

Edgar Filing: LINENS N THINGS INC - Form 10-Q/A

LINENS N THINGS INC  
Form 10-Q/A  
April 19, 2005

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549  
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FORM 10-Q/A  
(AMENDMENT NO. 1)

QUARTERLY REPORT UNDER SECTION 13 OF

THE SECURITIES EXCHANGE ACT OF 1934

For Quarterly Period Ended April 3, 2004  
-----

Commission file number 1-12381  
-----

LINENS 'N THINGS, INC.  
-----

(Exact name of registrant as specified in its charter)

Delaware  
-----

(State or other jurisdiction of  
incorporation or organization)

22-3463939  
-----

(IRS employer  
identification no.)

6 Brighton Road, Clifton, New Jersey 07015  
-----

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code (973) 778-1300

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

Number of shares outstanding as of May 4, 2004: 45,094,564

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Explanatory Statement

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### EXPLANATORY STATEMENT

As previously disclosed in the Linens `n Things, Inc. (the "Company") Current Report on Form 8-K dated March 10, 2005, following a review of its lease accounting policies, the Company determined that it should restate its financial statements for all fiscal years presented in its Annual Report on Form 10-K for the period ended January 1, 2005, other than fiscal year 2004, and for the first three quarters of fiscal 2004 and the four quarters of fiscal 2003. The Company filed its Annual Report on Form 10-K for the period ended January 1, 2005 on April 1, 2005.

On February 7, 2005, the Office of the Chief Accountant of the Securities and Exchange Commission ("SEC") issued a clarification regarding lease accounting under generally accepted accounting principles in the United States of America ("GAAP"). As a result of this clarification, the Company reviewed its lease accounting practices and determined that its former methods of accounting for leases and landlord allowances were not consistent with the views expressed by the SEC. As a result, the Company has corrected the way it accounts for its leases and landlord allowances, specifically the accounting for straight-line rent expense and landlord allowances. In addition, the Company has also made other immaterial adjustments and reclassifications related to the trade payables program with General Electric Capital Corporation ("GECC") and its deferred compensation plan. The accompanying Condensed Consolidated Financial Statements have been restated from amounts previously reported to incorporate the effects of these corrections and reclassifications.

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This Amendment No. 1 on Form 10-Q/A ("Form 10-Q/A") to our Quarterly Report on Form 10-Q for the quarterly period ended April 3, 2004, initially filed with the SEC on May 7, 2004 (the "Original Filing") is being filed to reflect the restatement of the Company's Condensed Consolidated Financial Statements for the thirteen week period ended April 3, 2004 and April 5, 2003. For a more detailed description of this restatement, see Note 2, "Restatement of Financial Statements," to the accompanying Condensed Consolidated Financial Statements.

For the convenience of the reader, this Form 10-Q/A sets forth the original Filing in its entirety. However, this Form 10-Q/A only amends and restates certain information in Items 1, 2 and 4 of Part I of the Original Filing, in each case solely as a result of and to reflect the restatement, and no other information in the Original Filing is amended hereby. The foregoing items have not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the Chief Executive Officer and Chief Financial Officer are attached to this Form 10-Q/A as exhibits 31.1, 31.2 and 32, respectively.

Except for the foregoing amended information, this Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and the disclosures contained herein have not been updated to reflect events, results or developments that occurred at a later date. Among other things, forward looking statements made in the Original Filing have not been revised to reflect events, results or developments that occurred or facts that became known to the Company after the date of the Original Filing (other than the restatement), and such forward looking statements should be read in their historical context. The Company has not amended and does not intend to amend its previously filed

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Annual Reports on Form 10-K or its Quarterly Reports on Form 10-Q for the periods affected by the restatement that ended prior to January 3, 2004. For this reason, the consolidated financial statements, auditors reports and related financial information for the affected periods contained in any other prior reports should no longer be relied upon.

### PART I - FINANCIAL INFORMATION

#### Item 1. Financial Statements

LINENS 'N THINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)  
(UNAUDITED)

	THIRTEEN WEEKS ENDED	
	----- APRIL 3, 2004 (RESTATED) -----	APRIL 5, 2003 (RESTATED) -----
Net sales	\$ 552,800	\$ 480,471

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Cost of sales, including buying and distribution costs	331,554	286,218
	-----	-----
Gross profit	221,246	194,253
Selling, general and administrative expenses	222,288	191,196
	-----	-----
Operating profit (loss)	(1,042)	3,057
Interest income	(138)	(56)
Interest expense	897	916
	-----	-----
Interest expense, net	759	860
	-----	-----
Income (loss) before provision for income taxes	(1,801)	2,197
Provision for income taxes	(689)	841
	-----	-----
Net income (loss)	\$ (1,112)	\$ 1,356
	=====	=====
Basic earnings (loss) per share	\$ (0.02)	\$ 0.03
	=====	=====
Fully diluted earnings (loss) per share	\$ (0.02)	\$ 0.03
	=====	=====

See accompanying notes to Condensed Consolidated Financial Statements.

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LINENS 'N THINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	APRIL 3, 2004	JANUARY 3, 2004
	----- RESTATED (UNAUDITED)	----- (AUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 67,754	\$ 136,12
Accounts receivable	20,818	29,53
Inventories	760,548	700,40
Prepaid expenses and other current assets	34,178	33,25
Current deferred taxes	292	1,29
	-----	-----
Total current assets	883,590	900,61
Property and equipment, net	553,302	542,19

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Goodwill, net	18,126	18,126
Deferred charges and other noncurrent assets, net	7,733	6,52
	-----	-----
Total assets	\$ 1,462,751	\$ 1,467,45
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 284,013	\$ 250,14
Accrued expenses and other current liabilities	123,015	176,19
Current deferred taxes	11,073	15,75
Short-term borrowings	3,544	-
	-----	-----
Total current liabilities	421,645	442,09
	-----	-----
Deferred income taxes and other long-term liabilities	298,316	287,98
	-----	-----
Total liabilities	719,961	730,07
Shareholders' equity:		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; none issued and outstanding	--	-
Common stock, \$0.01 par value; 135,000,000 shares authorized; 45,309,835 shares issued and 45,056,325 shares outstanding at April 3, 2004; 45,052,255 shares issued and 44,793,619 shares outstanding at January 3, 2004; and 44,341,745 shares issued and 44,086,699 shares outstanding at April 5, 2003	453	45
Additional paid-in capital	369,079	362,48
Retained earnings	379,281	380,39
Accumulated other comprehensive income	1,178	1,39
Treasury stock, at cost; 253,510 shares at April 3, 2004, 258,636 shares at January 3, 2004, and 255,046 shares at April 5, 2003	(7,201)	(7,34)
	-----	-----
Total shareholders' equity	742,790	737,37
	-----	-----
Total liabilities and shareholders' equity	\$ 1,462,751	\$ 1,467,45
	=====	=====

See accompanying notes to Condensed Consolidated Financial Statements.

