the same products and brands that it sells. The competitive challenges facing the Company include:

- anticipating and quickly responding to changing consumer demands;
- increasing customer awareness and traffic to its stores;
- variety and fashion of the products it offers;
- maintaining favorable brand recognition and achieving customer perception of value;

- effectively marketing and competitively pricing its products to its target guests; and

- competing with entities that have substantially greater financial and other resources than the Company does.

Competition by existing or future competitors, including aggressive price competition, could result in the need to reduce the Company s prices or increase its spending and could result in a decrease in its sales and profitability and require a change in its operating strategies.

Attrition among the Company s buyers or key sales associates could adversely affect its financial performance and its growth.

The Company s success is largely dependent on the efforts and abilities of its buyers and key sales associates. The Company s ability to meet its labor needs generally is subject to numerous factors, including the availability of a sufficient number of qualified persons in the work force, unemployment levels, the wages and benefits it pays, prevailing wage rates, changing demographics, health and other insurance costs and changes in employment legislation. If the Company were to lose buyers or key sales associates and not promptly fill their positions with comparably qualified individuals, its ability to benefit from long-standing relationships with key vendors or to provide relationship-based guest service may suffer. The Company cannot give assurance that it will not suffer significant attrition among its current buyers or key sales associates. The loss of these individuals could adversely affect its business.

The Company may not be successful in opening and operating new stores profitably or making its recently opened stores profitable.

Although at a decreased rate as compared to prior years, the Company plans to open a number of new stores as part of its growth strategy. There are many risks inherent in its store expansion strategy, and the Company cannot give assurance that it will be able to achieve its expansion goals. The Company s ability to grow its store base and operate its new and recently opened stores profitably will be affected by many factors, including:

- risks inherent in constructing, furnishing and supplying a store in a timely and cost effective manner, including obtaining necessary permits and zoning approvals;
- integrating the new store into its distribution network;
- its ability to maintain financing on commercially reasonable terms;
- its ability to identify and secure favorable sites for its new stores in well-trafficked areas and to negotiate satisfactory rent and other lease terms;
- the competition for favorable store sites;
- the presence of other complementary retail outlets at the locations where the Company opens its new stores;
- the proximity of its competitors stores;
- the impact on sales at its existing stores if the Company locates new stores in the same market;
- its ability to invest in and expand its distribution, information technology, management and logistics infrastructure to support a continually increasing store base;

- its ability to attract, train and retain good and experienced store managers and store personnel for its new stores; and

- acceptance of its new stores in markets where the Company has limited or no existing presence.

The Company intends to open additional stores in new markets, as well as in existing markets, in fiscal years 2008, 2009 and beyond. The new markets the Company enters may have different competitive conditions, consumer trends and discretionary spending patterns than its existing markets, which may cause the Company s stores in these new markets to be less successful than stores in its existing markets.

Where the Company adds stores into its existing markets, it may not be able to attract sufficient new customers to these new stores and, in addition, these new stores may have the effect of reducing sales from the Company s existing stores in those markets, which may have an adverse effect on its results of operations.

The Company cannot give assurance that its new or recently opened stores will meet its internal financial operating targets or that it will be able to operate its new or recently opened stores profitably. The Company also cannot give assurance that the operating results of its new or recently built stores will be comparable to the operating results of its mature existing stores.

A disruption in the operation of the Company s distribution centers would impact its ability to deliver merchandise to its stores, which could adversely impact its sales and its results of operations.

The Company s inventory is generally shipped by its suppliers to one of its three distribution centers, which are located in Shepherdsville, Kentucky; Swedesboro, New Jersey and Greensboro, North Carolina. At its distribution centers, the merchandise is processed, sorted and shipped to its stores. Events such as fire or other catastrophic events, any malfunction or disruption of its centralized information systems or shipping problems may result in delays or disruptions in the timely distribution of merchandise to its stores, which could adversely impact

the Company s sales and its results of operations. Additionally, increases in variable expenses such as fuel costs associated with its distribution operations may adversely impact the Company s results of operations.

The Company s revenues and cash requirements are affected by the seasonal nature of its business.

The Company s business is subject to substantial seasonal variations. Historically, the Company has realized a significant portion of its net sales for the year during the third and fourth quarters, with a majority of net sales realized in the fourth quarter. The Company s quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including the timing of new store openings, holiday spending patterns and general economic conditions. The Company believes this is the typical pattern associated with its segment of the retail industry, and the Company expects this pattern will continue in the future. In anticipation of its peak selling season, the Company incurs substantial additional costs, including additional inventory, payroll and advertising costs. If for any reason the Company s sales during the fourth quarter of any year were significantly below expectations, its results of operations for that full year would be materially adversely affected.

A problem with the Company s management information systems could impact its flow of product and information and adversely affect its operating productivity and results of operations.

The Company relies heavily upon its existing management information systems in operating and monitoring all aspects of its business, including sales, warehousing, distribution, purchasing, inventory control, merchandise planning and replenishment and its financial systems. The bulk of the Company s management information systems are centrally located at its headquarters, with offsite backup at other locations. Any extended disruption in the operation of the Company s management information systems could have an adverse effect on its operating productivity and results of operations.

Furthermore, to keep pace with changing technology, the Company must continuously provide for the design and implementation of new information technology systems as well as enhancements of its existing systems. Any failure to adequately maintain and update the information technology systems supporting the Company s sales operations or inventory control could prevent it from processing and delivering merchandise, which could adversely affect its business.

The Company s business can be affected by extreme or unseasonable weather conditions.

Extreme weather conditions in the areas in which the Company s stores are located could adversely affect its business. For example, heavy snowfall, rainfall or other extreme weather conditions over a prolonged period might make it difficult for the Company s guests to travel to its stores and thereby reduce its sales and profitability. The Company s business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm weather temperatures during the winter seasons could render a portion of the Company s inventory incompatible with those conditions. Reduced sales from extreme or prolonged unseasonable weather conditions would adversely affect the Company s business.

Acts of terrorism could adversely affect the Company s business.

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

The Company is subject to numerous regulations that could affect its operations.

The Company is subject to customs, truth-in-advertising and other laws, including consumer protection regulations and zoning and occupancy ordinances, which regulate retailers generally and/or govern the importation, promotion and sale of merchandise and the operation of retail stores and warehouse facilities. Although the Company undertakes to monitor changes in these laws, if these laws change without its knowledge, or are violated by importers, designers, manufacturers or distributors, the Company could experience delays in shipments and receipt of goods or be subject to fines or other penalties under the controlling regulations, any of which could adversely affect its business.

If the Company is unable to enforce its intellectual property rights, or if it is accused of infringing on a third party s intellectual property rights, its profitability may be adversely affected.

