Linens Holding Co.
Form 10-Q
November 14, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark) One)

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

For the Quarterly Period Ended September 30, 2006

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)

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

6 Brighton Road, Clifton, New Jersey 07015

(Address of principal executive offices) (Zip Code)

(973) 778-1300

(Registrants telephone number, including area code)

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 registrant was 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 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 Filer o Accelerated Filer o Non-accelerated filer x

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

Yes o No x

As of October 31, 2006, there were 13,053,000 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.

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EXPLANATORY NOTE

On November 7, 2005, Linens Merger Sub Co. was formed by affiliates of Apollo Management, L.P., and National Realty & Development Corp. and Silver Point Capital Fund Investments LLC (collectively, the Sponsors) to serve as a holding company. On February 14, 2006, Linens Merger Sub Co. merged with and into Linens n Things, Inc. in the merger described in Note 1 to the Unaudited Condensed Consolidated Financial Statements included in this report (the Merger), and Linens n Things, Inc., as the surviving corporation, became a wholly-owned subsidiary of Linens Holding Co. (the Company). The merger was financed in part by the issuance of $650 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 condensed consolidated financial statements of the Company s predecessor entity, Linens n Things, Inc. and Subsidiaries, as of October 1, 2005 and December 31, 2005, and for the thirteen and thirty-nine weeks ended October 1, 2005 and the period January 1 to February 13, 2006. The accompanying Condensed 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 15) because management has determined that the differences in such financial statements are minor. Unless the context requires otherwise, we, us, our, or the Company refe to Linens Holding Co. and its subsidiaries and, for periods prior to February 14, 2006, our predecessor 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 our 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, would and could, 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 our expectations and beliefs, but they are inherently uncertain, we may not realize our expectations and our 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 our substantial indebtedness on our operating income and our 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. **Financial Statements**

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands) (Unaudited)

	Thirteen Weeks Ended September 30, 2006 (Successor Entity)	October 1, 2005 (Predecessor Entity)
Net sales	**$ 658,155**	**$ 629,268**
Cost of sales, including buying and distribution costs	388,579	370,953
Gross profit	**269,576**	**258,315**
Selling, general and administrative expenses	287,752	255,508
Operating (loss) income	**(18,176)**	**2,807**
Interest income	(18)	(54)
Interest expense	23,572	1,216
Interest expense, net	23,554	1,162
(Loss) income before (benefit) provision for income taxes	**(41,730)**	**1,645**
(Benefit) provision for income taxes	(14,355)	621
Net (loss) income	**$ (27,375)**	**$ 1,024**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands) (Unaudited)

	February 14 to September 30, 2006 (Successor Entity)	January 1 to February 13, 2006 (Predecessor Entity)	Thirty-nine Weeks Ended October 1, 2005 (Predecessor Entity)
Net sales	**$ 1,577,583**	**$ 284,971**	**$ 1,773,531**
Cost of sales, including buying and distribution costs	951,007	180,675	1,041,880
Gross profit	**626,576**	**104,296**	**731,651**
Selling, general and administrative expenses	705,705	174,138	743,364
Operating loss	**(79,129)**	**(69,842)**	**(11,713)**
Interest income	(137)	(668)	(678)
Interest expense	55,404		3,301
Interest expense (income), net	55,267	(668)	2,623
Loss before benefit for income taxes	**(134,396)**	**(69,174)**	**(14,336)**
Benefit for income taxes	(50,322)	(21,270)	(5,354)
Net loss	**$ (84,074)**	**$ (47,904)**	**$ (8,982)**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)(Unaudited)

	Successor Entity September 30, 2006	Predecessor Entity December 31, 2005	October 1, 2005
Assets			
Current assets:			
Cash and cash equivalents	$ 11,394	$ 158,158	$ 37,608
Accounts receivable	33,886	43,561	50,369
Inventories	999,316	787,283	863,100
Prepaid expenses and other current assets	66,788	17,425	41,587
Current deferred taxes	11,146	2,033	834
Total current assets	**1,122,530**	**1,008,460**	**993,498**
Property and equipment, net of accumulated depreciation of $74,339, $464,496 and $446,362 at September 30, 2006, December 31, 2005 and October 1, 2005, respectively	572,500	612,247	601,261
Identifiable intangible assets, net	155,361	1,301	1,352
Goodwill	277,152	18,126	18,126
Deferred financing cost and other noncurrent assets, net	35,218	10,700	11,799
Total assets	**$ 2,162,761**	**$ 1,650,834**	**$ 1,626,036**
Liabilities and Shareholders Equity			
Current liabilities:			
Accounts payable	$ 331,667	$ 267,582	$ 279,411
Accrued expenses and other current liabilities	155,136	199,024	167,685
Current deferred taxes		4,401	3,917
Short-term borrowings	225,934		30,000
Total current liabilities	**712,737**	**471,007**	**481,013**
Senior secured notes and other long-term debt, net of current portion	652,028	2,076	2,094
Noncurrent deferred income taxes	180,862	54,416	65,780
Other long-term liabilities	48,512	273,472	272,697
Total liabilities	**1,594,139**	**800,971**	**821,584**
Shareholders equity:			
Preferred stock of Predecessor Entity, $0.01 par value; 1,000,000 shares authorized; none issued and outstanding			
Common stock of Predecessor Entity, $0.01 par value; 135,000,000 shares authorized; 45,653,954 shares issued and 45,389,975 shares outstanding at December 31, 2005; and 45,628,964 shares issued and 45,369,460 shares outstanding at October 1, 2005		457	456
Common stock of Successor Entity, $0.01 par value; 15,000,000 shares authorized; 13,053,000 shares issued and outstanding at September 30, 2006	131		
Additional paid-in capital	651,636	376,730	376,156
Retained (deficit) earnings	(84,074)	476,896	431,932
Accumulated other comprehensive income	929	3,287	3,300
Treasury stock of Predecessor Entity, at cost; 263,979 shares at December 31, 2005; and 259,504 shares at October 1, 2005		(7,507)	(7,392)
Total shareholders equity	**568,622**	**849,863**	**804,452**
Total liabilities and shareholders equity	**$ 2,162,761**	**$ 1,650,834**	**$ 1,626,036**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

	Successor Entity	Predecessor Entity	
	February 14 to September 30, 2006	January 1 to February 13, 2006	Thirty-nine Weeks Ended October 1, 2005
Cash flows from operating activities:			
Net loss	$ (84,074)	$ (47,904)	$ (8,982)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	80,215	12,642	66,216
Deferred income taxes	(33,546)	(6,646)	782
Share-based compensation	3,363	12,484	818
Amortization of deferred financing charges	2,725	43	559
Loss on sale and disposals of property and equipment	416		625
Loss on fixed asset impairment writedown			1,452
Changes in assets and liabilities, net of effect of acquisition:			
Decrease (increase) in accounts receivable	12,047	(2,240)	(24,476)
Increase in inventories	(177,910)	(31,886)	(145,922)
Increase in prepaid expenses and other current assets	(37,579)	(12,153)	(4,204)
Decrease (increase) in identifiable intangible assets, goodwill, deferred financing cost and other noncurrent assets, net	398	9,580	(2,886)
Increase in accounts payable	56,077	7,244	32,815
Decrease in accrued expenses and other liabilities, net	(33,878)	(6,310)	(28,123)
Net cash used in operating activities	**(211,746)**	**(65,146)**	**(111,326)**
Cash flows from investing activities:			
Acquisition of the Company, net of cash acquired(1)	(1,205,502)		
Additions to property and equipment	(41,138)	(7,776)	(88,994)
Proceeds from sale of property and equipment	3,100		
Net cash used in investing activities	**(1,243,540)**	**(7,776)**	**(88,994)**
Cash flows from financing activities:			
Issuance of common stock to Linens Investors LLC and others	650,650		
Issuance of floating rate notes	650,000		
Financing and direct acquisition costs	(59,254)		
Premium paid for derivative financial instrument	(700)		
Issuance of common stock under stock incentive plans			3,081
Federal tax benefit from common stock issued under stock incentive plans		4,298	447
Increase in short-term borrowings	225,934		30,000
Decrease (increase) in treasury stock		674	(130)
Net cash provided by financing activities	**1,466,630**	**4,972**	**33,398**
Effect of exchange rate changes on cash and cash equivalents	50	125	521
Net increase (decrease) in cash and cash equivalents	11,394	(67,825)	(166,401)
Cash and cash equivalents at beginning of period		**158,158**	**204,009**
Cash and cash equivalents at end of period	**$ 11,394**	**$ 90,333**	**$ 37,608**
Cash paid during the year for:			
Interest (net of amounts capitalized)(2)	$ 35,397	$ 135	$ 3,249
Income taxes	$ 38,629	$ 57	$ 32,062

Non-cash transaction:						
Unrealized loss on hedge arrangements	$	898	$		$	

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(1)

In connection with the Merger, net cash settlements of approximately $20.0 million and $4.4 million for stock options and restricted stock units, respectively, are included in Acquisition of the Company, net of cash acquired.

(2)

Excludes $37,106 of deferred financing costs incurred in connection with the Merger. Such costs are being charged-off to interest expense over the life of the related financing commitments.

See accompanying Notes to Unaudited Condensed Consolidated Financial Statement

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LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Acquisition of Linens n Things, Inc. by Linens Holding Co.