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(UNAUDITED)

	THIRTEEN WEEKS ENDED	
	APRIL 3, 2004 (RESTATED)	APRIL 200 (RESTA
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (1,112)	\$
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	18,960	
Deferred income taxes	23	
Loss on disposal of assets	6	
Federal tax benefit from common stock issued under stock incentive plans	1,067	
Changes in assets and liabilities:		
Decrease in accounts receivable	8,702	
Increase in inventories	(60,734)	
Increase in prepaid expenses and other current assets	(810)	
(Increase) decrease in deferred charges and other noncurrent assets	(1,344)	
Increase in accounts payable	34,103	
Decrease in accrued expenses and other liabilities	(46,088)	
Net cash provided by (used in) operating activities	(47,227)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property and equipment	(30,259)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from common stock issued under stock incentive plans	5,542	
Increase in short-term borrowings	3,546	
Purchase of treasury stock	139	
Net cash provided by financing activities	9,227	
Effect of exchange rate changes on cash and cash equivalents	(116)	
Net decrease in cash and cash equivalents	(68,375)	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	136,129	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 67,754	\$
<b>CASH PAID DURING THE YEAR FOR:</b>		
Interest (net of amounts capitalized)	\$ 900	\$
Income taxes	\$ 10,101	\$

See accompanying notes to Condensed Consolidated Financial Statements.

LINENS 'N THINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. 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 (consisting of only normal recurring accruals) necessary to present fairly the financial position of Linens 'n Things, Inc. and its subsidiaries (collectively "the Company") as of April 3, 2004 and April 5, 2003 and the results of operations for the respective thirteen weeks then ended and cash flows for the thirteen weeks then ended. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 basis may not be indicative of operating results for the full year.

These Condensed Consolidated Financial Statements should be read in conjunction with the Company's audited Consolidated Financial Statements for the fiscal year ended January 3, 2004, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. All significant intercompany accounts and transactions have been eliminated.

Certain prior period expense items, which include inventory shrinkage, have been reclassified between cost of sales and selling, general and administrative expenses to conform with the current period presentation. These reclassifications increased cost of sales and decreased selling, general and administrative expenses by equal amounts with no impact on operating profit for any of the periods presented.

Certain prior period vendor accounts receivable balances have been reclassified to accounts payable to conform with the current period presentation. These reclassifications decreased accounts receivable and accounts payable by equal amounts.

2. Restatement of Financial Statements

RESTATEMENT OF FINANCIAL STATEMENTS:

On February 7, 2005, the Office of the Chief Accountant of the Securities and Exchange Commission ("SEC") issued a clarification regarding lease accounting under generally accepted accounting principles in the United States of America ("GAAP"). As a result of this clarification, the Company reviewed its lease accounting practices and determined that its former methods of accounting for leases and landlord allowances were not consistent with the views expressed by the SEC. As a result, the Company has restated its Consolidated Financial Statements for each of the fiscal years ended January 3, 2004 ("fiscal 2003") and January 4, 2003 ("fiscal 2002"), and the first three quarters of fiscal 2004 and the four quarters of fiscal 2003, contained in its fiscal 2004 10-K. This restatement is set forth in the fiscal 2004 10-K.

Historically, the Company had recognized rent expense commencing as of the store opening date as opposed to when the Company took possession of the leased property. The Company's landlords typically provide access to the leased property free-of-charge for a period of time before the store opening so that

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the Company can build out or fixture the store and stock it with merchandise. Based on its evaluation, the Company now includes this period in calculating straight-line rent expense and amortization of landlord allowances and lease acquisition fees.

The Company has corrected its accounting to recognize rent and amortization expense on a straight-line basis over the expected lease term, including cancelable option periods in those instances where exercising such options is reasonably assured. Previously, the Company did not include these cancelable option periods in calculating straight-line rent expense and amortization expense for lease acquisition fees.

For new stores, the Company generally receives allowances from landlords for the construction of leasehold improvements. Historically, landlord allowances have been classified on the Consolidated Balance Sheets as a reduction of property and equipment and had been classified as a reduction in capital expenditures on the Consolidated Statements of Cash Flows. The Company now classifies landlord allowances as deferred rent credit reflected in long-term liabilities on the Consolidated Balance Sheets and as an operating activity on the Consolidated Statements of Cash Flows. This adjustment increased both property and equipment and other long-term liabilities on the Consolidated Balance Sheets by approximately \$166.8 million as of April 3, 2004.

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### LINENS 'N THINGS, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, cont'd

As a result of the restatement pertaining to lease accounting, selling, general and administrative expenses ("SG&A") for the first quarters ended April 3, 2004 and April 5, 2003 increased approximately \$1.9 million and \$1.8 million, respectively. Earnings per share on a fully diluted basis decreased by approximately \$0.02 for both the first quarters ended April 3, 2004 and April 5, 2003, respectively. The cumulative impact of the correction of accounting for leases decreased retained earnings, net of tax, by approximately \$20.2 million as of January 4, 2003.

#### OTHER IMMATERIAL ADJUSTMENTS AND RECLASSIFICATIONS:

The Company maintains a trade payables arrangement with General Electric Capital Corporation ("GECC") under which GECC purchases the Company's payables at a discount directly from the Company's suppliers prior to the payables due date, thereby permitting a supplier to receive payment prior to the due date of the payable, with the Company sharing in part of the GECC discount. At April 3, 2004, January 3, 2004, and April 5, 2003, the Company owed approximately \$69.0 million, \$66.2 million, and \$56.3 million, respectively, to GECC under this program, which was included in accounts payable.

Certain prior period balances relating to this trade payables program with GECC have been adjusted and reclassified. Pursuant to the agreement with GECC any favorable economics realized by GECC for transactions under this program are shared with the Company. As a result of these adjustments, the Company now recognizes the gross discount earned as part of the program as a reduction of the cost of inventory in the Consolidated Balance Sheets and records the related portion of interest expense due GECC as interest expense in the Consolidated Statements of Operations. Prior to fiscal 2004, only the Company's share was reflected as a reduction of cost of sales in the Consolidated Statements of Operations. As a result of the adjustment and reclassification related to the GECC program, interest expense increased approximately \$0.7 million and \$0.8 million for the first quarter ended April 3, 2004 and April 5, 2003,



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respectively. Cost of sales decreased approximately \$0.8 million and \$1.4 million for the first quarter ended April 3, 2004 and April 5, 2003, respectively. There was no impact to earnings per share on a fully diluted basis for the first quarter ended April 3, 2004 and April 5, 2003. The cumulative impact of this adjustment as of January 4, 2003 to retained earnings, net of tax, was a decrease of approximately \$1.3 million.

Certain prior period balances relating to the Company's deferred compensation plan have been reclassified. The related deferred compensation obligation, totaling \$2.7 million for the first quarter ended April 3, 2004, was reclassified to accrued expenses and other current liabilities from deferred income taxes and other long-term liabilities. In addition, the plan's investment in shares of the Company's common stock included in the deferred compensation plan totaling \$0.6 million for the first quarter ended April 3, 2004 was reclassified to treasury stock from other current assets.