The Company and its subsidiaries currently own its trademarks and service marks, including the Linens n Things and LNT marks. The Company s trademarks and service marks are registered with both the United States Patent and Trademark Office and the Canadian Intellectual Property Office. The laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the United States. Moreover, the Company is unable to predict the effect that any future foreign or domestic intellectual property legislation or regulation may have on its existing or future business. The loss or reduction of any of the Company s significant proprietary rights could have an adverse effect on its business.

Additionally, third parties may assert claims against the Company alleging infringement, misappropriation or other violations of their trademarks, copyrights or patents (including with respect to alleged proprietary designs) or other proprietary rights, whether or not the claims have merit. Claims like these may be time consuming and expensive to defend and could result in the Company being required to cease using the trademark, copyright or patent, design or other rights and selling the allegedly infringing products or to acquire licenses to continue using such intellectual property. This might have an adverse affect on the Company s sales or business operations and cause it to incur significant litigation costs and expenses.

If the Company significantly overestimates its sales, its profitability may be adversely affected.

The Company makes decisions regarding the purchase of its merchandise well in advance of the season in which it will be sold, generally six months to one year. If the Company s sales during any season, particularly a peak season, are significantly lower than it expects for any reason, the Company may not be able to adjust its expenditures for inventory and other expenses in a timely fashion and may be left with a substantial amount of unsold inventory. If that occurs, the Company may be forced to rely on markdowns or promotional sales to dispose of excess inventory. This could have an adverse effect on the Company s margins and operating income. At the same time, if the Company fails to purchase a sufficient quantity of merchandise or if its vendors do not have the capacity to handle its new purchase commitments, it may not have an adequate supply of products to meet guest demand. This may cause the Company to lose sales or adversely affect its reputation.

Changes in its credit card arrangements, applicable regulations and consumer credit patterns could adversely impact the Company s ability to facilitate the provision of consumer credit to its guests and adversely affect its business.

The Company maintains a proprietary credit card program through which credit is extended to guests under the Linens n Things name. Changes in the Company s proprietary credit card arrangements that adversely impact its ability to facilitate the provision of consumer credit may adversely affect its performance. Credit card operations are subject to numerous federal and state laws that impose disclosure and other requirements upon the origination, servicing and enforcement of credit accounts and limitations on the maximum amount of finance charges that may be charged by a credit provider. Any effect of these regulations or change in the regulation of credit arrangements that would materially limit the availability of credit to the Company s guest base could adversely affect its business. In addition, changes in credit card use, payment patterns and default rates may result

from general conditions in the credit markets and a variety of economic, legal, social and other factors that the Company cannot control or predict with certainty.

Failure to maintain competitive terms under the Company s loyalty programs could adversely affect its business.

As part of its strategy, the Company intends to formalize and maintain loyalty programs that are designed to cultivate long-term relationships with its customers and enhance the quality of service the Company provides to its customers. The Company must constantly monitor and update the terms of its loyalty programs so that it continues to meet the demands and needs of its customers and remains competitive with loyalty programs offered by its competitors. The Company s failure to provide quality service and competitive loyalty programs to its customers could adversely affect its business.

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

The Company leases all of its store locations. The Company s current leases expire at various dates through 2029 subject, in many cases, to renewal options for periods ranging from five to 20 years in total. The Company s ability to renew any expired lease or, if such lease cannot be renewed, its ability to lease a suitable alternate location, and its ability to enter into leases for new stores on favorable terms will depend on many factors which are not within the Company s control, such as conditions in the local real estate market, competition for desirable properties and its relationships with current and prospective landlords. If the Company is unable to renew existing leases or lease suitable alternate locations, or enter into leases for new stores on favorable terms, its growth and its profitability may be significantly harmed.

Restrictions contained in some of the Company s leases relating to change of control of the Company may make any change of control more difficult or impair the Company s ability to retain such leases in the event of a change of control.

Some of the Company s leases contain, and leases related to new stores may contain, various restrictions relating to a change of control of the Company. In such cases, a change of control of the Company without the consent of the landlord may result in a violation of the terms of such lease, thereby exposing it to potential damages or lease termination. This, in turn, could harm the Company s growth and profitability. The presence of such provisions may also make any change of control in the future more difficult.

The Company has previously identified certain issues relating to its internal controls and procedures, which, if not remedied effectively, could have an adverse effect on its business.

At the end of fiscal 2006, the Company determined that its control procedures did not include adequate review over the completeness and accuracy of the income tax accounts to ensure compliance with generally accepted accounting principles. The Company out-sourced the preparation of the income tax provision to a third party and did not apply a thorough review to detect misstatements. This deficiency resulted in material errors in the Company s preliminary income tax provision in the 2006 consolidated financial statements. The Company corrected the provision for income taxes and related balances prior to the issuance of the financial statements. Accordingly, management determined that this condition constituted a material weakness.

A material weakness is a deficiency (within the meaning of paragraph A7 of the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 5), or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected on a timely basis.

Although the Company has taken certain actions to address this issue, if it is unable to identify and remedy all such issues promptly and effectively, it could have a material adverse effect on its business, results of operations and financial condition. Maintaining effective control over financial reporting is necessary for the Company to produce

reliable financial reports and is important in helping to prevent financial fraud. If the Company s management or its independent registered public accounting firm were to conclude again in the future that its internal control over financial reporting was ineffective, investors could lose confidence in the Company s reported financial information.

The Company is indirectly owned and controlled by the Sponsors, and their interests as equity holders may conflict with creditors.

The Company is indirectly owned and controlled by the Sponsors, and the Sponsors have the ability to elect all of the members of its board of directors and thereby control its policies and operations, including the appointment of management, future issuances of its common stock or other securities, the payment of dividends, if any, on its common stock, the incurrence of debt by the Company, amendments to its certificate of incorporation and bylaws and the entering into of extraordinary transactions. The interests of the Sponsors may not in all cases be aligned with the interests of noteholders. For example, if the Company encounters financial difficulties or is unable to pay its indebtedness as it matures, the interests of its equity holders might conflict with the interests of noteholders. In addition, the Company s equity holders may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments, even though such transactions might involve risks to noteholders. Furthermore, the Sponsors may in the future own businesses that directly or indirectly compete with the Company. One or more of the Sponsors also may pursue acquisition opportunities that may be complementary to the Company s business, and as a result, those acquisition opportunities may not be available to the Company. So long as the Sponsors continue to own a significant amount of the Company s combined voting power, even if such amount is less than 50%, they will continue to be able to strongly influence or effectively control the Company s decisions.

Risks Related to the Company s Substantial Debt

The Company s substantial leverage may impair its financial condition and prevent it from fulfilling its obligations under the Notes.