On November 8, 2005, Linens Merger Sub Co. and its parent company, Linens Holding Co. (the Company), entered into an Agreement and Plan of Merger with Linens n Things, Inc. governing a merger (the Merger) pursuant to which each share of common stock of Linens n Things, Inc. (other than shares held in treasury or owned by Linens Merger Sub Co., its parent 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 $28.00 in cash, without interest, 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 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) 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. Linens n Things, Inc. did not draw on its new asset-based revolving credit facility at 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 simultaneously with:

- the closing of the Note offering;
- the closing of Linens n Things, Inc. s new $600 million asset-based revolving credit facility;
- the termination of Linens n Things, Inc. s existing $250 million unsecured revolving credit facility and CAD $40 million unsecured credit facility agreements; and
- the equity investments described above.

The consummation of the Notes offering was conditioned upon the consummation of the Merger, the closing of Linens n Things, Inc. s new asset-based revolving credit facility and the equity investments described above, all of which were completed on February 14, 2006.

The Notes bear interest at a per annum rate equal to LIBOR plus 5.625%, which is paid every three months on January 15, April 15, July 15 and October 15, commencing April 15, 2006. The interest rate on the Notes is reset quarterly. The Notes mature on January 15, 2014.

On July 7, 2006 the Issuers entered into a zero cost interest rate collar agreement (the Collar Agreement) to hedge the cash flows associated with the LIBOR component of the interest rate on the Notes. On July 7, 2006 the Issuers also purchased a one-year forward-starting interest rate cap agreement (the Cap Agreement) which takes effect on

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, cont d

January 15, 2008 (see Note 12 to the Unaudited Condensed Consolidated Financial Statements for disclosures regarding these derivatives).

The Notes are fully and unconditionally guaranteed, jointly and severally, on a senior basis by the Company and by each of the Company s direct and indirect subsidiaries (other than the Issuers) that guarantee Linens n Things, Inc. s new asset-based revolving credit facility except for its Canadian subsidiaries (collectively, the Note Guarantors).

All obligations under the Notes, and the guarantees of those obligations, are secured, by first-priority liens, subject to permitted liens, on all of the Company s, the Issuers and the Note Guarantors equipment, intellectual property rights and related general intangibles and the capital stock of the Issuers and certain of the subsidiaries.

The lien on capital stock may be released under certain circumstances. As a result of the filing and effectiveness of a registration statement on Form S-4 with the SEC with respect to the Notes, the Issuers and the Note Guarantors became subject to applicable SEC rules with respect to information required to be included in the prospectus in the registration statement. To the extent that the securities of any Issuer or Guarantor constitute collateral for the Notes and the value of the securities equals or exceeds 20% of the principal amount, or $130 million of the Notes, separate financial statements of the Issuer or Guarantor would be required under these SEC rules to be included in the Company s SEC filings. The indenture that governs the Notes provides, however, with respect to any direct or indirect subsidiary of Linens n Things, Inc., that the securities of the subsidiary are released from the lien on capital stock on the date that the lien triggers this separate financial statement requirement. Accordingly, for any subsidiary with securities that equal or exceed the 20% threshold, the lien on the capital stock securing the Notes has been released with respect to those securities. The lien on the capital stock of Linens n Things, Inc. remains in place.

The Notes and guarantees are also secured by second-priority liens, subject to permitted liens, on all of the Issuers and the Note Guarantors inventory, accounts receivable, cash, securities and other general intangibles.

If the Issuers sell certain assets or experience specific kinds of changes in control, the Issuers must offer to repurchase the Notes. The Issuers may, at their option, redeem the Notes at any time on or after January 15, 2008 at pre-determined prices. Prior to January 15, 2008, the Issuers may, at their option, redeem up to 35% of the Notes with the proceeds of certain sales of its equity or of its subsidiaries. Prior to January 15, 2008, the Issuers may, at their option, redeem the Notes at a price equal to 100% of the principal amount of the Notes plus a make-whole premium amount which cannot be quantified as it is dependent on factors that are not yet determinable.

Linens n Things, Inc. s new asset-based revolving credit facility (the Credit Facility) provides senior secured financing of up to $600 million, subject to a borrowing base. The borrowing base is a formula based on certain eligible inventory and receivables, minus certain reserves. A portion of the Credit Facility, not to exceed $40 million, is also available to Linens n Things Canada Corp. subject to the Canadian borrowing base. The Credit Facility requires the Company to comply with financial ratio maintenance covenants if the excess availability under the Credit Facility, at any time, does not exceed $75 million and also contains certain customary affirmative covenants and events of default. The principal amount outstanding of the loans under the Credit Facility, plus interest accrued and unpaid thereon, will be due and payable in full at maturity, five years from February 14, 2006, the date of closing of the Transactions.

All obligations under the Credit Facility are unconditionally guaranteed by the Company and certain of its existing and future domestic subsidiaries. All obligations under the Credit Facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of the assets of the borrowers, consisting of Linens n Things, Inc., Linens n Things Center, Inc. and Linens n Things Canada Corp. (collectively, the Borrowers), and the subsidiary guarantors, including: (i) a first-priority security interest in inventory, accounts receivable, cash, securities and other general intangibles; and (ii) 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.

Borrowings under the Credit Facility bear interest at a rate equal to, at the Borrowers 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

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, cont d

additional costs, in each case plus an applicable margin. The initial applicable margin for borrowings under the Credit Facility is 0% with respect to alternate base rate borrowings and 1.50% with respect to LIBOR borrowings. After the delivery of the financial statements for the first full fiscal quarter after the closing date, the applicable margin for borrowings under the Credit Facility will be subject to adjustment based on the excess availability under the Credit Facility. In addition to paying interest on outstanding principal under the Credit Facility, the Borrowers are required to pay a commitment fee, initially 0.375% per annum, in respect of the unutilized commitments thereunder. After the delivery of financial statements for the first full fiscal quarter after the closing date, the commitment fee will be subject to adjustment based on the excess availability under the Credit Facility. The Borrowers must also pay customary letter of credit fees and agency fees. The Borrowers initiated borrowings under its Credit Facility on February 23, 2006 to meet its operational working capital needs. As of September 30, 2006 the applicable margin for borrowings under the Credit Facility and the commitment fee in respect of the unutilized commitments thereunder remained at the initial levels established.

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 new Chairman and Chief Executive Officer of Linens n Things, Inc., acquired the remaining 0.3% at the same price paid by the sponsors.

Upon consummation of the Transactions, Linens n Things, Inc. delisted its shares of common stock from the New York Stock Exchange (the NYSE) and deregistered under Section 12 of the Securities Exchange Act of 1934. The last day of trading on the NYSE was February 14, 2006.

Total fees and expenses related to the Transactions were approximately $108 million, consisting of approximately $48 million of pre-merger transaction cost incurred by the Company s predecessor entity, Linens n Things, Inc., $23 million of direct acquisition costs of the Company and $37 million of deferred financing costs. Such fees include commitment, placement, financial advisory and other transaction fees as well as legal, accounting and other professional fees. The direct acquisition costs were included in the purchase price and is a component of goodwill. Deferred financing costs of approximately $11 million relates to the credit facility, which are amortized over five years on a straight-line basis, and $26 million relates to the Notes, which are amortized over eight years using the effective interest method.

The acquisition of Linens n Things, Inc. is being 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. Independent third-party appraisers were engaged to assist management and perform valuations of certain of the tangible and intangible assets acquired.

The Company has allocated the purchase price based on the appraisal associated with the valuation of certain assets and liabilities. The Company does not believe that the appraisal or its estimate of certain contingencies will materially modify the preliminary purchase price allocation.

As a result of the consummation of the Transactions, a new entity (successor entity) was formed with an effective date of February 14, 2006, consisting of Linens Holding Co. and Subsidiaries. The condensed consolidated financial statements for the successor entity as of September 30, 2006, and for the 13-week period ended September 30, 2006 and for the period February 14 to September 30, 2006 show the operations of the successor entity, Linens Holding Co. and Subsidiaries. The condensed consolidated financial statements presented as of October 1, 2005 and December 31, 2005, and for the thirteen-week and thirty-nine-week periods ended October 1, 2005 and for the period January 1 to February 13, 2006 are shown under the predecessor entity caption, consisting of Linens n Things, Inc. and Subsidiaries.

As a result of the consummation of the Transactions, the condensed consolidated financial statements for the period after February 13, 2006 are presented on a different basis than that for the periods before February 14, 2006 as a result of the application of purchase accounting as of February 14, 2006 and therefore are not comparable.

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, cont d

A reconciliation of the preliminary purchase price adjustments recorded in connection with the Transactions is presented below (in thousands):

	Predecessor Entity February 13, 2006	Transaction Adjustments		Successor Entity February 14, 2006
Assets				
Current assets:				
Cash and cash equivalents	$ 90,333	$ (15,701	)	$ 74,632
Accounts receivable	45,833			45,833
Inventories	819,600			819,600
Prepaid expenses and other current assets	29,499			29,499
Current deferred taxes	132			132
Total current assets	**985,397**	**(15,701**	)	**969,696**
Property and equipment, net	607,787	(57	)	607,730
Identifiable intangible assets, net	1,276	159,742		161,018
Goodwill	18,126	259,309		277,435
Deferred financing cost and other noncurrent assets, net	1,079	36,172		37,251
Total assets	**$ 1,613,665**	**$ 439,465**		**$ 2,053,130**
Liabilities and Shareholders Equity				
Current liabilities:				
Accounts payable	$ 274,997	$		$ 274,997
Accrued expenses and other current liabilities	195,467	39,388	(1)	234,855
Current deferred taxes	8,176			8,176
Total current liabilities	**478,640**	**39,388**		**518,028**
Senior secured notes and other long-term debt, net of current portion	2,068	650,000		652,068
Noncurrent deferred income taxes	42,094	152,892		194,986
Other long-term liabilities	270,455	(230,020)	(2)	40,435
Total liabilities	**793,257**	**612,260**		**1,405,517**
Shareholders equity	**820,408**	**(172,795**	)	**647,613**
Total liabilities and shareholders equity	**$ 1,613,665**	**$ 439,465**		**$ 2,053,130**

(1) Represents an accrual for unpaid transaction expenses.