A summary of the effects of these changes on the Company's Condensed Consolidated Statement of Operations for the first quarters ended April 3, 2004 and April 5, 2003, the Company's Condensed Consolidated Balance Sheet at April 3, 2004 and April 5, 2003, and the Company's Condensed Consolidated Statement of Cash flows at April 3, 2004 and April 5, 2003 follows:

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### LINENS 'N THINGS, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONT'D

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FIRST QUARTER ENDED APRIL 3, 2004  
(Unaudited)  
(in thousands, except per share amounts)

	As Previously Reported	Adjustments*	As Restated
Cost of sales	\$ 332,346	\$ (792) (B)	\$ 331,554
Gross profit	220,454	792 (B)	221,246
SG&A expenses	220,390	1,898 (A)	222,288
Operating profit (loss)	64	(1,898) (A) 792 (B)	(1,042)
		(1,106)	
Interest expense	154	743 (B)	897
Interest expense, net	16	743 (B)	759
Income (loss) before income taxes	48	(1,898) (A) 49 (B)	(1,801)
		(1,849)	
Provision for income taxes	18	(726) (A)	(689)

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			19 (B)	
			-----	
			(707)	
			-----	
Net income (loss)	\$ 30	\$ (1,172) (A)		\$ (1,112)
		30 (B)		
			-----	
			(1,142)	
			-----	
Net income per share - basic	\$ 0.00	\$ (0.02) (A)		\$ (0.02)
Net income per share - fully diluted	\$ 0.00	\$ (0.02) (A)		\$ (0.02)

\*A - lease accounting restatement

B - GECC inventory discount adjustment and reclassification

C - lease accounting restatement (Landlord allowance adjustment only)

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LINENS 'N THINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONT'D

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FIRST QUARTER ENDED APRIL 5, 2003  
(Unaudited)  
(in thousands, except per share amounts)

	As Previously Reported	Adjustments*	As Restated
	-----	-----	-----
Cost of sales	\$ 287,630	\$ (1,412) (B)	\$ 286,218
Gross profit	192,841	1,412 (B)	194,253
SG&A expenses	189,401	1,795 (A)	191,196
Operating profit	3,440	(1,795) (A) 1,412 (B)	3,057
		-----	
		(383)	
		-----	
Interest expense	132	784 (B)	916
Interest expense, net	76	784 (B)	860
Income before income taxes	3,364	(1,795) (A) 628 (B)	2,197
		-----	
		(1,167)	
		-----	
Provision for income taxes	1,286	(685) (A) 240 (B)	841
		-----	

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			(445)	
			-----	
Net income	\$	2,078	\$ (1,110) (A) 388 (B)	\$ 1,356
			-----	
			(722)	
			-----	
Net income per share - basic	\$	0.05	\$ (0.03) (A) 0.01 (B)	\$ 0.03
			-----	
			\$ (0.02)	
			-----	
Net income per share - fully diluted	\$	0.05	\$ (0.02) (A)	\$ 0.03

\*A - lease accounting restatement

B - GECC inventory discount adjustment and reclassification

C - lease accounting restatement (Landlord allowance adjustment only)

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LINENS 'N THINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONT'D

CONDENSED CONSOLIDATED BALANCE SHEETS  
AS OF APRIL 3, 2004  
(Unaudited)  
(in thousands)

	As Previously Reported	Adjustments*
	-----	-----
ASSETS		
Inventories	\$ 762,021	\$ (1,473) (B)
Prepaid expenses and other current assets	34,768	(590) (D)
Total current assets	885,653	(1,473) (B) (590) (D)
		-----
		(2,063)
		-----
Property & equipment, net	386,502	166,800 (C)
Deferred charges and other non-current assets, net	12,108	(4,375) (A)
Total assets	1,302,389	(4,375) (A) (1,473) (B) 166,800 (C) (590) (D)
		-----
		160,362
		-----
LIABILITIES AND SHAREHOLDERS' EQUITY		

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Accrued expenses and other liabilities	120,837	(562) (B) 2,740 (D)
		----- 2,178 -----
Total Current liabilities	419,467	(562) (B) 2,740 (D)
		----- 2,178 -----
Deferred income taxes and other long-term liabilities	114,787	(2,505) (A) 188,774 (A) (2,740) (D)
		----- 183,529 -----
Total liabilities	534,254	19,469 (A) (562) (B) 166,800 (C)
		----- 185,707 -----
Retained earnings	404,036	(911) (B) (23,844) (A)
		----- (24,755) -----
Treasury stock	(6,611)	(590) (D)
Total shareholders' equity	768,135	(23,844) (A) (911) (B) (590) (D)
		----- (25,345) -----
Total liabilities and shareholders' equity	1,302,389	(4,375) (A) (1,473) (B) 166,800 (C) (590) (D)
		----- 160,362 -----

- \*A - lease accounting restatement  
 B - GECC inventory discount adjustment and reclassification  
 C - lease accounting restatement (Landlord allowance adjustment only)  
 D - deferred compensation plan reclassification

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CONDENSED CONSOLIDATED BALANCE SHEETS  
AS OF APRIL 5, 2003  
(Unaudited)  
(in thousands)

	As Previously Reported	Adjustments*
	-----	-----
<b>ASSETS</b>		
Inventories	\$ 685,911	\$ (1,480) (B)
Prepaid expenses and other current assets	28,782	(549) (D)
Total current assets	797,437	(1,480) (B) (549) (D)
		----- (2,029) -----
Property & equipment, net	362,332	154,428 (C)
Deferred charges and other non-current assets, net	10,695	(4,511) (A)
Total assets	1,188,590	(4,511) (A) (1,480) (B) 154,428 (C) (549) (D)
		----- 147,888 -----
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accrued expenses and other liabilities	128,525	(565) (B) 2,171 (D)
		----- 1,606 -----
Total Current liabilities	432,758	(565) (B) 2,171 (D)
		----- 1,606 -----
Deferred income taxes and other long-term liabilities	84,237	(2,420) (A) 173,691 (A) (2,171) (D)
		----- 169,100 -----
Total liabilities	516,995	16,843 (A) (565) (B) 154,428 (C)
		----- 170,706 -----
Retained earnings	331,259	(21,354) (A)

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		(915) (B)
		-----
		(22,269)
		-----
Treasury stock	(6,785)	(549) (D)
Total shareholders' equity	671,595	(21,354) (A)
		(915) (B)
		(549) (D)
		-----
		(22,818)
		-----
Total liabilities and shareholders' equity	1,188,590	(4,511) (A)
		(1,480) (B)
		154,428 (C)
		(549) (D)
		-----
		147,888
		-----

\*A - lease accounting restatement

B - GECC inventory discount adjustment and reclassification

C - lease accounting restatement (Landlord allowance adjustment only)

D - deferred compensation plan reclassification

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LINENS 'N THINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONT'D

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

AS OF APRIL 3, 2004

(Unaudited)

(in thousands)

	As previously reported	Adjustment*	As Restated
	-----	-----	-----
Net cash used in operating activities	(53,634)	6,407 (C)	(47,227)
Additions to property and equipment	(23,713)	(6,546) (C)	(30,259)
Net cash provided by financing activities	9,088	139 (D)	9,227
Cash paid for interest	157	743 (B)	900
	-----	-----	-----