The Company has a substantial amount of indebtedness, which could have important consequences to investors, including:

- making it more difficult for the Company to satisfy its obligations with respect to the Notes;

- increasing the Company s vulnerability to general adverse economic and industry conditions by making it more difficult for it to react quickly to changing conditions;

- limiting the Company s ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions and other general corporate requirements;

- requiring a substantial portion of the Company s cash flow from operations for the payment of interest on its indebtedness and reducing the Company s ability to use its cash flow to fund working capital, capital expenditures,

acquisitions and general corporate requirements;

- exposing the Company to risks inherent in interest rate fluctuations because some of the Company s borrowings will be at variable rates of interest, which could result in a higher interest expense in the event of increases in interest rates;

- limiting the Company s flexibility in planning for, or reacting to, changes in its business, and the industry in which it operates; and

- placing the Company at a competitive disadvantage compared with its competitors that have less indebtedness.

Despite current indebtedness levels, the Company and its subsidiaries may still be able to incur substantially more indebtedness. This could further exacerbate the risks associated with its substantial leverage.

Subject to specified limitations, the indenture governing the Notes and the credit agreement governing its asset-based revolving credit facility permits the Company and its subsidiaries to incur substantial additional indebtedness, including $700.0 million of borrowings under the Company s asset-based revolving credit facility, which is not subject to any financial maintenance covenants and ranks equally with the Notes. If new indebtedness is added to the Company s and its subsidiaries current indebtedness levels, the risks described above could intensify.

Covenant restrictions under the Company s indebtedness may limit its ability to operate its business.

The indenture governing the Notes and the credit agreement governing the Company s asset-based revolving credit facility do, and its future indebtedness agreements may, contain covenants that may restrict the Company s ability to finance future operations or capital needs or to engage in other business activities. The Company s indenture and its asset-based revolving credit facility restrict, among other things, its ability and the ability of its restricted subsidiaries to:

- incur, assume or guarantee additional indebtedness;
- issue redeemable stock and preferred stock;
- repurchase capital stock;
- make other restricted payments including, without limitation, paying dividends and making investments;
- create liens;
- redeem debt that is junior in right of payment to the Notes;
- sell or otherwise dispose of assets, including capital stock of subsidiaries;
- enter into agreements that restrict dividends from subsidiaries;

- enter into mergers or consolidations;
- enter into transactions with affiliates; and
- enter into sale/leaseback transactions.

In addition, the Company s asset-based revolving credit facility contains certain customary affirmative and negative covenants and events of default but no financial maintenance covenants. Events beyond the Company s control, including changes in general economic and business conditions, may result in a breach of any of these covenants and result in a default under the Company s indenture and its asset-based revolving credit facility. If an event of default under its asset-based revolving credit facility occurs, the lenders could terminate all commitments to lend and elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. If the Company was unable to pay such amounts, the lenders could proceed against the collateral pledged to them. All obligations under the Company s asset-based revolving credit facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of the assets of the borrowers including: (1) a first-priority security interest in inventory, accounts receivable, cash, securities and other general intangibles; and (2) a second-priority security interest in equipment, intellectual property rights and related general intangibles and all of the capital stock of Linens n Things, Inc. and the capital stock of certain subsidiaries. Should the lenders proceed against the collateral pledged to them, the Company cannot give assurance that it would have sufficient assets to pay amounts due on the Notes. As a result, an investor may receive less than the full amount that the investor would be otherwise entitled to receive on the Notes.

The Company will require a significant amount of cash, and its ability to generate sufficient cash depends upon many factors, some of which are beyond its control.

The Company s ability to make payments on and refinance its indebtedness and to fund working capital needs and planned capital expenditures depends on its ability to generate adequate cash flow in the future. To some extent, this is subject to general economic, financial, competitive, legislative and regulatory factors and other factors that are beyond its control. For example, the Company s need to stock substantial inventory could increase its working capital needs. Also, current conditions in the credit markets generally and those relating to the retail sector specifically, including the ability of vendors to factor or insure their receivables from their retail customers, could result in reduced cash flow or increased challenges in obtaining additional financing or refinancing. The Company cannot give assurance that its business will continue to generate cash flow from operations at current levels or that its cash needs will not increase. If the Company is unable to generate sufficient cash flow from operations in the future to service its indebtedness and meet its other needs, it may have to refinance all or a portion of its existing indebtedness, obtain additional financing, reduce expenditures that it deems necessary to its business or sell assets. The Company cannot give assurance that any refinancing of this kind would be possible or that any additional financing could be obtained or could be obtained on commercially reasonable terms. The inability to obtain additional financing could have a material adverse effect on the Company s financial condition and on its ability to meet its obligations to an investor under the Notes.

Variable rate indebtedness subjects the Company to interest rate risk, which could cause its debt service obligations to increase significantly.

Certain of the Company s borrowings, primarily borrowings under its asset-based revolving credit facility and the Notes, are, and are expected to continue to be, at variable rates of interest and expose the Company to interest rate risk. If interest rates increase, the Company s debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and its net income would decrease. Borrowings under the Company s asset-based revolving credit facility bear interest at a rate equal to, at the Company s option, either (a) an alternate base rate determined by reference to the higher of (1) the base rate in effect on such day and (2) the federal funds effective rate plus 0.50% or (b) a LIBOR rate, with respect to any Eurodollar borrowing, determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs, in each case plus an applicable margin. The initial applicable margin for borrowings under the revolving commitment is 0.25% with respect to alternate base rate borrowings and 1.50% with respect to LIBOR borrowings. The applicable margin with respect to the Tranche B commitment (consisting of per annum rate margins) is 2.75% in the case of Eurodollar borrowings and, in the event the adjusted LIBOR rate is not available, 1.25% in the case of alternate base rate borrowings. The applicable margin for borrowings under the asset-based revolving credit facility is subject to adjustment based on its excess availability. As of December 29, 2007, such margins remained at the intial levels established. The applicable fixed margin with respect to the Notes is a percentage per annum equal to 5.625%. Assuming all revolving loans are fully drawn, each quarter point change in interest rates would result in a $3.4 million change in annual interest expense on the Company s asset-based revolving credit facility and the Notes. Pursuant to the indenture governing the Notes, the Company is required to enter into interest rate swaps, involving the exchange of floating for fixed rate interest payments, or other forms of derivative transactions, to reduce interest rate volatility. In July 2006 the Company entered into two derivative financial instruments to reduce interest rate volatility through January 15, 2009; however, beyond this date, the Company may not be able to successfully enter into interest rate swaps, or other forms of derivative transactions, on commercially reasonable terms or at all.

Item 1B. Unresolved SEC Staff Comments

None.

Item 2. Properties

The Company leases its corporate headquarters, which is located at 6 Brighton Road, in Clifton, New Jersey. Concurrent with the acquisition of the building by the landlord in December 2006, the Company entered into a lease with a 20-year primary lease term providing for fixed rent during the first seven years and certain tenant-driven refinancing options at the end of the seventh year consisting of an outright purchase, prepaying rent in one lump sum for the remaining 13 years or replacing the landlord s mortgage with a successor mortgage.