(2) Consists of the following purchase accounting adjustments:

Unfavorable leases	$ 20,000
Deferred rents	(250,020)
	$ (230,020)

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.

(in thousands)	**Amount**	
Balance at October 1, 2005 and December 31, 2005 (predecessor entity)	$ 18,126	(1)

Purchase accounting adjustments from preliminary allocation	259,309
Balance at February 14, 2006 (successor entity)	277,435
Pre-existing tax adjustments	(250)
Pre-existing book adjustments, net	(618)
Other foreign currency translation	585
Balance at September 30, 2006 (successor entity)	$ 277,152

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

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
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The unaudited pro forma results of operations provided below for the thirteen weeks and thirty-nine weeks ended September 30, 2006 and October 1, 2005 are presented as though the Transactions had occurred at the beginning of the periods presented, after giving effect to purchase accounting adjustments relating to depreciation and amortization of the revalued assets, interest expense associated with the Notes and the Credit Facility and other acquisition-related adjustments in connection with the Transactions. The pro forma results of operations are not necessarily indicative of the combined results that would have occurred had the Transactions been consummated at the beginning of the periods presented, nor are they necessarily indicative of future operating results.

(In Thousands)	Thirteen Weeks Ended September 30, 2006	October 1, 2005	Thirty-nine Weeks Ended September 30, 2006	October 1, 2005
Net sales	$ 658,155	$ 629,268	$ 1,862,554	$ 1,773,531
Loss before benefit for income taxes	$ (41,730)	$ (31,739)	$ (174,907)	$ (110,964)
Net loss	$ (27,375)	$ (19,861)	$ (108,404)	$ (69,432)

2. Basis of Presentation

The accompanying Condensed Consolidated Financial Statements are unaudited. In the opinion of management, the accompanying Condensed Consolidated Financial Statements contain all adjustments to present fairly the financial position of successor entity Linens Holding Co. and Subsidiaries and predecessor entity Linens n Things, Inc. and Subsidiaries, as of September 30, 2006 and October 1, 2005 and the results of operations and cash flows for the respective periods then ended as presented in the unaudited statements. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Because of the seasonality of the specialty retailing business, operating results of the Company on a quarterly or interim basis may not be indicative of operating results for the full year.

These Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements for the fiscal year ended December 31, 2005 included in the Company s predecessor entity s Annual Report on Form 10-K Equivalent for Linens n Things, Inc. posted on the Linens n Things, Inc. website on March 21, 2006 under Noteholder Information. All significant intercompany accounts and transactions have been eliminated.

Certain prior period amounts have been reclassified to conform to the current period s presentation.

The accompanying Condensed 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 15) because management has determined that the differences in such financial statements are minor.

3. Stock-based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), Share-Based Payment (SFAS No. 123 (Revised 2004)), requiring the recognition of compensation cost for all equity classified awards granted, modified or settled after the effective date and for the unvested portion of awards outstanding as of the effective date using the fair-value measurement method. SFAS No. 123 (Revised 2004) revises SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees.

The Company recognizes the cost of all time-based employee stock options on a straight-line attribution basis and the cost of all performance-based employee stock options on an accelerated basis in accordance with Financial Accounting Standards Board Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans over their respective vesting periods, net of estimated forfeitures. The Company has selected the modified prospective method of transition; accordingly, prior periods have not been restated. Prior to

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adopting SFAS No. 123 (Revised 2004), the Company applied the recognition and measurement principles of APB Opinion No. 25 and related interpretations. All employee stock options were granted at or above the grant date market price. Accordingly, the Company did not recognize compensation expense for stock option grants. Restricted stock units granted at fair market value at the date of grant are amortized over specified vesting periods in the accompanying Condensed Consolidated Financial Statements.

Share-based Compensation Plans Predecessor Entity

Prior to the completion of the Merger, the Company granted stock options and restricted stock units for a fixed number of shares to employees and directors under share-based compensation plans. The exercise prices of the stock options were equal to the fair market value of the underlying shares at the date of grant. Compensation expense for restricted stock awards was measured at fair value on the date of grant based on the number of shares granted and the quoted market price of the Company s common stock. Such value was recognized as expense over the vesting period of the award adjusted for actual forfeitures.

Upon completion of the Merger and in accordance with the terms of the stock plans, all of the outstanding stock options became fully vested and immediately exercisable. Each option was exercised, equal to the excess of $28.00 over the underlying stock option exercise price, less applicable withholding taxes. Each restricted stock unit award was exercised at $28.00 in cash, without interest, less applicable withholding taxes.

The following is a summary of activity under the stock option plans that were in effect upon adoption of SFAS 123 (Revised 2004) through the effective date of the Merger, when all of the stock options and restricted stock units were exercised:

Plan	Predecessor Entity Outstanding at January 1, 2006	Exercised	Outstanding at February 14, 2006
Stock options			
1996 Plan	1,151,673	1,151,673	
Directors Plan	48,800	48,800	
2000 Plan	1,463,796	1,463,796	
Broad-based Equity Plan	1,470,638	1,470,638	
2004 Plan	1,246,690	1,246,690	
New Hire Authorization	450,000	450,000	
Total options outstanding	5,831,597	5,831,597	
Weighted average exercise price per option	$ 25.20	$ 25.20	
Weighted average remaining contractual term per option	4.6 years		
Options exercisable at period end:			
Number of options			
Weighted average exercise price			
Weighted average remaining contractual term			
Restricted stock units			
2000 Plan	7,500	7,500	
Broad-based Equity Plan	9,850	9,850	
2004 Plan	118,066	118,066	
New Hire Authorization	20,000	20,000	
Total units outstanding	155,416	155,416	
Weighted average fair market value per unit at date of award	$ 25.71	$ 25.71	
Weighted average remaining contractual term for restrictions	2.9 years		

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The 2004 Stock Award and Incentive Plan (the 2004 Plan) provided for the granting of options, restricted stock unit grants and other stock-based awards (collectively, awards) to key employees and non-employee directors. The 2004 Plan replaced both the Company s 2000 Stock Award and Incentive Plan (the 2000 Plan) and the Broad-Based Equity Plan. The 2000 Plan replaced both the Company s 1996 Incentive Compensation Plan (the 1996 Plan) and the 1996 Non-Employee Directors Stock Plan (the Directors Plan). Therefore, no future awards were made under the 2000 Plan, the Broad-Based Equity Plan, the 1996 Plan or the Directors Plan (collectively, the Prior Plans), although outstanding awards under the Prior Plans continued to be in effect. The New Hire Authorization provided for the granting of awards as an inducement to a person being retained for employment by the Company.

Under the 2004 Plan, an aggregate of 4,000,000 shares (plus any shares under outstanding awards under the Prior Plans which become available for further grants) was authorized for issuance of awards. Under the New Hire Authorization, an aggregate of 500,000 shares was authorized.

Stock options under the 2004 Plan and the New Hire Authorization were granted with exercise prices at the fair market value of the underlying shares at the date of grant. The right to exercise options generally commenced one to five years after the grant date, and the options expired between five to ten years after the grant date. Restrictions on restricted stock unit grants lapsed over vesting periods of up to five years.

There were no share-based grants during the period January 1, 2006 to February 14, 2006 (predecessor entity). The weighted-average grant date fair value of options and restricted stock units granted during the thirteen weeks ended October 1, 2005 was $8.12 and $25.73, respectively. The weighted-average grant date fair value of options and restricted stock units granted during the thirty-nine weeks ended October 1, 2005 was $8.44 and $25.37, respectively.

The total intrinsic value of each stock option and restricted stock unit exercised due to the Merger was approximately $20.0 million and $4.4 million, respectively, for the period January 1, 2006 to February 14, 2006 (predecessor entity). The total intrinsic value of stock options exercised during the thirteen and thirty-nine weeks ended October 1, 2005 was approximately $0.8 million and $1.2 million, respectively. The total intrinsic value of restricted stock units converted into common stock during the thirteen and thirty-nine weeks ended October 1, 2005 was approximately $6,000 and $358,000, respectively.

The following is a summary of the activity for nonvested stock option grants and restricted stock unit awards as of February 14, 2006 and the changes for the period January 1, 2006 to February 14, 2006:

	Predecessor Entity Stock Options		Restricted Stock Units	
	Options	Fair Value(1)	Units	Fair Value(1)
Nonvested at January 1, 2006	1,064,620	$ 10.59	155,416	$ 25.71
Grants		$		$
Vested(2)	(1,060,940)	$ 10.59	(155,416)	$ 25.71
Cancelled	(3,680)	$ 11.12		$
Nonvested at February 14, 2006		$		$

(1) Represents the weighted-average grant date fair value per share-based unit, using the Black-Scholes option-pricing model for stock options and the average high/low market price of the Company s common stock for restricted stock units.

(2) All of the share-based units became immediately vested on the date of the Merger.