\*A - lease accounting restatement

B - GECC inventory discount adjustment and reclassification

C - lease accounting restatement (Landlord allowance adjustment only)

D - deferred compensation plan reclassification

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### LINENS 'N THINGS, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONT'D

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
AS OF APRIL 5, 2003  
(Unaudited)  
(in thousands)

	As previously reported	Adjustment*	As Restated
Net cash provided by (used in) operating activities	(3,215)	8,135 (C)	4,920
Additions to property and equipment	(25,666)	(8,027) (C)	(33,693)
Net cash provided by financing activities	569	(108) (D)	461
Cash paid for interest	185	784 (B)	969

\*A - lease accounting restatement  
B - GECC inventory discount adjustment and reclassification  
C - lease accounting restatement (Landlord allowance adjustment only)  
D - deferred compensation plan reclassification

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### LINENS 'N THINGS, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONT'D

#### 3. Earnings Per Share

The calculation of basic and fully diluted earnings (loss) per share ("EPS") is as follows:

Thirteen Weeks Ended April 3, 2004 (Restated) (in thousands, except EPS)			
	Net Loss	Shares	EPS
Basic	\$ (1,112)	44,897	\$ (0.02)
Effect of outstanding stock options and deferred stock grants	--	1,211	--
Fully diluted	\$ (1,112)	46,108	\$ (0.02)

Thirteen Weeks Ended April 5, 2003 (Restated) (in thousands, except EPS)			
	Net Income	Shares	EPS
	-----	-----	-----

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Basic	\$ 1,356	44,079	\$ 0.03
Effect of outstanding stock options and deferred stock grants	--	426	--
	-----	-----	-----
Fully diluted	\$ 1,356	44,505	\$ 0.03
	=====	=====	=====

Options for which the exercise price was greater than the average market price of common shares for the periods ended April 3, 2004 and April 5, 2003 were not included in the computation of fully diluted earnings per share. These consisted of options totaling 18,000 shares and 2,589,000 shares for the thirteen weeks ended April 3, 2004 and April 5, 2003, respectively.

#### 4. Short-Term Borrowing Arrangements

In June 2002, the Company amended and extended its \$150 million senior revolving credit facility agreement (the "Credit Agreement") with third party institutional lenders to expire April 20, 2005. The Credit Agreement allows for up to \$40 million of borrowings from additional lines of credit outside of the Credit Agreement. As of April 3, 2004, the additional lines of credit include committed facilities of approximately \$26 million that expire on June 16, 2004 and are subject to annual renewal arrangements. Interest on all borrowings is determined based upon several alternative rates, including a fixed margin above LIBOR. The Credit Agreement contains certain financial covenants, including those relating to the maintenance of a minimum tangible net worth, a minimum fixed charge coverage ratio, and a maximum leverage ratio. As of April 3, 2004, the Company was in compliance with the terms of the Credit Agreement. The Credit Agreement limits, among other things, the amount of cash dividends the Company may pay. Under the Credit Agreement, the amount of dividends that the Company may pay may not exceed the sum of \$25 million plus, on a cumulative basis, an amount equal to 50% of the consolidated net income for each fiscal quarter, commencing with the fiscal quarter ending March 30, 2002. The Company has never paid cash dividends and does not currently anticipate paying cash dividends in the future. The Company is required under the Credit Agreement to reduce the balance of outstanding domestic borrowings to zero for 30 consecutive days during each period beginning on December 1st of any fiscal year and ending on March 15th of the following fiscal year. At various times throughout 2003, the Company borrowed against its credit facility for seasonal working capital needs. As of April 3, 2004, the Company had no borrowings under the Credit Agreement and \$3.5 million in borrowings under the additional lines of credit at an interest rate of 4.25%. The Company also had \$62.2 million of letters of credit outstanding as of April 3, 2004, which

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#### LINENS 'N THINGS, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONT'D

included standby letters of credit issued primarily under the Credit Agreement and import letters of credit used for merchandise purchases. The Company is not obligated under any formal or informal compensating balance requirements.

#### 5. Comprehensive Income (Loss)



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Comprehensive income (loss) for the thirteen weeks ended April 3, 2004 and April 5, 2003 is as follows (in thousands):

	Thirteen Weeks Ended	
	April 3, 2004 (Restated)	April 5, 2003 (Restated)
COMPREHENSIVE INCOME (LOSS):		
Net income (loss)	\$ (1,112)	\$ 1,356
Other comprehensive income (loss) - foreign currency translation adjustment	(213)	480
Comprehensive income (loss)	\$ (1,325)	\$ 1,836

### 6. 2001 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 for stores to be closed. This reserve is included in accrued expenses. 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 write down 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 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. As of April 3, 2004, the Company has closed all of the initially identified store closures other than one store, whose reserve was reversed, and one store, which is expected to be closed during fiscal 2004.

The following table displays a roll forward of the activity and significant components of the 2001 restructuring and asset impairment charge and the reserves remaining as of April 3, 2004 (\$ in millions):

	Remaining at 1/03/04  (Audited)	Usage 2004  (Unaudited)	Remaining at 4/03/04  (Unaudited)
Cash components:			
Lease commitments	\$ 15.6	\$ (1.6)	\$ 14.0
Total	\$ 15.6	\$ (1.6)	\$ 14.0

The 2004 usage primarily consists of payments for lease commitments and miscellaneous store closing costs. The 2004 activity also includes the reversal

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of estimated lease commitment and other store closing costs of approximately \$0.7 million as these reserves were not needed, offset by an increase to lease commitment costs by a like amount due to changes in estimates based on current negotiations.

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LINENS 'N THINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONT'D

7. Stock Incentive Plans

In accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company accounts for its stock-based compensation plans under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, no compensation cost has been recognized in connection with stock options under these plans in the accompanying Condensed Consolidated Financial Statements. The compensation cost that has been charged against income for restricted stock unit grants was \$157,000 and \$99,000 for the thirteen weeks ended April 3, 2004 and April 5, 2003, respectively. The following table illustrates the effect on net income and net income per share presented "as reported" and as if compensation cost had been recognized in accordance with the provisions of SFAS No. 123, for the thirteen weeks ended April 3, 2004 and April 5, 2003:

	Thirteen week per
	----- April 3, 2004 (Restated) -----
(in thousands, except per share data)	
NET INCOME (LOSS):	
As reported	\$ (1,112)
Add: Stock-based employee compensation expense included in	97
Net income as presented, net of tax	----- (1,015) -----
Deduct: Total stock-based employee compensation expense determined	
under the fair value based method for all awards, net of related	
tax effects	1,850
Pro forma	----- \$ (2,865) =====
NET INCOME PER SHARE OF COMMON STOCK:	
Basic:	
As reported	\$ (0.02)
Pro forma	(0.06)
Fully diluted:	
As reported	\$ (0.02)
Pro forma	(0.06)

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### 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 April 3, 2004, the maximum potential amount of future payments the Company could be required to make under such guarantee is approximately \$1.0 million.