As of December 29, 2007, the Company operated 589 stores in 47 U.S. states and seven Canadian provinces. The Company s stores generally range in size from 25,000 to 40,000 gross square feet. The Company s stores are predominately located in power strip centers containing other complementary broad-based retail chains. The Company currently leases all of its existing stores and expects that its policy of leasing rather than owning will continue.

Distribution Centers

The Company owns its Greensboro, North Carolina distribution center and leases its Swedesboro, New Jersey and Shepherdsville, Kentucky distribution centers. Combined total square footage for these Company-operated facilities is approximately 1.2 million. Both the New Jersey and Kentucky distribution centers can be expanded.

Leased Properties

At December 29, 2007, the Company leased the real property of all 589 of its stores. The aggregate rent paid for fiscal 2007 was $300.8 million. The Company believes that none of its leases is individually material to it. The Company has non-cancelable operating leases, primarily for retail stores, which expire through 2029. The Company s leases provide for original lease terms that generally range from 10 to 20 years and most of the leases provide for one or more renewal options ranging from five to 20 years in total. Generally leases provide for scheduled rent increases and many of the leases provide for contingent rent (based upon store sales exceeding stipulated amounts). Most of the Company s leases require it to pay costs such as real estate taxes and common area maintenance costs.

The table below sets forth the number and location of the Company s 551 stores in the United States as of December 29, 2007:

State	Number of Stores	State	Number of Stores
Alabama	6	Nebraska	3
Arizona	17	Nevada	5
Arkansas	4	New Hampshire	5
California	65	New Jersey	23
Colorado	13	New Mexico	3
Connecticut	13	New York	30
Delaware	1	North Carolina	19
Florida	48	North Dakota	1
Georgia	20	Ohio	14
Idaho	2	Oklahoma	4
Illinois	26	Oregon	7
Indiana	9	Pennsylvania	17
Iowa	1	Rhode Island	4
Kansas	3	South Carolina	7
Kentucky	4	South Dakota	1
Louisiana	7	Tennessee	9
Maine	5	Texas	53
Maryland	6	Utah	3
Massachusetts	22	Vermont	1
Michigan	12	Virginia	12 (1)
Minnesota	7	Washington	15
Mississippi	2	West Virginia	1
Missouri	9	Wisconsin	9
Montana	3		

(1) For reporting purposes, District of Columbia is included in Virginia total stores. This is consistent with the prior year.

The table below sets forth the number and location of the Company s 38 stores in Canada as of December 29, 2007:

Province	Number of Stores
Alberta	9
British Columbia	6
Manitoba	1
Nova Scotia	2
Ontario	18
Prince Edward Island	1
Saskatchewan	1

The Company believes that it will be able to negotiate acceptable extensions of the leases for those locations that it intends to continue operating. Beyond termination of the Company s contractual lease obligations through the end of the term, early termination of these leases would not result in significant penalty to the Company. A total of 8 leases will be expiring in fiscal 2008 or 2009.

When appropriate, the Company has chosen to sell and then lease-back certain properties. Factors leading to this decision include alternative desires for use of cash and minimalization of the risks associated with owning the property, especially changes in the valuation due to population shifts, urbanization and proximity to high volume streets.

The following table sets forth information concerning the Company s store expansion program during the past five years:

			Total Square Footage (In Thousands)		Store Count	
Fiscal Year	Store Openings	Store Closings	Beginning of Year	End of Year	Beginning of Year	End of Year
2003	58	9	13,607	15,106	391	440
2004	54	2	15,106	16,702	440	492
2005	55	5	16,702	18,071	492	542
2006	31	2	18,071	18,928	542	571
2007	18	0	18,928	19,423	571	589

Item 3. Legal Proceedings

The Company is involved in various claims and legal, regulatory and administrative actions arising in the ordinary course of business, including actions before the Equal Employment Opportunity Commission. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on the Company s consolidated financial position, results of operations or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrants Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Prior to the Merger, the common stock of Linens n Things, Inc., par value $0.01 (the Predecessor Common Stock) was listed on the New York Stock Exchange (NYSE). Its trading symbol was LIN.

In connection with the closing of the Merger, each share of Predecessor Common Stock was converted into the right to receive cash for aggregate consideration of approximately $1.3 billion.

The last trading day of the Predecessor Common Stock was February 14, 2006. On the following day the stock was delisted from the NYSE and a Form 25 was filed with the SEC by the NYSE to strike the Predecessor Common Stock from listing and registration thereon.

As a result of the Merger, the Company s common stock is privately held, and there is no established trading market for its stock. As of the date of the filing of this report, there were four holders of record of the Company s common stock.

Dividends

The Company has not declared dividends on its common stock for the two most recent fiscal years. The indenture governing the Notes and the credit agreement governing the Company s asset-based revolving credit facility contain covenants that restrict the Company s ability to pay dividends.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information about the Company s common stock that may be issued upon exercise of options, warrants and rights under all of the Company s equity compensation plans as of December 29, 2007.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)

Equity compensation plans approved by security holders	911,696	$ 50.00	305,602
Equity compensation plans not approved by security holders	53,000	$ 50.00	
Total	964,696	$ 50.00	305,602

Stock Option Plan

On February 14, 2006, the board of directors and stockholders of the Company adopted the Linens Holding Co. Stock Option Plan. The plan provides employees or directors of the Company or its subsidiaries, who are in a position to contribute to the long-term success of these entities, with options to acquire shares in the Company to aid in attracting, retaining and motivating persons of outstanding ability. The plan was amended in March 2006 to increase the number of shares of common stock, par value $0.01 per share, of the Company available for issuance under the Plan to 1,157,298 shares. If any shares reserved for an option are forfeited or any option otherwise terminates without a payment being made to the optionee in the form of stock, the shares underlying such option will also become available for future option grants under the plan. The stock options granted under the plan to each optionee are equally

divided between a Time Option and a Performance Option, as those terms are defined in the standard form of option grant letter. The options expire seven years after the date of grant.

Director Options

On June 13, 2006, the board of directors of the Company approved and adopted a director compensation policy, which provided for the grant to the Chairman of the Board and each non-employee director, upon first election to the board of directors, of a non-qualified stock option to purchase a minimum of 5,000 shares of the Company s common stock, such number to be determined by the board of directors in its discretion, and such grants to be made outside of the Linens Holding Co. Stock Option Plan and to be fully exercisable upon grant. The director options as contemplated in the director compensation policy were also authorized and approved by the stockholders of the Company in June 2006.

Investment Options

In connection with three purchases of shares of common stock from the Company by directors or executive officers during the fiscal year ended December 30, 2006, the board of directors of the Company approved the grant of a non-qualified stock option to purchase the same number of shares at an exercise price equal to the purchase price per share. Each of these option grants was fully exercisable on the date of grant. These options were made outside of the Linens Holding Co. Stock Option Plan.