The total fair value of stock options and restricted stock units vested during the period from January 1, 2006 to February 14, 2006 (predecessor entity) was approximately $11.2 million and $4.0 million, respectively. The total fair value of stock options vested during the thirteen and thirty-nine weeks ended October 1, 2005 was approximately $0.4 million and $1.5 million, respectively. The total fair value of restricted stock units vested during the thirteen and thirty-nine weeks ended October 1, 2005 was approximately $6,000 and $358,000, respectively.

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As of December 31, 2005, there was approximately $9.3 million and $3.2 million of total unrecognized compensation cost related to stock option grants and restricted stock unit awards, respectively, under the stock-based compensation plans. The consummation of the Merger accelerated the recognition of compensation cost, and, accordingly, all of this cost was included in selling, general and administrative expense in the Condensed Consolidated Statements of Operations in the period from January 1, 2006 to February 13, 2006 (predecessor entity).

The compensation cost that has been charged against income for restricted stock unit grants was approximately $0.3 million and $0.8 million for the thirteen weeks and thirty-nine weeks ended October 1, 2005. No compensation cost was recognized for stock option grants for the thirteen weeks and thirty-nine weeks ended October 1, 2005.

Share-based Compensation Plans Successor Entity

On February 14, 2006, the board of directors (the Board) and stockholders of Linens Holding Co. adopted the Linens Holding Co. Stock Option Plan (the 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 Linens Holding (the Common Stock) available for issuance under the Plan to 1,157,298 shares.

As of September 30, 2006, 839,446 stock options were outstanding as detailed below:

	Number of Stock Options Granted
Grants under the Linens Holding Co. Stock Option Plan*(1)*	741,446
Grants approved by the Board and not included in the Plan*(2)(3)(4)*	53,000
Grants not included in the Plan to members of the Board in accordance with the Director Compensation Policy*(5)*	45,000
	839,446

(1) 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 stock options have an exercise price of $50.00 per share, the estimated fair market value of the underlying shares at the date of grant, and expire seven years after the date of grant. Time Options become vested and exercisable in four equal installments on either (1) each of February 14, 2007, February 14, 2008, February 14, 2009, and February 14, 2010 with respect to 697,446 options initially granted March 27, 2006 or (2) on each of the first four anniversaries of the date of grant for subsequently-issued options. With respect to Performance Options and as provided for and defined in the standard form of grant letter, the stock options become vested and exercisable in two equal installments from a measurement date if, on such measurement date, the value per share equals or exceeds a target stock price.

(2) On March 23, 2006, the Board approved a grant to Robert J. DiNicola, the Chairman and Chief Executive Officer of Linens n Things, Inc., of a non-qualified stock option to purchase 40,000 shares of Common Stock outside of the Plan. These stock options have an exercise price of $50.00 per share and are fully vested and immediately exercisable on the date of grant.

(3) On May 11, 2006, the Board approved a grant to F. David Coder, the Executive Vice President, Store Operations of Linens n Things, Inc., of a non-qualified stock option to purchase 3,000 shares of Common Stock outside of the Plan. These stock options have an exercise price of $50.00 per share and are fully vested and immediately exercisable on the date of grant.

(4) On August 16, 2006, the Board approved a grant to George G. Golleher, a non-employee director of the Company and Linens n Things, Inc., of a non-qualified stock option to purchase 10,000 shares of Common Stock outside of the Plan. These stock options have an exercise price of $50.00 per share and are fully vested and

immediately exercisable on the date of grant.

(5) On June 13, 2006, the Board adopted a policy for director compensation (the Director Compensation Policy) effective April 1, 2006. Pursuant to the Director Compensation Policy, the Board Chairman and each non-employee director, upon first election or appointment to the Board, will receive a grant of non-qualified stock options to purchase a minimum of 5,000 shares of Common Stock outside of the Plan. On June 13, 2006, in accordance with the Director Compensation Policy, the Board also approved a grant of a non-qualified stock option to purchase 5,000 shares of Common Stock to each of eight Board members appointed to the Board in March 2006. These stock options have an exercise price of $50.00 per share and are fully vested and immediately exercisable on the date of grant. On June 15, 2006 an additional grant of a non-qualified stock option to purchase 5,000 shares of Common Stock was approved upon the appointment of the Company s ninth and final Board member. These stock options have an exercise price of $50.00 per share and are fully vested and immediately exercisable on the date of grant.

The following is a summary of share-based option activity for the period February 14, 2006 to September 30, 2006:

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Successor Entity

Options	Shares	Weighted Average Exercise Price		Weighted Average Remaining Contractual Term (years)
Outstanding at February 14, 2006		**$**		
Options granted	737,446	50.00		
Exercised				
Canceled				
Outstanding at April 1, 2006	**737,446**	**$**	**50.00**	
Options granted	156,500	50.00		
Exercised				
Canceled	(88,500)	50.00		
Outstanding at July 1, 2006	**805,446**	**$**	**50.00**	
Options granted	45,000	50.00		
Exercised				
Canceled	(11,000)	50.00		
Outstanding at September 30, 2006	**839,446**	**$**	**50.00**	**6.52**
Exercisable at September 30, 2006	**98,000**	**$**	**50.00**	**6.54**

There are no provisions in the Plan for the issuance of restricted stock units.

The weighted-average grant date fair value of options granted during the thirteen week period ended September 30, 2006 was $16.43. The weighted-average grant date fair value of options granted during the period February 14, 2006 to September 30, 2006 (successor entity) was $17.34.

There were no stock option exercises during the period February 14, 2006 to September 30, 2006 (successor entity).

The following is a summary of the activity for nonvested stock option grants as of September 30, 2006 and the changes for the period February 14, 2006 to September 30, 2006:

	Successor Entity Stock Options	
	Options	**Fair Value(1)**
Nonvested at February 14, 2006		**$**
Grants	737,446	17.43
Vested	(40,000)	16.67
Nonvested at April 1, 2006	**697,446**	**$ 17.47**
Grants	156,500	17.21
Vested	(48,000)	16.79
Canceled	(88,500)	17.47
Nonvested at July1, 2006	**717,446**	**$ 17.46**
Grants	45,000	16.43
Vested	(10,000)	15.99
Canceled	(11,000)	17.47

Nonvested at September 30, 2006	**741,446**	**$ 17.42**

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(1) Represents the weighted-average grant date fair value per option, using the Monte Carlo simulation option-pricing model for Performance Options, and the Black-Scholes option-pricing model for Time Options.

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The total fair value of stock options vested during the thirteen-week period ended September 30, 2006 was approximately $0.2 million. The total fair value of stock options vested during the period February 14, 2006 to September 30, 2006 (successor entity) was approximately $1.6 million.

As of September 30, 2006, there was approximately $10.7 million of total unrecognized compensation cost related to stock option grants both under and outside the Plan. This cost is expected to be recognized over a remaining weighted-average period of 3.1 years. The compensation cost that has been charged against income for stock option grants was approximately $1.0 million and $3.4 million for the thirteen weeks ended September 30, 2006 and for the period February 14, 2006 to September 30, 2006 (successor entity), respectively, and was included in selling, general and administrative expense in the Condensed Consolidated Statements of Operations.

Prior to the adoption of SFAS 123 (Revised 2004) the Company used the Black-Scholes option-pricing model for estimating the fair value for all options granted. Beginning in the first quarter of 2006, the Company, with the assistance of an independent third party, used the Monte Carlo simulation option-pricing model for estimating the fair value of Performance Options and the Black-Scholes option-pricing model for Time Options. This change was made in order to provide a better estimate of fair value. The Monte Carlo option-pricing model is particularly useful in the valuation of options with complicated features that make them difficult to value through a straight-forward Black-Scholes-style computation.

Presented below is a comparative summary of valuation assumptions for the indicated periods:

Valuation Assumptions:	**Thirteen Weeks Ended September 30, 2006 (Monte Carlo Simulation and Black-Scholes) (Successor Entity)**	**Thirteen Weeks Ended October 1, 2005 (Black-Scholes) (Predecessor Entity)**	**February 14 to September 30, 2006 (Monte Carlo Simulation and Black-Scholes) (Successor Entity)**	**January 1 to February 13, 2006 (Black-Scholes) (Predecessor Entity)**	**Thirty-nine Weeks Ended October 1, 2005 (Black-Scholes) (Predecessor Entity)**
Weighted-average fair value of options granted	N/A	$ 8.12	N/A	No Grants	$ 8
Weighted-average calculated value of options granted	$ 16.43	N/A	$ 17.34	No Grants	N/A
Expected volatility	N/A (1)	28.4% - 39.0 %	N/A (1)	No Grants	28.4%- 41.1
Weighted-average volatility	36.2 %(1)	34.7 %	37.9 %(1)	No Grants	35.6
Weighted-average expected term (in years)	3.6	3.8	3.7	No Grants	4.0
Dividend yield				No Grants	
Risk-free interest rate	4.6% - 5.0 %	3.9% - 4.2 %	4.6% - 5.2 %	No Grants	3.8% - 4.2
Weighted-average risk-free interest rate	4.8 %	4.0 %	4.8 %	No Grants	4.0
Weighted average expected annual forfeiture	1.6 %	0.8 %	3.8 %	No Grants	1.1

(1) The Company used the average of the historical volatility of each of the component companies included in the Standard & Poors Specialty Retail Index as a substitute for expected volatility.

The Company utilized historical optionee behavioral data to estimate the option exercise and termination rates used in the Black-Scholes option-pricing model prior to the adoption of SFAS 123 (Revised 2004). The expected term of the options represents the period of time the options were expected to be outstanding based on historical trends. Expected volatility was based on the historical volatility of the common stock of Linens n Things, Inc. for a period approximating the expected life. The Company has never paid dividends, and, accordingly, the dividend yield is zero. The risk-free interest rate within the expected term was based on the U.S. Treasury yield curve in effect at the time of grant.