### 9. Recent Accounting Pronouncements

In January 2003, the Emerging Issues Task Force ("EITF") issued EITF 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EITF 02-16"), which states that cash consideration received from a vendor is presumed to be a reduction of the prices of the vendor's products or services and should, therefore, be characterized as a reduction of cost of merchandise sold when recognized in the Company's Condensed Consolidated Statement of Operations. That presumption may be overcome when the consideration is either a reimbursement of specific, incremental and identifiable costs incurred to sell the vendor's products, or a payment for assets or services delivered to the

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#### LINENS 'N THINGS, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONT'D

vendor. EITF 02-16 is effective for contracts entered into or modified after December 31, 2002. This issue did not have a material impact on the Company's fiscal 2003 audited Consolidated Financial Statements as substantially all of the Company's vendor contracts in effect during fiscal 2003 were entered into prior to December 31, 2002. Beginning in the first quarter of fiscal 2004, as vendor agreements are initiated or modified, the Company applies the method of accounting for vendor allowances pursuant to EITF 02-16. In connection with the implementation of EITF 02-16, the Company treats certain funds received from vendors as a reduction in the cost of inventory and, as a result, these funds are recognized as a reduction to cost of merchandise sold when the inventory is sold. Accordingly, certain funds received from vendors, which were historically reflected as a reduction of advertising expense in SG&A or cost of sales, are now treated as a reduction of cost of inventory.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123" ("SFAS No. 148"). This statement amends SFAS No. 123 and provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used. For the thirteen-week periods ended April 3, 2004 and April 5, 2003, the Company accounted for stock options using the intrinsic value method prescribed under APB Opinion 25, and accordingly, the Company did not recognize compensation expense for stock options. The Company continues to account for stock-based compensation using APB Opinion No. 25 and has not adopted the recognition provisions of SFAS No. 123, as amended by SFAS No. 148. However, the Company has adopted the disclosure provisions and has included this information in Note 7 to the Company's Condensed Consolidated Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
Linens 'n Things, Inc.:

We have reviewed the condensed consolidated balance sheets of Linens 'n Things, Inc. and Subsidiaries as of April 3, 2004 and April 5, 2003, and the related condensed consolidated statements of operations for the thirteen week periods then ended and the related condensed consolidated statements of cash flows for the thirteen week periods ended April 3, 2004 and April 5, 2003. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical review procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Linens 'n Things, Inc. and Subsidiaries as of January 3, 2004 (presented herein) and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 31, 2005 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of January 3, 2004 is fairly presented, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

KPMG LLP

New York, New York

May 3, 2004, except as to Note 2, which is as of April 19, 2005

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

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### RESTATEMENT:

The following discussion and analysis gives effect to the restatement as well as other immaterial adjustments and reclassifications discussed in Note 2 to the Condensed Consolidated Financial Statements.

#### GENERAL

Linens `n Things, Inc. (the "Company") is one of the leading national format specialty retailers. The Company's stores emphasize a broad assortment of home textiles, housewares and home accessories, carrying both national brands and private label goods. As of April 3, 2004, the Company operated 461 stores in 45 states and in five provinces across Canada.

#### CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts and timing of revenues and of expenses during the reporting periods. The Company's management believes the following critical accounting estimates involve significant estimates and judgments inherent in the preparation of the Condensed Consolidated Financial Statements. The Company bases these estimates on historical results and various other assumptions believed to be reasonable at the time.

**VALUATION OF INVENTORY:** Merchandise inventory is a significant portion of the Company's balance sheet, representing approximately 52% of total assets at April 3, 2004. Inventories are valued using the lower of cost or market value, determined by the retail inventory method ("RIM"). Under RIM, the valuation of inventories at cost and the resulting gross margins are determined by applying a calculated cost-to-retail ratio to the retail value of inventories. RIM is an averaging method that is used in the retail industry due to its practicality. The methodologies utilized by the Company in its application of RIM are consistent for all periods presented. Such methodologies include the development of the cost-to-retail ratios, the development of shrinkage reserves and the accounting for price changes.

**SALES RETURNS:** The Company estimates future sales returns and records a provision in the period that the related sales are recorded based on historical return rates. Should actual returns differ from the Company's estimates, the Company may be required to revise estimated sales returns. Although these estimates have not varied materially from historical provisions, estimating sales returns requires management judgment as to changes in preferences and quality of products being sold, among other things; therefore, these estimates may vary materially in the future. The sales returns calculations are regularly compared with actual return experience. In preparing its financial statements as of April 3, 2004, January 3, 2004 and April 5, 2003, the Company's sales returns reserve was approximately \$5.2 million, \$6.2 million and \$4.6 million, respectively.

**IMPAIRMENT OF ASSETS:** With the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets", the Company reviews goodwill for possible impairment at least annually. Impairment losses are recognized when the implied fair value of goodwill is less than its carrying value. The Company is also required to follow the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of

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Long-Lived Assets" ("SFAS No. 144"), which superceded an earlier pronouncement on the same topic but retained many of its fundamental provisions. It also expanded the scope of discontinued operations to include more disposal transactions and impacted the presentation of future store closings, if any, by the Company. Under SFAS No. 144 the Company periodically evaluates long-lived assets other than goodwill for indicators of impairment. As of April 3, 2004, January 3, 2004 and April 5, 2003, the Company's net value for property and equipment as restated was approximately \$553.3 million, \$542.2 million and \$516.8 million, respectively, and goodwill was approximately \$18.1 million on each of the aforementioned dates.

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### LINENS 'N THINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CON'T

**STORE CLOSURE COSTS:** In fiscal 2001, the Company recorded a pre-tax restructuring and asset impairment charge of \$37.8 million (\$23.7 million after-tax) related to the closing of certain under-performing stores. As of April 3, 2004, January 3, 2004 and April 5, 2003, the Company had \$14.0 million, \$15.6 million and \$21.4 million, respectively, remaining related to this reserve. As of April 3, 2004, 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, and one other store, which is expected to close during fiscal 2004. The Company has continued to negotiate lease buyouts or sublease agreements for these stores. The activity in the first quarter of fiscal 2004 includes the reversal of estimated lease commitment and other store closing costs of approximately \$0.7 million as these reserves were not needed, offset by an increase to lease commitment costs by a like amount due to changes in estimates based on current negotiations. Final settlement of these reserves is predominantly a function of negotiations with unrelated third parties, and, as such, these estimates may be subject to change in the future.

**SELF-INSURANCE:** The Company purchases third party insurance for worker's compensation, medical, auto and general liability costs that exceed certain levels for each type of insurance program. However, the Company is responsible for the payment of claims under these insured excess limits. The Company establishes accruals for its insurance programs based on available claims data and historical trend and experience, as well as loss development factors prepared by third party actuaries. The accrued obligation for these self-insurance programs was approximately \$13.2 million as of April 3, 2004, \$13.5 million as of January 3, 2004 and \$8.9 million as of April 5, 2003.