Item 6. Selected Financial Data

The following table sets forth select consolidated historical financial information. This information should be read in conjunction with the consolidated financial statements of the Company and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere herein.

As a result of the transactions related to the Merger, the financial results for the 52 weeks ended December 30, 2006 are separately presented in the table below between the Successor Entity, covering the period February 14, 2006 through December 30, 2006, and the Predecessor Entity, covering the period January 1, 2006 through February 13, 2006, which is the date of the consummation of the Merger. The financial results for the 52 weeks ended December 29, 2007 are presented under Successor Entity and the results for each of the 52 weeks ended December 31, 2005, January 1, 2005 and January 3, 2004 are presented under Predecessor Entity.

Five-Year Financial Summary (dollars in thousands, except for ratios and store data)

	Successor		Predecessor			
	Fiscal Year Ended December 29, 2007(1)	February 14, 2006 to December 30, 2006	January 1, 2006 to February 13, 2006	Fiscal Year Ended December 31, 2005(1)	Fiscal Year Ended January 1, 2005(1)(2)	Fiscal Year Ended January 3, 2004(1)
Income Statement Data:						
Net sales	**$ 2,794,776**	**$ 2,534,365**	**$ 284,971**	**$ 2,694,742**	**$ 2,661,469**	**$ 2,395,272**
Cost of sales, including buying and distribution costs	1,747,904	1,557,011	180,675	1,595,394	1,589,700	1,428,706
Gross profit	**1,046,872**	**977,354**	**104,296**	**1,099,348**	**1,071,769**	**966,566**
Selling, general and administrative expenses	1,221,324	1,040,680	175,424	1,036,599	975,840	849,334
Impairment of property and equipment	16,779	27,992		4,059	900	
Impairment of identifiable intangible asset	100	3,119				
Operating (loss) profit	**(191,331)**	**(94,437)**	**(71,128)**	**58,690**	**95,029**	**117,232**
Interest income	(386)	(190)	(668)	(894)	(542)	(169)
Interest expense	101,042	79,795		4,860	3,903	4,001
Writeoff of deferred financing costs	6,986					
Interest expense (income), net	107,642	79,605	(668)	3,966	3,361	3,832
Other income, net	(6,251)	(657)	(1,286)	(3,137)	(6,261)	(4,334)
(Loss) income before (benefit) provision for income taxes	**(292,722)**	**(173,385)**	**(69,174)**	**57,861**	**97,929**	**117,734**
(Benefit) provision for income taxes	(50,631)	(66,852)	(21,270)	21,879	37,408	44,975
Net (loss) income	**$ (242,091)**	**$ (106,533)**	**$ (47,904)**	**$ 35,982**	**$ 60,521**	**$ 72,759**
Other Financial Data:						
Adjusted EBITDA(4)	$ (26,235)	$ 75,744	$ (14,170)	$ 175,158	$ 229,052	$ 216,934
Depreciation and amortization	$ 130,301	$ 114,509	$ 12,642	$ 90,270	$ 81,318	$ 71,348
Capital expenditures						
New stores	$ 25,210	$ 43,090	$ 10,055	$ 95,008	$ 79,254	$ 82,806
Existing stores and other	11,812	23,190	901	33,904	31,189	30,765
Total capital expenditures	$ 37,022	$ 66,280	$ 10,956	$ 128,912	$ 110,443	$ 113,571
Cash interest expense	$ 91,113	$ 58,577	$ 135	$ 4,851	$ 4,018	$ 3,888

Ratio of earnings to fixed charges(3)	(0.40)x	(0.05)x	(5.09)x	1.66x	2.23x	2.65x
Store Data:						
Number of stores (at period end)	589	571	542	542	492	440
Total gross square footage (000 s) (at period end)	19,423	18,928	18,071	18,071	16,702	15,106
Average net sales per store (millions)	$ 4.8	$ 4.6	$ 0.5	$ 5.2	$ 5.6	$ 5.7
Net sales per average square foot	$ 146	$ 137	$ 16	$ 156	$ 166	$ 167
Comparable store sales(5)(6)	(3.4)%	(0.7)%	NA	(6.0)%	1.8%	1.3%
Balance Sheet Data (at period end):						
Cash and cash equivalents	$ 16,071	$ 12,526	$ 90,333	$ 158,158	$ 204,009	$ 136,129
Working capital	414,390	428,043	507,899	537,516	519,686	458,519
Total assets	1,740,387	1,857,934	1,614,744	1,650,834	1,591,884	1,467,456
Senior secured notes and other long-term debt	855,859	689,876	2,131	2,139	2,196	
Total shareholders equity(7)	322,784	544,743	831,858	849,863	809,353	737,377
Cash Flow:						
Cash (used in) provided by:						
Operating activities	$ (123,354)	$ 2,202	$ (61,956)	$ 79,097	$ 167,259	$ 151,167
Investing activities	(31,622)	(1,266,865)	(10,956)	(128,912)	(110,443)	(113,571)
Financing activities	157,813	1,277,249	4,962	3,803	10,200	11,375

28

---

(1) Fiscal 2007, 2005, 2004 and 2003 were 52-week periods.

(2) Fiscal 2004 results include the implementation of the provisions of EITF 02-16. Prior to January 4, 2004, certain funds received from vendors were reflected immediately as a reduction of advertising expense in SG&A or cost of sales. Effective January 4, 2004, in connection with the implementation of EITF 02-16, the Company treats these vendor funds as a reduction of the cost of inventory and, as a result, these funds are recognized as a reduction of cost of sales when the inventory is sold. The effect of the implementation of EITF 02-16 was to reduce income before provision for income taxes by $21.5 million ($13.3 million, net of tax) for the fiscal year ended January 1, 2005.

(3) For purposes of calculating the ratio of earnings to fixed charges, earnings represent income (loss) from continuing operations before income taxes plus fixed charges. Fixed charges include interest expense, including amortization of debt issuance costs and one third of rental expense which management believes is representative of the interest component of rental expense.

(4) EBITDA represents (loss) income before (benefit) provision for income taxes, interest expense (income), net and depreciation and amortization. Adjusted EBITDA represents EBITDA further adjusted to exclude non-cash and unusual items. Management uses EBITDA and Adjusted EBITDA as additional tools to assess the Company s operating performance. Management considers EBITDA and Adjusted EBITDA to be useful measures in highlighting trends in the Company s business and in analyzing the profitability of similar enterprises. It is also used as a measurement for the calculation of management incentive compensation. Management believes that EBITDA and Adjusted EBITDA are effective, when used in conjunction with net income, in evaluating asset performance and differentiating efficient operators in the industry. Furthermore, management believes that EBITDA and Adjusted EBITDA provide useful information to, and is commonly used by, investors, analysts and others to measure operating performance and because it provides insights into management s evaluation of the Company s results of operations. EBITDA and Adjusted EBITDA (as calculated with contractually-specified adjustments) are also one of the key measures used in calculating compliance with covenants in the Company s notes. Non-compliance with financial covenants could prevent the Company from engaging in certain activities or result in a default under its notes.