For the period subsequent to the adoption of SFAS 123 (Revised 2004), it is not possible for the Company, a non-public entity, to use Company-specific volatility in determining a reasonable estimate of fair value of options granted. Accordingly, the Company is required to use an alternative measurement method. Under the alternative measurement method, a nonpublic entity uses a calculated volatility, determined by applying the historical volatility

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of an appropriate index of public entities, as an input to the valuation models. The Company used the Standard & Poors Specialty Retail Index for a period approximating the expected term as this index most closely approximates the Company s applicable operating industry. Expected term of share options granted represents the period of time that the option grants are expected to be outstanding. The Company is not expected to pay dividends, and, accordingly, the dividend yield is zero. The risk-free interest rate within the expected term was based on the U.S. Treasury yield curve in effect at the time of grant.

Prior to the adoption of SFAS No. 123 (Revised 2004) the Company complied with the disclosure requirements of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of SFAS No. 123 (SFAS No. 148). SFAS No. 148 required prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

Set forth below for the indicated periods is the Company s net (loss) income presented as reported and as if the Company had applied the fair value method to its stock-based compensation under the disclosure provisions of SFAS No. 123 and amended disclosure provisions of SFAS No. 148:

(In thousands)	Successor Entity Thirteen Weeks Ended September 30, 2006	Predecessor Entity Thirteen Weeks Ended October 1, 2005	Successor Entity February 14 to September 30, 2006	Predecessor Entity January 1 to February 13, 2006	Thirty-nine Weeks Ended October 1, 2005
Net (loss) income:					
As reported	$ (27,375)	$ 1,024	$ (84,074)	$ (47,904)	$ (8,982)
Add: stock-based employee compensation expense included in net (loss) income as reported, net of related tax effects(1)	679	206	2,105	8,651	512
	(26,696)	1,230	(81,969)	(39,253)	(8,470)
Deduct: total stock-based employee compensation expense determined under the fair value based method of accounting for all awards, net of related tax effects	679	1,999	2,105	8,651	5,247
Pro forma loss	$ (27,375)	$ (769)	$ (84,074)	$ (47,904)	$ (13,717)

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(1) Stock-based employee compensation expense included in net (loss) income as reported, net of related tax effects, is detailed as follows:

(In thousands)	Successor Entity Thirteen Weeks Ended September 30, 2006	Predecessor Entity Thirteen Weeks Ended October 1, 2005	Successor Entity February 14 to September 30, 2006	Predecessor Entity January 1 to February 13, 2006	Thirty-nine Weeks Ended October 1, 2005
Compensation expense:					
Stock option grants	$ 1,035	$	$ 3,363	$ 9,305	$
Restricted stock units		329		3,179	818
	1,035	329	3,363	12,484	818
Benefit for income taxes:					
Stock option grants	(356)		(1,258)	(2,857)	
Restricted stock units		(123)		(976)	(306)
	(356)	(123)	(1,258)	(3,833)	(306)
Stock-based employee compensation expense, net of related tax effects	$ 679	$ 206	$ 2,105	$ 8,651	$ 512

4. Short-Term Borrowing Arrangements

In February 2006, the Company entered into a new senior secured asset-based revolving credit facility agreement (the Credit Facility) with third party institutional lenders which expires February 14, 2011. The Credit Facility provides senior secured financing of up to $600 million, subject to a borrowing base consisting of certain eligible inventory and receivables, minus certain reserves. A portion of the Credit Facility, not to exceed $40 million, is also available to a Canadian subsidiary of the Company subject to the Canadian borrowing base. The Credit Facility replaced the $250 million senior revolving credit facility amended November 2004, which allowed for up to $50 million in borrowings from additional lines of credit outside the agreement, including CAD $40 million covering the Company s Canadian operations (the 2004 Credit Agreement). The Company incurred deferred financing costs of approximately $11 million related to the Credit Facility, which are being amortized over five years on a straight-line basis.

Under the Credit Facility, interest on all borrowings is determined, at the Company s option, on either of two alternative rates, specifically (1) a variable margin above LIBOR or (2) a variable margin above the federal funds effective rate plus 0.50%. In addition to paying interest on outstanding principal under the Credit Facility, the Company is required to pay a variable rate commitment fee in respect of the unutilized commitments thereunder. The Credit Facility requires the Company to comply with financial ratio maintenance covenants if the excess availability under the Credit Facility, at any time, does not exceed $75 million and also contains certain restrictive covenants including the Company s ability to pay dividends and certain customary affirmative covenants and events of default. During the period February 14 to September 30, 2006, the Company always maintained excess availability above $75 million. As of September 30, 2006, the Company had $225.9 million in borrowings under the Credit Facility at an average interest rate of 7.0%. The Company also had $193.7 million of letters of credit outstanding as of September 30, 2006 issued under the Credit Facility, which includes standby letters of credit and import letters of credit used for merchandise purchases. Borrowings under the Credit Facility have been classified as short-term as of September 30, 2006 in accordance with the Company s representation that it expects to have the ability and intent to repay these borrowings from existing current assets within one year. At various times during the thirty-nine weeks ended September 30, 2006, the Company borrowed against its Credit Facility and the 2004 Credit Agreement during the successor and predecessor periods, respectively, for working capital needs. The Company is not obligated under any formal or informal compensating balance requirements.

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5. Comprehensive (Loss) Income

Comprehensive (loss) income for the thirteen weeks ended September 30, 2006 and October 1, 2005 is as follows (in thousands):

	Successor Entity Thirteen Weeks Ended September 30, 2006	Predecessor Entity Thirteen Weeks Ended October 1, 2005
Net (loss) income	$ (27,375)	$ 1,024
Other comprehensive (loss) income:		
Foreign currency translation adjustment	(127)	1,253
Derivative instruments designated and qualifying as cash flow hedging instruments(1)	(898)	
Comprehensive (loss) income	$ (28,400)	$ 2,277

Comprehensive loss for the period February 14 to September 30, 2006, January 1 to February 13, 2006 and the thirty-nine weeks ended October 1, 2005 is as follows (in thousands):

	Successor Entity February 14 to September 30, 2006	Predecessor Entity January 1 to February 13, 2006	Thirty-nine Weeks Ended October 1, 2005
Net loss	$ (84,074)	$ (47,904)	$ (8,982)
Other comprehensive income (loss):			
Foreign currency translation adjustment	1,827	253	681
Derivative instruments designated and qualifying as cash flow hedging instruments(1)	(898)		
Comprehensive loss	$ (83,145)	$ (47,651)	$ (8,301)

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(1) On July 7, 2006 the Issuers entered into a zero cost interest rate collar agreement to hedge the cash flows associated with the LIBOR component of the interest rate on the Notes. On July 7, 2006 the Issuers also purchased a one-year forward-starting interest rate cap agreement which takes effect on January 15, 2008 (see Note 12 to the Unaudited Condensed Consolidated Financial Statements for disclosures regarding these derivatives).

6. Restructuring and Asset Impairment Charge

In fiscal 2001, the Company developed and committed to a strategic initiative designed to improve store performance and profitability. This initiative called for the closing of certain under-performing stores, which did not meet the Company s profit objectives. In connection with this initiative, the Company recorded a pre-tax restructuring and asset impairment charge of $37.8 million ($23.7 million after-tax) in the fourth quarter of fiscal 2001. A pre-tax reserve of $20.5 million was established for estimated lease commitments through 2012 for stores to be closed. The reserve considers estimated sublease income. Because all of the stores were leased, the Company is not responsible for the disposal of property other than fixtures. A pre-tax writedown of $9.5 million was recorded as a reduction in property and equipment for fixed asset impairments for these stores. The fixed asset impairments represent fixtures and leasehold improvements. A pre-tax reserve of $4.0 million was established for other

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estimated miscellaneous store closing costs. Additionally, a pre-tax charge of $3.8 million was recorded in cost of sales for estimated inventory markdowns below cost for the stores to be closed. Certain components of the restructuring charge were based on estimates and may be subject to change in the future. The Company has closed all of the initially identified stores other than one store, which the Company decided to keep open and whose reserve was reversed. In addition, the Company reopened one of the previously closed stores during the second quarter of 2006 and plans to reopen a second previously closed store during the first quarter of 2007.

The following table displays a roll forward of the activity and significant components since December 31, 2005, and the reserve remaining as of September 30, 2006:

(in millions)	**Predecessor Entity Remaining at December 31, 2005**	**Net Usage 2006**	**Successor Entity Remaining at September 30, 2006**
Cash components:			
Lease commitments	$ 5.4	$ (1.8)	$ 3.6
Total	$ 5.4	$ (1.8)	$ 3.6

The restructuring reserve balance is included in accrued expenses and other current liabilities in the Condensed Consolidated Balance Sheet. The 2006 usage primarily consists of payments for lease commitments. The 2006 activity also includes the reversal of estimated lease commitment costs of approximately $0.3 million which were not needed, offset by an increase to lease commitment costs of approximately $1.4 million due to changes in estimates based on current negotiations. The net change in the restructuring reserve is recorded in selling, general and administrative expense in the Condensed Consolidated Statements of Operations.