**LITIGATION:** The Company records an estimated liability related to various claims and legal actions arising in the ordinary course of business, which is based on available information and advice from outside counsel where applicable. As additional information becomes available, the Company assesses the potential liability related to its pending claims and may adjust its estimates accordingly.

#### RESULTS OF OPERATIONS

THIRTEEN WEEKS ENDED APRIL 3, 2004 COMPARED WITH THIRTEEN WEEKS ENDED APRIL 5, 2003

Results of operations for the thirteen weeks ended April 3, 2004 were impacted by an accounting change resulting from the implementation of the provisions of

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EITF 02-16 "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" (EITF 02-16), which states that cash consideration received from a vendor is presumed to be a reduction of the prices of the vendor's products or services and should, therefore, be characterized as a reduction of cost of merchandise sold when recognized in the Company's Condensed Consolidated Statement of Operations. EITF 02-16 was effective for contracts entered into or modified after December 31, 2002. This issue did not have a material impact on the Company's fiscal 2003 audited Consolidated Financial Statements as substantially all of the Company's vendor contracts in effect during fiscal 2003 were entered into prior to December 31, 2002. Beginning in the first quarter of fiscal 2004, as vendor agreements are initiated or modified, the Company applies the method of accounting for vendor allowances pursuant to EITF 02-16. In connection with the implementation of EITF 02-16, the Company treats certain funds received from vendors as a reduction in the cost of inventory and, as a result, these funds are recognized as a reduction to cost of merchandise sold when the inventory is sold. Accordingly, certain funds received from vendors, which were historically reflected as a reduction of advertising expense in SG&A or cost of sales, are now treated as a reduction of cost of inventory.

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### LINENS 'N THINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CON'T

The provisions of EITF 02-16 impacted the Company's first quarter 2004 results of operations as follows (the "As Restated" amounts include the impact of EITF 02-16):

In thousands, except per share data	As Restated	EITF 02-16 Adjustment Impact
	-----	-----
Net sales	\$ 552,800	\$ --
Cost of sales	331,554	(141)
	-----	-----
Gross profit	221,246	141
SG&A	222,288	(7,780)
	-----	-----
Operating profit	(1,042)	7,921
Interest expense, net	759	--
	-----	-----
Income before provision for income taxes	(1,801)	7,921
Provision for income taxes	(689)	3,026
	-----	-----
Net income	\$ (1,112)	\$ 4,895
	=====	=====
Earnings per share		
Basic	\$ (0.02)	\$ 0.11

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Fully diluted \$ (0.02) \$ 0.11

EITF 02-16 had no impact on the Company's cash flows. Following the initial implementation impact, subsequent fiscal years will reflect vendor allowances on a consistent basis other than for any net changes in vendor allowances.

The EITF 02-16 pre-tax adjustment of \$7.9 million represents those allowances reflected as a reduction of the cost of inventory, which historically would have been treated as a reduction of cost of sales or selling, general and administrative expenses ("SG&A"). Beginning in fiscal 2004, due to the Company's changes to its vendor agreements and the requirements of EITF 02-16 the Company no longer records advertising allowances as a reduction to SG&A. For presentation purposes in the above table reflecting the impact of EITF 02-16 on the statement of operations, the Company has allocated the EITF 02-16 pre-tax adjustment to SG&A based on the previous year ratio of vendor advertising allowances recorded within SG&A to sales. The remaining portion of the total EITF 02-16 pre-tax adjustment was allocated to cost of sales.

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### LINENS 'N THINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CON'T

Net sales for the thirteen weeks ended April 3, 2004 increased approximately 15.0% to \$552.8 million, up from \$480.5 million for the same period last year. The increase in net sales is primarily the result of new store openings since April 5, 2003. At April 3, 2004, the Company operated 461 stores, including 20 stores in Canada, as compared with 400 stores, including 15 stores in Canada, at April 5, 2003. Store square footage increased approximately 13% to 15.8 million at April 3, 2004 compared with 13.9 million at April 5, 2003. During the thirteen weeks ended April 3, 2004, the Company opened 21 stores and closed no stores as compared with opening 16 stores and closing seven stores during the same period last year.

Comparable store net sales increased 4.7% for the thirteen weeks ended April 3, 2004 compared to a decline of 3.2% for the same period last year. The increase in comparable net sales for the thirteen weeks ended April 3, 2004 is due primarily to an increase in customer traffic as well as average transaction, with traffic representing more than 80% of the increase. The Company believes these improved sales results reflect the steady progress being made on its strategic operating initiatives, which include improvements of in-stock inventory positions, particularly on key items and advertised merchandise, expansion of the store inventory ownership program, improvements to its merchandise assortment planning process, and enhancements to the guest shopping experience.

In addition to the cost of inventory sold, the Company includes its buying and distribution expenses in its cost of sales. Buying expenses include all direct and indirect costs to procure merchandise. Distribution expenses include the cost of operating the Company's distribution centers and freight expense related to transporting merchandise. Gross profit for the thirteen weeks ended April 3, 2004 was \$221.2 million, or 40.0% of net sales, compared with \$194.3 million, or 40.4% of net sales, for the same period last year. The EITF 02-16 adjustment impact was to decrease gross profit by \$141,000, or 0.0% of net sales for the thirteen-week period ended April 3, 2004. The decline in gross profit as a percentage of net sales is due to an increase in both markdowns and freight



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costs, which was partially offset by a higher initial mark-on rate. The markdown rate increased slightly due to selected SKU reductions in connection with the Company's assortment planning initiative as well as more focused clearance activities, which have contributed to the Company's improved inventory complexion. Rising fuel prices is the primary reason for the increase in freight costs.

The Company's selling, general and administrative ("SG&A") expenses consist of store selling expenses, occupancy costs, advertising expenses and corporate office expenses. SG&A expenses for the thirteen weeks ended April 3, 2004 were \$222.3 million, or 40.2% of net sales, compared with \$191.2 million, or 39.8% of net sales, for the same period last year. The EITF 02-16 adjustment impact was \$7.8 million or 1.4% of net sales for the thirteen weeks ended April 3, 2004. The Company's fixed costs as well as its core operating costs including store payroll grew at a slower rate than sales. Included in SG&A for the thirteen weeks ended April 5, 2003 were advertising credits equaling 1.4% of net sales which, as a part of the EITF 02-16 accounting change, are no longer classified as an offset to SG&A in fiscal 2004.

Operating loss for the thirteen weeks ended April 3, 2004 was approximately \$1.0 million or 0.2% of net sales, compared with operating profit \$3.1 million, or 0.6% of net sales, for the same period last year. The EITF 02-16 adjustment impact was \$7.9 million or 1.4% of net sales for the thirteen weeks ended April 3, 2004

Net interest expense for the thirteen weeks ended April 3, 2004 decreased to approximately \$0.8 million from \$0.9 million during the same period last year. The decrease in net interest expense is mainly due to lower average borrowings.

The Company's income tax benefit was approximately \$0.7 million for the thirteen weeks ended April 3, 2004, compared with income tax expense \$0.8 million for the same period last year. The EITF 02-16 adjustment impact was \$3.0 million for the thirteen weeks ended April 3, 2004. The Company's effective tax rate was 38.2% for both the thirteen weeks ended April 3, 2004 and April 5, 2003.