EBITDA and Adjusted EBITDA are not measures of financial performance under GAAP, are not intended to represent cash flow from operations under GAAP and should not be used as an alternative to net income as an indicator of operating performance or to cash flow from operating, investing or financing activities as a measure of liquidity. Management compensates for the limitations of using EBITDA and Adjusted EBITDA by using it only to supplement the Company s GAAP results to provide a more complete understanding of the factors and trends affecting its business. EBITDA and Adjusted EBITDA have limitations as an analytical tool, and investors should not consider them in isolation or as a substitute for analysis of the Company s results of operations and cash flows as reported under GAAP. Some of the limitations of EBITDA and Adjusted EBITDA are:

- EBITDA and Adjusted EBITDA do not reflect the Company s cash used for capital expenditures;
- although depreciation and amortization are non-cash charges, the assets being depreciated or amortized often will have to be replaced and EBITDA and Adjusted EBITDA do not reflect the cash requirements for such replacements;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, the Company s working capital requirements;

- EBITDA and Adjusted EBITDA do not reflect the cash necessary to make payments of interest or principal on the Company s indebtedness; and

- EBITDA and Adjusted EBITDA do not reflect non-recurring expenses which qualify as extraordinary such as one-time write-offs to inventory and reserve accruals.

While EBITDA and Adjusted EBITDA are frequently used as a measure of operations and of the Company s ability to meet indebtedness service requirements, they are not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the method of calculation.

The following table reconciles EBITDA and Adjusted EBITDA as presented above, to net loss (income) as presented in the Company s consolidated statements of operations and in accordance with GAAP (in thousands):

	Successor		**Predecessor**			
	Fiscal Year Ended December 29, 2007	**February 14, 2006 to December 30, 2006**	**January 1, 2006 to February 13, 2006**	**Fiscal Year Ended December 31, 2005**	**Fiscal Year Ended January 1, 2005**	**Fiscal Year Ended January 3, 2004**
Net (loss) income	$ (242,091)	$ (106,533)	$ (47,904)	$ 35,982	$ 60,521	$ 72,759
(Benefit) provision for income taxes	(50,631)	(66,852)	(21,270)	21,879	37,408	44,975
Interest expense (income), net	107,642	79,605	(668)	3,966	3,361	3,832
Depreciation and amortization	130,301	114,509	12,642	90,270	81,318	71,348
EBITDA	**(54,779)**	**20,729**	**(57,200)**	**152,097**	**182,608**	**192,914**
Non-cash rent expense(a)	9,227	10,739	534	4,739	7,978	8,052
Non-cash lease transactions(m)	(2,470)	(2,112)				
Non-cash landlord allowance amortization(b)	(1,357)	(875)	(2,959)	(21,633)	(19,968)	(17,283)
Cash landlord allowances received(c)	3,034	6,004	1,277	28,697	29,096	30,410
EBITDA after rent-related adjustments	**(46,345)**	**34,485**	**(58,348)**	**163,900**	**199,714**	**214,093**
Transaction expenses(d)		1,824	31,730	3,322		
Non-cash impairment of property and equipment(e)	16,779	27,992		4,059	900	760
Non-cash impairment of identifiable intangible asset (n)	100	3,119				
Non-cash writeoff of property and equipment(o)	21	671		1,433	2,209	1,265
Non-cash stock-based compensation(f)		37	3,143	1,243	510	816
Accounting change for vendor allowances(g)					21,468	
Non-recurring consulting expenses(h)				5,412	4,251	
Accelerated payment of stock option(i)			9,305			
Stock-based compensation expense(p)	3,189	4,263				
Executive severance(j)	21	3,353				
				(2,211)		

Visa/MasterCard litigation settlement(k)						
Gain on sale of lease(l)				(2,000)		
Adjusted EBITDA	**$ (26,235)**	**$ 75,744**	**$ (14,170)**	**$ 175,158**	**$ 229,052**	**$ 216,934**

(a) Represents the straight-line effect of scheduled rent increases over the expected lease term.

(b) Non-cash landlord allowance amortization represents the amortization of cash allowances received from landlords at inception of leases. Non-cash landlord allowance amortization has the effect of reducing rent expense.

(c) Represents cash allowances received from landlords at inception of leases.

(d) Transaction costs represent legal and other merger-related expenses.

(e) Represents the non-cash accelerated write-down of the book value of certain underperforming property and equipment.

(f) Represents non-cash compensation expense related to predecessor period restricted stock grants.

(g) Prior to January 4, 2004, certain funds received from vendors were reflected immediately as a reduction of advertising expense in SG&A or cost of sales. Effective January 4, 2004, in connection with the implementation of EITF 02-16, the Company treats these vendor funds as a reduction of the cost of inventory and, as a result, these funds are recognized as a reduction of cost of sales when the inventory is sold. The effect of the implementation of EITF 02-16 was to reduce income before provision for income taxes by $21.5 million for the fiscal year ended January 1, 2005.

(h) Represents non-recurring consulting costs related to a strategic corporate profitability project that began in 2004 and was completed in 2005 and that was significantly greater in scope and costs than what the Company typically incurs or is expected to incur.

(i) Represents acceleration of compensation expense related to stock option grants, as a result of the acquisition of the Company by the Sponsors.

(j) Charges related to severance for a former executive coupled with individuals affected under the Company s cost containment initiative.

(k) Represents the Company s share of the Visa/MasterCard antitrust litigation settlement.

(l) Represents non-recurring gain from sale of favorable lease.

(m) Represents non-cash unfavorable lease amortization for leases valued below market as a result of the acquisition of the Company by the Sponsors.

(n) Represents the non-cash accelerated write-down of a certain identifiable intangible asset.

(o) Represents the non-cash disposal of fixed assets for locations that have closed.

(p) Represents stock-based compensation expense related to stock option grants under Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment* .

(5) Comparable store sales include the Company s internet sales and sales for its stores beginning on the first day of the month following the 13th full month of sales. In the case of a store to be permanently closed, such store s sales are not considered comparable once the store closing process has commenced.

(6) For the 52-week period ended December 30, 2006.

(7) The balance at December 31, 2005 includes the cumulative effect of the adoption of SEC Staff Accounting Bulletin No. 108 see Note 2 to the consolidated financial statements under *Staff Accounting Bulletin No. 108.*

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

The following discussion of the Company s financial condition and results of operations should be read in conjunction with its audited historical consolidated financial statements and related notes thereto appearing elsewhere in this report. The results described below are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward-looking statements based on the Company s current expectations, which are inherently subject to risks and uncertainties. Actual results may differ significantly from those projected in such forward-looking statements due to a number of factors. The Company undertakes no obligation to update or revise any forward-looking statement.