7. Identifiable Intangible Assets

In connection with the Transactions, the Company s intangible assets were revalued with the assistance of an independent third party. The carrying amount and accumulated amortization of identifiable intangible assets consisted of the following:

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, cont d

(in thousands)	Successor Entity September 30, 2006	Predecessor Entity December 31, 2005	October 1, 2005
Intangible assets subject to amortization:			
Credit card customer relationships	$ 10,163	$	$
Customer list	406		
Favorable leases	27,373	2,900	2,900
	37,942	2,900	2,900
Less: accumulated amortization	(5,269)	(1,599)	(1,548)
Total intangible assets subject to amortization	32,673	1,301	1,352
Total indefinite-lived trademarks	122,688		
Total identifiable intangible assets	$ 155,361	$ 1,301	$ 1,352

Customer list has an estimated life of 5 years, credit card customer relationships have an estimated life of 3 years and favorable leases have an average estimated life of 5 years. For the thirteen weeks ended September 30, 2006 and October 1, 2005 amortization expense of $2.5 million and $47,000, respectively, was recorded by the Company and is included in selling, general and administrative expenses in the Condensed Consolidated Statement of Operations. For the period February 14 to September 30, 2006, January 1 to February 13, 2006, and the thirty-nine weeks ended October 1, 2005, amortization expense of $5.7 million, $25,000 and $141,000, respectively, was recorded by the Company.

The following is a summary table representing the remaining amortization of identifiable intangible assets, net, with definitive lives, by year (in thousands):

Fiscal Year	Amortization
2006	$ 2,138
2007	7,836
2008	6,893
2009	3,526
2010	2,805
2011 and thereafter	9,475
Total	$ 32,673

8. Guarantees

The Company has assigned property at a retail location in which the Company guarantees the payment of rent over the specified lease term in the event of non-performance. As of September 30, 2006, the maximum potential amount of future payments the Company could be required to make under such guarantee is approximately $0.6 million.

9. Accounts Payable

Accounts payable includes amounts for gift card liabilities of $31.9 million, $35.8 million and $26.4 million as of September 30, 2006, December 31, 2005 and October 1, 2005, respectively. Gift cards that are not expected to be redeemed are recorded as a reduction to selling, general and administrative expense in the Condensed Consolidated Statements of Operations. Such amounts recognized for the thirteen weeks ended September 30, 2006 and October 1, 2005 were approximately $1.0 million and $0.9 million, respectively.

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, cont d

For the period February 14 to September 30, 2006, the period January 1 to February 13, 2006 and the thirty-nine weeks ended October 1, 2005, such amounts recognized were approximately $2.6 million, $0.5 million and $2.1 million, respectively.

10. Senior Secured Notes and Other Long-Term Debt

Senior secured notes and other long-term debt consists of the following (in thousands):

(in thousands)	**Successor Entity September 30, 2006**	**Predecessor Entity December 31, 2005**	**October 1, 2005**
Senior secured floating rate notes due 2014	$ 650,000	$	$
Mortgage note payable	2,092	2,139	2,154
	652,092	2,139	2,154
Less: current portion of mortgage note payable	(64)	(63)	(60)
Total	$ 652,028	$ 2,076	$ 2,094

Senior secured floating rate notes due 2014 consists of $650 million aggregate principal amount of Senior Secured Floating Rate Notes due 2014 of Linens n Things, Inc. and Linens n Things Center, Inc.

The Notes bear interest at a per annum rate equal to LIBOR plus 5.625%, which is paid every three months on January 15, April 15, July 15 and October 15, commencing April 15, 2006. The interest rate on the Notes is reset quarterly. The Notes mature on January 15, 2014. As of September 30, 2006 the interest rate on the Notes was 11.1%, based on a LIBOR rate of 5.5%.

On July 7, 2006 the Issuers entered into a zero cost interest rate collar agreement to hedge the cash flows associated with the LIBOR component of the interest rate on the Notes. On July 7, 2006 the Issuers also purchased a one-year forward-starting interest rate cap agreement which takes effect on January 15, 2008 (see Note 12 to the Unaudited Condensed Consolidated Financial Statements for disclosures regarding these derivatives).

Deferred financing costs of approximately $26 million relating to the Notes are being amortized over eight years using the effective interest method.

The Notes are guaranteed on a senior basis by the Company and by certain of the Company s domestic subsidiaries other than the Issuers (collectively, the Note Guarantors), and are secured by first-priority liens on all of the Company s and Note Guarantors equipment, intellectual property rights and related general intangibles and the capital stock of the Issuers and certain subsidiaries and by second-priority liens on the Issuers and the Note Guarantors inventory, accounts receivable, cash, securities and other general intangibles. The lien on capital stock may be released under certain circumstances. As a result of the filing and effectiveness of a registration statement on Form S-4 with the SEC with respect to the Notes, the Issuers and the Note Guarantors became subject to applicable SEC rules with respect to information required to be included in the prospectus in the registration statement. To the extent that the securities of any Issuer or guarantor constitute collateral for the Notes and the value of the securities equals or exceeds 20% of the principal amount, or $130 million of the Notes, separate financial statements of the Issuer or Note Guarantor would be required under these SEC rules to be included in the Company s SEC filings. The indenture that governs the Notes provides, however, with respect to any direct or indirect subsidiary of Linens n Things, Inc., that the securities of the subsidiary are released from the lien on capital stock on the date that the lien triggers this separate financial statement requirement. Accordingly, for any subsidiary with securities that equal or exceed the 20% threshold, the lien on the capital stock securing the Notes has been released with respect to those securities. The lien on the capital stock of Linens n Things, Inc. remains in place.

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, cont d

If the Issuers sell certain assets or experience specific kinds of changes in control, the Issuers must offer to repurchase the Notes. The Issuers may, at their option, redeem the Notes at any time on or after January 15, 2008 at pre-determined prices. Prior to January 15, 2008, the Issuers may, at their option, redeem up to 35% of the Notes with the proceeds of certain sales of its equity or of its subsidiaries. Prior to January 15, 2008, the Issuers may, at their option, redeem the Notes at a price equal to 100% of the principal amount of the Notes plus a make-whole premium.

Mortgage note payable represents an 8.2% fixed-rate mortgage note on the land and building of one of the Company s closed stores. Under the mortgage note terms, the Company is required to make 96 equal payments of principal and interest, with a final principal payment of approximately $1.6 million in August 2012.

11. Income Taxes

For the Predecessor Entity period January 1 to February 13, 2006, the effective tax benefit rate of 30.7% is lower than the statutory federal rate of 35.0% primarily due to non-deductible transaction costs. The Successor Entity estimated effective tax benefit rate for the period February 14 to September 30, 2006 was 37.4%. This exceeds the statutory federal tax rate of 35.0% primarily due to expected deferred state tax benefits. Purchase accounting adjustments resulted in an initial increase to net deferred tax liabilities of $152,892, which was subsequently adjusted to $154,061, as indicated in the table below (in thousands):

Component	Pretax Purchasing Accounting Adjustment	Tax Rate	Deferred Tax (Asset) Liability
Trademarks	**$122,688**	**39.2%(1)**	**$48,094**
Deferred rent and deferred rent credits	233,016	39.2 %	91,342
Other intangibles	16,847	39.2 %	6,604
Valuation allowance for state tax loss carryovers, net of federal benefit	8,214	N/A	8,214
Deferred rent and deferred rent credits Canada	17,002	35.5 %(2)	6,035
Preliminary estimate of deductible portion of certain capitalized transaction costs	(17,855)	39.2 %	(7,000)
Other			(397)
			152,892
Subsequent purchase accounting adjustment identified during the quarterly period ending July 1, 2006			1,169
As adjusted through September 30, 2006			$ 154,061

(1) Includes federal rate of 35.0% plus blended state rate of 4.2%, net of federal benefit.

(2) Includes Canadian federal and provincial taxes.

Income tax assets of $50.8 million and $2.2 million are reflected within prepaid expenses and other current assets and current deferred taxes (asset), respectively, in the Condensed Consolidated Balance Sheet at September 30, 2006.

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LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, cont d

The Company presently expects that it will realize the federal tax benefit for losses incurred in the thirty-nine week period ending September 30, 2006 by (in millions):

Tax receivable due to Predecessor carryback	$ 20.1
Absorption against taxable income currently projected to be generated in the fourth quarter of 2006	30.7
	50.8
Net operating loss carryforward to 2007	2.2
	$ 53.0

During October 2006, the Company collected the Predecessor carryback tax receivable of $20.1 million.

In assessing the realizability of the above tax assets, management considers whether it is more likely than not that some portion or all of the tax assets will not be realized. The ultimate realization of tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. The amount of the tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

12. Derivative Financial Instruments

The Company accounts for derivative instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), as amended. In accordance with SFAS No. 133, the Company reports all derivative financial instruments on its balance sheet at fair value and has established criteria for designation and evaluation of effectiveness of transactions entered into for hedging purposes.

The Company employs derivative financial instruments to effectively manage its exposure to interest rate changes and to limit the volatility and impact of interest rate changes on earnings and cash flows.

The Company does not enter into other derivative financial instruments for trading or speculative purposes. The Company faces credit risk if the counterparties to these transactions are unable to perform their obligations. However, the Company seeks to minimize this risk by entering into transactions with counterparties that are major financial institutions with high credit ratings.

The Company records gains and losses on derivative financial instruments qualifying as cash flow hedges in other comprehensive income, to the extent that hedges are effective. For derivative financial instruments which do not qualify as cash flow hedges, any changes in fair value would be recorded in the Condensed Consolidated Statement of Operations.