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### LINENS 'N THINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CON'T

As a result of the factors described above, net loss for the thirteen weeks ended April 3, 2004 was approximately \$1.1 million or \$0.02 per share on a fully diluted basis, compared with net income of \$1.4 million, or \$0.03 per share on a fully diluted basis for the same period last year. The EITF 02-16 adjustment impact to net income was \$4.9 million, or \$0.11 per share on a fully diluted basis, for the thirteen weeks ended April 3, 2004.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements are primarily for new store expenditures, new store inventory purchases and seasonal working capital. These requirements have been funded through a combination of internally generated cash flows from operations, credit extended by suppliers and short-term borrowings.

In June 2002, the Company amended and extended its \$150 million senior revolving credit facility agreement (the "Credit Agreement") with third party institutional lenders to expire April 20, 2005. As of April 3, 2004, the Credit

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Agreement allows for up to \$40 million of borrowings from additional lines of credit outside of the Credit Agreement. As of April 3, 2004, the additional lines of credit include committed facilities of approximately \$26 million that expire on June 16, 2004 and are subject to annual renewal arrangements. As of April 3, 2004, the Company was in compliance with the terms of the Credit Agreement. As of April 3, 2004, the Company had no borrowings under the Credit Agreement and \$3.5 million in borrowings under the additional lines of credit at an interest rate of 4.25%. The Company also had \$62.2 million of letters of credit outstanding as of April 3, 2004, which included standby letters of credit issued primarily under the Credit Agreement and import letters of credit used for merchandise purchases. The Company is not obligated under any formal or informal compensating balance requirements. See Note 4 to the Condensed Consolidated Financial Statements. The Company maintains a trade payables arrangement with General Electric Capital Corporation ("GECC") under which GECC purchases the Company's payables at a discount directly from the Company's suppliers prior to the payables due date, thereby permitting a supplier to receive payment prior to the due date of the payable, with the Company sharing in part of the GECC discount. At April 3, 2004, January 3, 2004, and April 5, 2003, the Company owed approximately \$69.0 million, \$66.2 million, and \$56.3 million, respectively, to GECC under this program, which was included in accounts payable.

Net cash used in operating activities for the thirteen weeks ended April 3, 2004 was \$47.2 million compared with net cash provided by operating activities of \$4.9 million used in operating activities for the same period last year. The increase in cash used between periods is primarily due to the timing of vendor payments.

Net cash used in investing activities for the thirteen weeks ended April 3, 2004 was \$30.3 million, compared with \$33.7 million for the same period last year. As of April 3, 2004, the Company estimates capital expenditures will be approximately \$107 million in fiscal 2004, primarily for an estimated 45 to 50 new stores, maintenance of existing stores, and system enhancements.

Net cash provided by financing activities for the thirteen weeks ended April 3, 2004 was \$9.2 million compared with \$0.5 million for the same period last year. The increase is due to greater proceeds from common stock issued under stock incentive plans.

Management regularly reviews and evaluates its liquidity and capital needs. The Company experiences peak periods for its cash needs generally during the second quarter and fourth quarter of the fiscal year. As the Company's business continues to grow and its current store expansion plan is implemented, such peak periods may require increases in the amounts available under its credit facilities from those currently existing and/or other debt or equity funding. As of April 3, 2004, management believes that the Company's cash flows from operations, credit extended by suppliers, its access to credit facilities and its uncommitted lines of credit will be sufficient to fund its expected capital expenditures, working capital and non-acquisition business expansion requirements for at least the next 12 to 18 months.

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In January 2003, the Emerging Issues Task Force ("EITF") issued EITF 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EITF 02-16"), which states that cash consideration received from a vendor is presumed to be a reduction of the prices of the vendor's products or services and should, therefore, be characterized as a reduction of cost of merchandise sold when recognized in the Company's Condensed Consolidated Statement of Operations. That presumption may be overcome when the consideration is either a reimbursement of specific, incremental and identifiable costs incurred to sell the vendor's products, or a payment for assets or services delivered to the vendor. EITF 02-16 is effective for contracts entered into or modified after December 31, 2002. This issue did not have a material impact on the Company's fiscal 2003 audited Consolidated Financial Statements as substantially all of the Company's vendor contracts in effect during fiscal 2003 were entered into prior to December 31, 2002. Beginning in the first quarter of fiscal 2004, as vendor agreements are initiated or modified, the Company applies the method of accounting for vendor allowances pursuant to EITF 02-16. In connection with the implementation of EITF 02-16, the Company treats certain funds received from vendors as a reduction in the cost of inventory and, as a result, these funds are recognized as a reduction to cost of merchandise sold when the inventory is sold. Accordingly, certain funds received from vendors, which were historically reflected as a reduction of advertising expense in SG&A or cost of sales, are now treated as a reduction of cost of inventory. Based on the Company's evaluation as of April 3, 2004, the estimated impact from the implementation of EITF 02-16 is expected to reduce fully diluted earnings per share on a non-cash basis by approximately \$0.24 for fiscal 2004, as a result of delaying the recognition of vendor allowances until the related inventory is sold. The provisions of EITF 02-16 impacted the Company's first quarter 2004 results by approximately \$4.9 million, net of tax, or \$0.11 per fully diluted share, and the majority of this non-cash reduction in earnings per share is expected to occur in the first two quarters of fiscal 2004. As of April 3, 2004, the Company expects SG&A on an annualized basis to increase by approximately 1.1% as a percent of sales as a result of this accounting change. This accounting change will have no impact on the Company's cash flows or the expected amount of funds to be received from vendors. In addition, following the initial implementation impact of EITF 02-16 in fiscal 2004, subsequent fiscal years will reflect vendor allowances on a consistent basis other than for future net changes in such vendor allowances.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123" ("SFAS No. 148"). This statement amends SFAS Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS No.123"), and provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used. For the thirteen week period ended April 3, 2004, the Company accounted for stock options using the intrinsic value method prescribed under APB Opinion 25, and accordingly, the Company did not recognize compensation expense for stock options. The Company continues to account for stock-based compensation using APB Opinion No. 25 and has not adopted the recognition provisions of SFAS No. 123, as amended by SFAS No. 148. However, the Company has adopted the disclosure provisions and has included this information in Note 6 to the Company's Condensed Consolidated Financial Statements.

### INFLATION

The Company does not believe that its operating results have been materially affected by inflation during the preceding three years. There can be no assurance, however, that the Company's operating results will not be affected by

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inflation in the future.