Introduction

The Company, together with its wholly owned consolidated subsidiaries, including Linens n Things, Inc. and Linens n Things Center, Inc., is an entity that was formed in connection with the February 2006 acquisition of all of the outstanding shares of common stock of Linens n Things, Inc. (the Predecessor Entity or Predecessor) for aggregate consideration of approximately $1.3 billion.

In November 2005, Affiliates of the Sponsors formed the Company to serve as a holding company. On February 14, 2006, the Company acquired Linens n Things, Inc. when its newly formed subsidiary, Linens Merger Sub Co., merged with and into Linens n Things, Inc. in the merger described in Note 3 to the consolidated financial statements included elsewhere in this report, and Linens n Things, Inc., as the surviving corporation, became a wholly owned subsidiary of the Company.

The Company is the second largest specialty retailer of home textiles, housewares and home accessories in North America operating 589 stores under the Linens n Things, Inc. banner in 47 U.S. states and seven Canadian provinces at December 29. 2007. During fiscal 2007, the Company opened 18 new stores, increasing its total net square footage by 2.6% to approximately 19.4 million.

Acquisition of the Company by Apollo Management, L.P. Together with Certain Co-Investors

On November 8, 2005, Linens Merger Sub Co. and the Company entered into an Agreement and Plan of Merger with Linens n Things, Inc. to acquire Linens n Things, Inc. through a merger (the Merger). Pursuant to the merger agreement, each share of common stock of Linens n Things, Inc. (other than shares held in treasury or owned by Linens Merger Sub Co., the Company or any affiliate of Linens Merger Sub Co. and other than shares held by stockholders who properly demanded and perfected appraisal rights) would be converted into the right to receive cash for aggregate consideration of approximately $1.3 billion. The Merger was structured as a reverse subsidiary merger, and on February 14, 2006, Linens Merger Sub Co. was merged with and into Linens n Things, Inc., with Linens n Things, Inc. as the surviving corporation. As the surviving corporation in the Merger, Linens n Things, Inc. assumed by operation of law all of the rights and obligations of Linens Merger Sub Co., including $650.0 million aggregate principal amount of Senior Secured Floating Rate Notes (the Notes) due 2014 of Linens n Things, Inc. and Linens n Things Center, Inc. (collectively, the Issuers) issued on the same day and the related indenture. Linens n Things Center, Inc., a direct wholly owned subsidiary of Linens n Things, Inc., is a co-issuer of the Notes.

Affiliates of Apollo Management, L.P., National Realty & Development Corp. and Silver Point Capital Fund Investments LLC (the Sponsors) collectively contributed approximately $648 million as equity to Linens Merger Sub Co. immediately prior to the Merger.

The Sponsors financed the purchase of Linens n Things, Inc. and paid related fees and expenses through the offering of the Notes, the equity investment described above and excess cash on hand at Linens n Things, Inc. At closing, Linens n Things, Inc. did not draw on a new asset-based revolving credit facility entered into in connection with the closing.

These transactions, including the Merger and payment of any costs related to these transactions, are collectively referred to herein as the Transactions. In connection with the Transactions, Linens n Things, Inc. incurred significant indebtedness and became highly leveraged.

Immediately following the Merger, Linens n Things, Inc. became a wholly owned subsidiary of Linens Holding Co. Linens Holding Co. is an entity that was formed in connection with the Transactions and has no assets or liabilities other than the shares of Linens Merger Sub Co. and its rights and obligations under and in connection with

the merger agreement with Linens n Things, Inc. and the equity commitment letters and debt financing commitment letters provided in connection with the Transactions.

The closing of the Merger occurred on February 14, 2006 simultaneously with:

- the closing of the Note offering;
- the closing of Linens n Things, Inc. s $600.0 million senior secured asset-based revolving credit facility (the Original Credit Facility);
- the termination of Linens n Things, Inc. s existing $250.0 million unsecured revolving credit facility and CAD $40.0 million unsecured credit facility agreements; and
- the equity investments described above.

The consummation of the Note offering was conditioned upon the consummation of the Merger, the closing of the Original Credit Facility and the equity investments described above, all of which were completed on February 14, 2006.

As a result of the Merger, all of Linens n Things, Inc. s issued and outstanding capital stock was acquired by Linens Holding Co. At such time, investment funds associated with or designated by the Sponsors acquired approximately 99.7% of the common stock of Linens Holding Co. through an investment vehicle controlled by Apollo Management V, L.P., or one of its affiliates, and Robert J. DiNicola, the Chairman and Chief Executive Officer of the Company, acquired the remaining 0.3% at the same price paid by the Sponsors.

As a result of becoming a privately-held company upon the consummation of the Transactions and the issuance in a private placement of the senior secured floating rate notes, Linens n Things, Inc. delisted its shares of common stock from the New York Stock Exchange, deregistered under Section 12 of the Securities Exchange Act upon the filing of a Form 25 with the SEC and was no longer required to file reports with the SEC. However, in accordance with the indenture governing these notes, reports were prepared on a basis that was equivalent to, but not filed with, the SEC, and such reports were furnished to noteholders by making them available on the Company s website. In September 2006 the notes were exchanged for new notes with terms that were identical to the original notes except that the exchange notes were registered under the Securities Act upon the filing of a Form S-4 and a related amendment in July 2006 and August 2006, respectively, with the SEC. At such time, the Company once again became subject to a filing obligation with the SEC.

The Original Credit Facility was subsequently amended and restated in May 2007 (the Old Credit Facility) and then replaced in its entirety by a new $700.0 million senior secured asset-based revolving credit facility in October 2007 (the New Credit Facility).

Effect of the Transactions

The Merger was accounted for as a business combination using the purchase method of accounting, whereby the purchase price (including liabilities assumed) was allocated to the assets acquired based on their estimated fair market values at the date of acquisition. The purchase price

paid by the Company to acquire Linens n Things, Inc. and related purchase accounting adjustments were pushed down and recorded in Linens n Things, Inc. and its subsidiaries financial statements and resulted in a new basis of accounting for the Successor period beginning on the day the Merger was completed. The purchase price and related costs were allocated to the estimated fair values of the assets acquired and liabilities assumed at the time of the Merger based on management s best estimates of the values of certain of the tangible and intangible assets acquired. The Company s assets and liabilities were adjusted to fair value as of the closing date of the Transactions (see Note 3 to the consolidated financial statements), and the excess of the total purchase price over the fair value of the Company s net assets was allocated to goodwill.