The Company may at its discretion terminate or redesignate any such hedging instrument agreements prior to maturity. At that time, any gains or losses previously reported in other comprehensive income on termination would continue to amortize into interest expense or interest income to correspond to the recognition of interest expense or interest income on the hedged debt. If such debt instrument was also terminated, the gain or loss associated with the terminated derivative included in other comprehensive income at the time of termination of the debt would be recognized in the Condensed Consolidated Statement of Operations at that time.

On July 7, 2006 the Issuers entered into a zero cost interest rate collar agreement (the Collar Agreement) to hedge the cash flows associated with the LIBOR component of the interest rate on the Notes. The Collar Agreement provides for payments to be made to or received from the counterparty where the rate in effect for the Notes is below 4.45% or above 6.51% for a given reset period. Such payments represent the difference between the rates stated above in the Collar Agreement and those in effect on the Notes for the given reset period. Payment and reset dates under the Collar Agreement are matched exactly to those of the Notes. The Collar Agreement has an ultimate maturity of January 15, 2008. To the extent that the three-month LIBOR rate is below the Collar Agreement floor, payment is due from the Company to the counterparty for the difference. To the extent the three-month LIBOR rate is above the Collar Agreement cap, the Company is entitled to receive the difference from the counterparty. At the inception of the Collar Agreement, the Company determined that the hedging relationship would have no ineffectiveness, and the Company will continue to verify and document that the critical terms of the hedging instrument and the hedged item are exactly matched. At September 30, 2006, the notional amount of debt related to the Collar Agreement was $650 million and the fair value of the Collar Agreement was approximately a $0.4 million liability.

On July 7, 2006 the Issuers also purchased a one-year forward-starting interest rate cap agreement (the Cap Agreement) which takes effect on January 15, 2008. The Cap Agreement provides for payments to be received from the counterparty where the rate in effect on a LIBOR-based borrowing arrangement is above 6.51% for a given reset period. Such payments represent the difference between the rate stated above in the Cap Agreement and those in effect on a LIBOR-based borrowing arrangement for the given reset period. Payment and reset dates under the Cap Agreement are matched exactly to those of the LIBOR-based borrowing arrangement. The Cap Agreement has an ultimate maturity of January 15, 2009. The Issuers paid a premium of $700,000 to purchase the Cap

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, cont d

Agreement. The Cap Agreement consists of two components, a forward contract and an interest rate cap agreement. The Company s intent is to hedge the cash flow associated with the LIBOR component of the interest rate on a LIBOR-based borrowing arrangement beyond 6.51% for the period January 15, 2008 through January 15, 2009. The forward contract enables the Company to achieve this objective. The Company will assess the effectiveness of the forward contract quarterly. Once the forward contract becomes an interest rate cap agreement, effectiveness will be assessed and documented as a new relationship. The interest rate cap agreement is expected to be perfectly effective at such time, and the Company will continue to subsequently verify and document that the critical terms of the interest rate cap agreement and the hedged item continue to match exactly over the remaining life of the relationship. At September 30, 2006, the notional amount of debt related to the Cap Agreement was $650 million and the fair value of the instrument was approximately a $0.2 million asset.

The Company has determined that the Collar Agreement and the Cap Agreement have been appropriately designated and documented as cash flow hedges under SFAS No. 133. As such, changes in the fair value of the Collar Agreement and the Cap Agreement have been recorded in other comprehensive income. During the thirteen weeks ended September 30, 2006, the Company has recorded a loss of $0.9 million in other comprehensive income related to these changes in fair value. The Collar Agreement and the Cap Agreement had no ineffectiveness and provided no amounts received or paid under the hedges that affected net income during the period. Both agreements are expected to have no ineffectiveness during their contractual lives.

13. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS 158). SFAS 158 requires, among other items, recognition of the overfunded or underfunded status of an entity s defined benefit postretirement plan as an asset or liability, respectively, in the balance sheet, requires the measurement of defined benefit postretirement plan assets and obligations as of the end of the employer s fiscal year, and requires recognition of changes in funded status of defined benefit postretirement plans in the year in which the changes occur in other comprehensive income. SFAS 158 is effective for fiscal years ending after June 15, 2007 and early application is encouraged. The adoption of SFAS 158 is not expected to have a material effect on the Company s financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The Company is in the process of determining the effect, if any, that the adoption of SFAS 157 will have on its financial statements.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108). Due to diversity in practice among registrants, SAB 108 expresses SEC staff views regarding the process by which misstatements in financial statements are evaluated for purposes of determining whether financial statement restatement is necessary. SAB 108 is effective for fiscal years ending after November 15, 2006, and early application is permitted. The adoption of SAB 108 is not expected to have a material effect on the Company s financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return in accordance with SFAS No. 109, Accounting for Income Taxes. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Additionally, FIN 48 provides guidance on derecognition, classification, accounting in interim periods, interest and penalties and disclosure requirements for uncertain tax positions. The accounting provisions of FIN 48 will be effective for the Company beginning in fiscal year 2007. The Company is in the process of determining the effect, if any, that the adoption of FIN 48 will have on its financial statements.

In June 2006, the FASB s Emerging Issues Task Force reached a consensus on Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That Is, Gross versus Net Presentation) (EITF 06-3). EITF 06-3 includes sales, use, value-added and some excise taxes that are assessed by a governmental authority on specific revenue-producing transactions between a seller and a customer. EITF 06-3 requires disclosure of the method of accounting for the applicable assessed taxes and the amount of assessed taxes included in revenues if such taxes are accounted for under the gross method. EITF 06-3 is effective for both interim and annual periods beginning in fiscal year 2007. EITF 06-3 will not impact the Company s method for recording these applicable assessed taxes because the Company has historically presented sales excluding such taxes.

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, cont d

14. Related Party Transactions

Management Services Agreement

Upon consummation of the Merger, the Company entered into a management services agreement with Apollo Management V, L.P., NRDC Linens B LLC and Silver Point Capital Fund Investments LLC (each of whom is an affiliate of the Company). Under this management services agreement, the Sponsors agreed to provide to the Company certain investment banking, management, consulting, financial planning and real estate advisory services on an ongoing basis for a fee of $2 million per year. Under this management services agreement, Apollo Management V, L.P. also agreed to provide to the Company certain financial advisory and investment banking services from time to time in connection with major financial transactions that may be undertaken by it or its subsidiaries in exchange for fees customary for such services after taking into account Apollo Management V, L.P. s expertise and relationships within the business and financial community. Under this management services agreement, the Company also agreed to provide customary indemnification. In addition, the Company paid a transaction fee of $15 million in the aggregate (plus reimbursement of expenses) to the Sponsors for financial advisory services rendered in connection with the Merger. This fee has been included as part of the purchase price. These services included assisting the Company in structuring the Merger, taking into account tax considerations and optimal access to financing, and assisting in the negotiation of the Company s material agreements and financing arrangements in connection with the Merger.

Stockholders Agreement

The only stockholders of the Company are Linens Investors, LLC, a limited liability company owned by the Sponsors, two executives of the Company, Robert J. DiNicola, Chairman and Chief Executive Officer, and F. David Coder, Executive Vice President, Store Operations, and one nonemployee director, George G. Golleher. In connection therewith, Linens Investors, LLC has entered into a stockholders agreement with the Company, and each of the other stockholders have entered into joinder agreements to be bound by the stockholders agreement. The stockholders agreement sets forth certain provisions relating to the management of the Company. In addition, the stockholders agreement contains customary drag along rights, tag along rights, registration rights, restrictions on the transfer of the Company s common stock and an indemnity of the Sponsors.

15. Supplemental Condensed Consolidating Financial Information

On February 14, 2006 Linens n Things, Inc. and Linens n Things Center, Inc. (collectively, the Issuers), issued $650 million aggregate principal amount of Senior Secured Floating Rate Notes due 2014 in a private offering. The Notes are fully and unconditionally guaranteed, jointly and severally, on a senior basis by the Company, and by each of the Company s direct and indirect subsidiaries that guarantee the Company s new asset-based revolving credit facility except for its Canadian subsidiaries. The Company s Canadian subsidiaries (the Non-Guarantors) are not guarantors of the Notes.

The following tables present the supplemental condensed consolidating financial information for the Company (Parent), the Co-Issuers, the Guarantors (excluding the Company which is also a Guarantor but is separately presented) and the Non-Guarantors, together with eliminations, as of and for the periods indicated. The Company has not presented separate financial statements and other disclosures concerning the Co-Issuers, Guarantors and Non-Guarantors because management has determined that such information is not meaningful to investors. The accounting policies for Parent, Co-Issuers, Guarantors, and Non-Guarantors are the same as those described for the Company s predecessor entity, Linens n Things, Inc. and Subsidiaries in its Annual Report on Form 10-K Equivalent under Summary of Significant Accounting Policies. The financial information may not necessarily be indicative of the financial position, results of operations or cash flows had the Parent, Co-Issuers, Guarantors and Non-Guarantors operated as independent entities.

The information as of September 30, 2006, and for the thirteen weeks ended September 30, 2006 and the period February 14 to September 30, 2006, presents the financial position and results of operations and cash flows, respectively, of the Successor Entity. The information as of December 31, 2005 and October 1, 2005, and for the thirteen weeks and thirty-nine weeks ended October 1, 2005 and the period January 1 to February 13, 2006, presents the financial position and results of operations and cash flows, respectively, of the Predecessor Entity.

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
(Successor Entity)
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Thirteen Week Period Ended September 30, 2006
(In Thousands) (Unaudited)

	Parent	Co-Issuers	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	**$**	**$ 16,195**	**$ 590,722**	**$ 51,238**	**$**	**$ 658,155**
Cost of sales, including buying and distribution costs	0	9,396	353,872	25,311	0	388,579
Gross profit	**0**	**6,799**	**236,850**	**25,927**	**0**	**269,576**
Selling, general and administrative expenses	0	5,354	262,425	19,973	0	287,752
Operating profit (loss)	**0**	**1,445**	**(25,575)**	**5,954**	**0**	**(18,176)**
Interest income	0	(26,754)	(34)	(15)	26,785	(18)
Interest expense	0	23,273	26,732	352	(26,785)	23,572
Interest (income) expense, net	0	(3,481)	26,698	337	0	23,554
Income (loss) before income taxes	**0**	**4,926**	**(52,273)**	**5,617**	**0**	**(41,730)**
Provision (benefit) for income taxes	0	1,736	(18,423)	2,332	0	(14,355)
Net income (loss)	**$**	**$ 3,190**	**$ (33,850)**	**$ 3,285**	**$**	**$ (27,375)**

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LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
(Predecessor Entity)
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Thirteen Week Period Ended October 1, 2005
(In Thousands) (Unaudited)

	Co-Issuers	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	**$ 17,197**	**$ 572,628**	**$ 39,443**	**$**	**$ 629,268**
Cost of sales, including buying and distribution costs	9,505	340,386	21,062	0	370,953
Gross profit	**7,692**	**232,242**	**18,381**	**0**	**258,315**
Selling, general and administrative expenses	4,913	230,621	19,974	0	255,508
Operating profit (loss)	**2,779**	**1,621**	**(1,593)**	**0**	**2,807**
Interest income	(249)	(78)	(36)	309	(54)
Interest expense	564	723	238	(309)	1,216
Interest expense, net	315	645	202	0	1,162
Income (loss) before income taxes	**2,464**	**976**	**(1,795)**	**0**	**1,645**
Provision (benefit) for income taxes	889	309	(577)	0	621
Net income (loss)	**$ 1,575**	**$ 667**	**$ (1,218)**	**$**	**$ 1,024**

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LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
(Successor Entity)
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Period February 14 - September 30, 2006
(In Thousands) (Unaudited)

	Parent	Co-Issuers	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	**$**	**$ 40,129**	**$ 1,424,163**	**$ 113,291**	**$**	**$ 1,577,583**
Cost of sales, including buying and distribution costs	0	23,596	870,081	57,330	0	951,007
Gross profit	**0**	**16,533**	**554,082**	**55,961**	**0**	**626,576**
Selling, general and administrative expenses	0	12,285	644,712	48,708	0	705,705
Operating profit (loss)	**0**	**4,248**	**(90,630)**	**7,253**	**0**	**(79,129)**
Interest income	0	(72,157)	(115)	(63)	72,198	(137)
Interest expense	0	55,628	71,000	974	(72,198)	55,404
Interest (income) expense, net	0	(16,529)	70,885	911	0	55,267
Income (loss) before income taxes	**0**	**20,777**	**(161,515)**	**6,342**	**0**	**(134,396)**
Provision (benefit) for income taxes	0	7,844	(60,196)	2,030	0	(50,322)
Net income (loss)	**$**	**$ 12,933**	**$ (101,319)**	**$ 4,312**	**$**	**$ (84,074)**

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LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
(Predecessor Entity)
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Period January 1 - February 13, 2006
(In Thousands) (Unaudited)

	Co-Issuers	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	**$ 7,684**	**$ 259,826**	**$ 17,461**	**$**	**$ 284,971**
Cost of sales, including buying and distribution costs	4,749	165,927	9,999	0	180,675
Gross profit	**2,935**	**93,899**	**7,462**	**0**	**104,296**
Selling, general and administrative expenses	2,119	163,511	8,508	0	174,138
Operating profit (loss)	**816**	**(69,612)**	**(1,046)**	**0**	**(69,842)**
Interest income	(2,374)	(139)	(14)	1,859	(668)
Interest expense	0	1,730	129	(1,859)	0
Interest (income) expense, net	(2,374)	1,591	115	0	(668)
Income (loss) before income taxes	**3,190**	**(71,203)**	**(1,161)**	**0**	**(69,174)**
Provision (benefit) for income taxes	976	(21,822)	(424)	0	(21,270)
Net income (loss)	**$ 2,214**	**$ (49,381)**	**$ (737)**	**$**	**$ (47,904)**

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LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
(Predecessor Entity)
SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Thirty-Nine Week Period Ended October 1, 2005
(In Thousands) (Unaudited)

	Co-Issuers	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	**$ 49,940**	**$ 1,623,501**	**$ 100,090**	**$**	**$ 1,773,531**
Cost of sales, including buying and distribution costs	28,203	959,564	54,113	0	1,041,880
Gross profit	**21,737**	**663,937**	**45,977**	**0**	**731,651**
Selling, general and administrative expenses	13,884	682,280	47,200	0	743,364
Operating profit (loss)	**7,853**	**(18,343)**	**(1,223)**	**0**	**(11,713)**
Interest income	(1,421)	(194)	(117)	1,054	(678)
Interest expense	718	2,675	962	(1,054)	3,301
Interest (income) expense, net	(703)	2,481	845	0	2,623
Income (loss) before income taxes	**8,556**	**(20,824)**	**(2,068)**	**0**	**(14,336)**
Provision (benefit) for income taxes	3,183	(7,872)	(665)	0	(5,354)
Net income (loss)	**$ 5,373**	**$ (12,952)**	**$ (1,403)**	**$**	**$ (8,982)**

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LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)

(Successor Entity)

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET

September 30, 2006

(In Thousands) (Unaudited)

	Parent	Co-Issuers	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$	$ 2,882	$ 6,618	$ 1,894	$	$ 11,394
Accounts receivable	0	454	30,598	2,834	0	33,886
Inventories	0	17,849	923,980	57,487	0	999,316
Prepaid expenses and other current assets	0	50,908	14,622	1,258	0	66,788
Current deferred taxes	0	2,224	8,698	224	0	11,146
Total current assets	**0**	**74,317**	**984,516**	**63,697**	**0**	**1,122,530**
Property and equipment, net	0	7,821	520,398	44,281	0	572,500
Identifiable intangible assets, net	0	767	152,751	1,843	0	155,361
Goodwill	0	7,600	252,586	16,966	0	277,152
Intercompany receivables	0	0	617,352	0	(617,352)	0
Intercompany notes receivable	0	1,178,039	0	24,362	(1,202,401)	0
Investment in subsidiaries	568,624	824,803	0	0	(1,393,427)	0
Deferred financing cost and other noncurrent assets, net	0	34,625	575	18	0	35,218
Total assets	**$ 568,624**	**$ 2,127,972**	**$ 2,528,178**	**$ 151,167**	**$ (3,213,180)**	**$ 2,162,761**
Liabilities and Shareholders Equity						
Current liabilities:						
Accounts payable	$	$ 12	$ 315,637	$ 16,018	$	$ 331,667
Accrued expenses and other current liabilities	0	40,241	106,525	8,370	0	155,136
Short-term borrowings	0	225,870	64	0	0	225,934
Total current liabilities	**0**	**266,123**	**422,226**	**24,388**	**0**	**712,737**
Intercompany payable	0	609,020	0	8,332	(617,352)	0
Intercompany notes payable	0	0	1,153,800	48,602	(1,202,402)	0
Senior secured notes and other long-term debt, net of current portion	0	650,000	2,028	0	0	652,028
Noncurrent deferred income taxes	0	33,080	142,294	5,488	0	180,862
Other long-term liabilities	0	1,128	44,655	2,729	0	48,512
Total liabilities	**0**	**1,559,351**	**1,765,003**	**89,539**	**(1,819,754)**	**1,594,139**
Total shareholders equity	**568,624**	**568,621**	**763,175**	**61,628**	**(1,393,426)**	**568,622**
Total liabilities and shareholders equity	**$ 568,624**	**$ 2,127,972**	**$ 2,528,178**	**$ 151,167**	**$ (3,213,180)**	**$ 2,162,761**

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LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)

(Predecessor Entity)

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2005

(In Thousands) (Unaudited)

	Co-Issuers	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 136,569	$ 8,718	$ 12,871	$	$ 158,158
Accounts receivable	361	39,757	3,443	0	43,561
Inventories	15,105	725,856	46,322	0	787,283
Prepaid expenses and other current assets	84	15,368	1,973	0	17,425
Current deferred taxes	0	1,789	244	0	2,033
Total current assets	**152,119**	**791,488**	**64,853**	**0**	**1,008,460**
Property and equipment, net	9,974	561,271	41,002	0	612,247
Identifiable intangible assets, net	331	861	109	0	1,301
Goodwill	0	18,126	0	0	18,126
Intercompany receivables	0	856,999	0	(856,999)	0
Intercompany notes receivable	1,096,991	0	23,306	(1,120,297)	0
Investment in subsidiaries	490,933	0	0	(490,933)	0
Deferred financing cost and other noncurrent assets, net	1	10,605	94	0	10,700
Total assets	**$ 1,750,349**	**$ 2,239,350**	**$ 129,364**	**$ (2,468,229)**	**$ 1,650,834**
Liabilities and Shareholders Equity					
Current liabilities:					
Accounts payable	$ (16)	$ 249,399	$ 18,199	$	$ 267,582
Accrued expenses and other current liabilities	43,824	144,840	10,360	0	199,024
Current deferred taxes	222	4,179	0	0	4,401
Total current liabilities	**44,030**	**398,418**	**28,559**	**0**	**471,007**