The following table presents the initial preliminary allocation of the excess of cost of acquisition over net assets acquired as of the closing date of the Transactions (in thousands):

Cost of Acquisition				
Cash paid	$	1,295,834		
Transaction costs		22,824		
Cost of acquisition			$	1,318,658
Net Assets Acquired:				
Historical net assets	$	831,858		
Add: deferred rent reversed		252,236		
Less: new basis of accounting for previous ownership percentage		(1,112)		
Less: historical goodwill		(18,126)		
Write-off Southern Linens		(252)		
Net assets acquired				1,064,604
Excess of cost of acquisition over net assets acquired			**$**	**254,054**
Allocated to:				
Property and equipment			$	(57)
Definite-lived intangible assets				38,330
Indefinite-lived intangible assets				122,688
Unfavorable lease liability				(20,000)
Goodwill				265,985
Deferred Income taxes				(152,892)
			$	**254,054**

Intangible assets identified in the initial preliminary purchase price allocation above included the following:

Definite-lived intangible assets (liabilities)		
Credit card customer relationships and customer list (estimated life 3 to 5 years)	$	10,542
Favorable leases (average life 8 years)		27,788
Unfavorable leases (average life 8 years)		(20,000)
Indefinite-lived intangible assets		
Trademark and trade names	$	122,688

As presented in the above table, the Company s assets and liabilities were adjusted to fair value as of the closing date of the Transactions, and the excess of the total purchase price over the fair value of the Company s net assets was allocated to goodwill. The following table presents an analysis of the change in goodwill since the closing date of the Transactions:

(in thousands)		**Amount**
Balance at February 13, 2006 (predecessor entity)	$	18,126(1)
Purchase accounting adjustments from preliminary allocation		259,309
Initial preliminary balance at February 14, 2006		277,435
SAB 108 adjustment (see Note 2 to the consolidated financial statements)		(11,450)
Balance at February 14, 2006 (Successor Entity)		**265,985**
Pre-existing tax adjustments		1,885
Pre-existing book adjustments, net		(618)
Book adjustment for returned deposit on building purchase option assigned		722
Other foreign currency translation		(144)
Balance at December 30, 2006 (Successor Entity)		**267,830**
Pre-existing tax adjustments		12,635
Pre-existing book adjustments, net		(11,130)
Other foreign currency translation		3,085
Balance at December 29, 2007 (Successor Entity)	**$**	**272,420**

(1) The predecessor entity goodwill has been written-off in purchase accounting.

In connection with the Transactions, the Company incurred significant additional indebtedness, including $650.0 million aggregate principal amount on the Notes issued by two of the Company s subsidiaries, which increased the Company s interest expense. Payments required to service this indebtedness substantially increased the Company s liquidity requirements beginning in fiscal 2006 into fiscal 2007 and will continue to do so in future years. The Company s depreciation and amortization expense increased significantly as well, primarily due to decreases in the depreciable lives of tangible assets and an increase in the fair values of the Company s amortizable intangible assets.

Overview of Business

The Company is a destination retailer, offering one of the broadest and deepest selections of high quality brand-name as well as private label home furnishings merchandise in the industry. The Company s average store size of approximately 33,000 gross square feet enables it to offer a more comprehensive product and brand selection than department stores and other retailers that sell home furnishings. The Company believes its store format coupled with its knowledgeable sales assistance and attentive service to its customers, whom the Company refers to as guests, creates an enjoyable shopping experience. The Company s primary target guest is female between the ages of 25 and 55 who is fashion and brand conscious, has good-to-better income and focuses on the home as a reflection of her individuality.

The Company s financial performance is significantly affected by the Transactions. The incurrence of long-term debt to finance the Transactions results in materially higher interest expense and the application of purchase accounting results in significantly higher depreciation and amortization, which make the net loss of the Company not comparable to net income of the Predecessor Entity before the Transactions. None of

these effects of the Merger affect the Company s underlying fundamentals, which management believes remain strong, including its strong brand name recognition and attractive real estate locations. Effective upon the consummation of the Transactions, Robert J. DiNicola became the Company s Chairman and Chief Executive Officer. Mr. DiNicola is a 35-year veteran of the retail industry, with extensive experience in retail, including home furnishings. Previously, Mr. DiNicola served as Executive Chairman of General Nutrition Centers, Inc. and as Chairman and Chief Executive Officer of Zale Corporation. Under the leadership of Mr. DiNicola, the Company continues to focus on growing its sales per square foot and improving the productivity of its existing store base, which it believes is key to improving the Company s profitability and cash flow. The Company plans to capitalize on its national presence and use its leverage and its buying power in the long-term and its marketing skills in the short-term to help drive the Company to the appropriate

level of business. Since the completion of the Merger, the Company has implemented a long-term, three phase multi-year plan to restore the Company to a competitive position within the marketplace. The overriding operating philosophy of the Company in the first phase of the plan has been to go back to basics. During this first phase, the Company is taking steps necessary to rebuild the core business.

As a result of the transactions related to the Merger, the financial results for the 52 weeks ended December 30, 2006 are separately presented in the table below between the Successor Entity, covering the period February 14, 2006 through December 30, 2006, and the Predecessor Entity, covering the period January 1, 2006 through February 13, 2006, which is the date of the consummation of the Merger. For comparative purposes, the Company combines the two periods in its discussion below for the 52 weeks ended December 30, 2006. This combination is not a GAAP presentation. However, the Company believes this presentation is useful to provide the reader a more accurate and meaningful comparison. The financial results for the 52 weeks ended December 29, 2007 are presented under Successor Entity and the results for the 52 weeks ended December 31, 2005 are presented under Predecessor Entity.

The following table sets forth the results of operations and percentages of net sales included in the Company s Consolidated Statements of Operations for the 52 weeks ended December 29, 2007, the periods February 14, 2006 to December 30, 2006 and January 1, 2006 to February 13, 2006 (collectively, fiscal 2006) and the 52 weeks ended December 31, 2005 (fiscal 2005):

(dollars in thousands)	Fiscal Year Ended December 29, 2007 (Successor)		February 14, 2006 to December 30, 2006(1) (Successor)		January 1, 2006 to February 13, 2006 (Predecessor)		Fiscal Year Ended December 31, 2005 (Predecessor)	
Net sales	$ 2,794,776	100.0%	$ 2,534,365	100.0%	$ 284,971	100.0%	$ 2,694,742	100.0%
Cost of sales	1,747,904	62.5%	1,557,011	61.4%	180,675	63.4%	1,595,394	59.2%
Gross profit	1,046,872	37.5%	977,354	38.6%	104,296	36.6%	1,099,348	40.8%
Selling, general and administrative expenses	1,221,324	43.7%	1,040,680	41.1%	175,424	61.6%	1,036,599	38.5%
Impairment of property and equipment	16,779	0.6%	27,992	1.1%		%	4,059	0.1%
Impairment of identifiable intangible asset	100	%	3,119	0.1%		%		%