### SEASONALITY

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

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### LINENS 'N THINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CON'T

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

### FORWARD-LOOKING STATEMENTS

The foregoing Management's Discussion and Analysis as well as other portions of this Quarterly Report on Form 10-Q/A, contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. The statements are made a number of times and may be identified by such forward-looking terminology as "expect," "believe," "may," "intend," "plan," "target," "outlook," "comfortable with" and similar terms or variations of such terms. All of our information and statements regarding our outlook for the future including future revenues, comparable sales performance, earnings and other future financial condition, impact, results and performance, constitutes forward-looking statements. All our forward-looking statements are based on our current expectations, assumptions, estimates and projections about our Company and involve certain significant risks and uncertainties, including levels of sales, store traffic, acceptance of product offerings and fashions and our ability to anticipate and successfully respond to changing consumer tastes and preferences, the success of our new business concepts, seasonal concepts and new brands, the performance of our new stores, substantial competitive pressures from other home furnishings retailers, the success of the Canadian expansion, availability of suitable future store locations, schedule of store expansion and of planned closings, the impact of the bankruptcies and consolidations in our industry, unusual weather patterns, the impact on consumer spending as a result of the slower consumer economy, a highly promotional retail environment, any significant variations between actual amounts and the amounts estimated for those matters identified as our critical accounting estimates as well as other significant accounting estimates made in the preparation of our financial statements, the actual impact in fiscal 2004 of EITF 02-16 as discussed in this report, and our ability to successfully implement our strategic initiatives. If these or other risks or uncertainties materialize, or if our estimates or underlying assumptions prove inaccurate, actual results could differ materially from any future results, express or implied by our forward-looking statements. These and other important risk factors are included in the "Risk Factors" section of the Company's Registration Statement on Form S-3 as filed with the Securities and Exchange Commission on June 18, 2002 and may be contained in subsequent reports filed with the Securities and Exchange Commission, including our Quarterly Reports on Form 10-Q. You are urged to consider all such factors. In light of the uncertainty inherent in such forward-looking statements, you should not consider their inclusion to be a representation that such

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forward-looking matters will be achieved. The Company assumes no obligation for updating any such forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

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### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company continuously evaluates the market risk associated with its financial instruments. Market risks relating to the Company's operations result primarily from changes in interest rates and foreign exchange rates. The Company does not engage in financial transactions for trading or speculative purposes.

#### INTEREST RATE RISK:

The Company's financial instruments include cash and cash equivalents and short-term borrowings. The Company's obligations are short-term in nature and generally have less than a 30-day commitment. As of April 3, 2004, the Company is exposed to interest rate risks primarily through borrowings under the Credit Agreement. Interest on all borrowings is based upon several alternative rates as stipulated in the Credit Agreement, including a fixed margin above LIBOR. As of April 3, 2004, the Company had no borrowings under the Credit Agreement and \$3.5 million in borrowings under the additional lines of credit at an interest rate of 4.25% (see Note 3 to the Condensed Consolidated Financial Statements). As of April 3, 2004, the Company believes that its interest rate risk is minimal as a hypothetical 10% increase or decrease in interest rates in the associated debt's variable rate would not materially affect the Company's results from operations or cash flows. As of April 3, 2004, the Company did not use derivative financial instruments in its investment portfolio.

#### FOREIGN CURRENCY RISK:

The Company enters into some purchase obligations outside of the United States, which are predominately settled in U.S. dollars, and therefore, the Company has only minimal exposure to foreign currency exchange risks. As of April 3, 2004, the Company did not hedge against foreign currency risks and believes that foreign currency exchange risk is immaterial.

In addition, the Company operated 20 stores in Canada as of April 3, 2004. The Company believes its foreign currency translation risk is minimal, as a hypothetical 10% strengthening or weakening of the U.S. dollar relative to the Canadian dollar would not materially affect the Company's results from operations or cash flow.

Between fiscal year end 2003 and April 3, 2004, there have been no material changes in market risk exposures.

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### Item 4. Controls and Procedures

On March 7, 2005, management and the Audit Committee discussed the issues regarding the Company's method of accounting for leases and landlord allowances with the Company's independent registered public accounting firm and determined that the Company's accounting for these items was not consistent with the views expressed by the SEC in a letter dated February 7, 2005. Accordingly, management

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and the Audit Committee concluded that the Company should restate its annual financial statements for fiscal years 2002 and 2003 presented in its fiscal 2004 Annual Report on Form 10-K, and its quarterly financial information for the four quarters of fiscal year 2003 and the first three quarters of fiscal year 2004. The restatement is further discussed in the "Explanatory Note" in the forepart of this 10-Q/A and in Note 2, "Restatement of Financial Statements." Public Company Accounting Oversight Board's Auditing Standard No. 2, AN AUDIT OF INTERNAL CONTROL OVER FINANCIAL REPORTING PERFORMED IN CONJUNCTION WITH AN AUDIT OF FINANCIAL STATEMENTS, provides that a restatement of previously issued financial statements is a strong indicator of the existence of a "material weakness" in the design or operation of internal control over financial reporting. Accordingly, management concluded that the control deficiency that resulted in the incorrect lease accounting represented a material weakness in internal control over financial reporting.

In connection with the restatement referred to above, the Company's management, including its Chief Executive Officer and Chief Financial Officer, re-evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report (April 3, 2004). Based upon that evaluation, the Company's Chief Executive Officer and the Chief Financial Officer concluded that as a result of the aforementioned material weakness related to lease accounting, the Company's disclosure controls and procedures were not effective, as of the end of the period covered by this Report (April 3, 2004), in ensuring that material information relating to Linens 'n Things, Inc., including its consolidated subsidiaries, required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

The Company has remediated the material weakness in the Company's internal control over financial reporting, subsequent to January 1, 2005 by implementing additional review procedures over the selection and monitoring of appropriate assumptions and factors affecting lease accounting practices.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING. During the fiscal quarter to which this report relates, there were no changes in the Company's internal control over financial reporting that materially affected or are reasonably likely to materially affect internal control over financial reporting. During the fourth quarter of 2004, as part of the Section 404 internal control assessment process, management determined that there was a material weakness in the design of controls over inventory existence due to the timing of its physical inventories and the cycle counting procedures over inventory that were in place. The Company remediated this control deficiency by the end of fiscal 2004 by enhancing its inventory cycle count procedures within the fourth quarter to confirm the existence of inventory.

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### Item 6. Exhibits and Reports on Form 8-K

#### (a) EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
15	Acknowledgment of Independent Registered Public Accounting Firm
31.1	Certification of Norman Axelrod, Chairman and Chief Executive Officer of the Company, Pursuant to Securities Exchange Act Rule 13a-14(a).
31.2	Certification of William T. Giles, Executive Vice President and Chief Financial Officer of the Company, Pursuant to Securities Exchange Act Rule 13a-14(a).
32	Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act Of 2002, signed by Norman Axelrod, Chairman and Chief Executive Officer of the Company, and William T. Giles, Executive Vice President and Chief Financial Officer of the Company.

#### (b) REPORTS ON FORM 8-K:

The Company furnished the following reports on Form 8-K during the quarter for which this report on Form 10-Q is filed:

The Company furnished a Current Report on Form 8-K dated February 4, 2004 in reference to a press release dated February 4, 2004 reporting the Company's sales and earnings results for its fourth quarter and fiscal year ended January 3, 2004.

The Company furnished a Current Report on Form 8-K dated February 27, 2004 in reference to an employment agreement entered into between the Company and F. David Coder, Senior Vice President, Store Operations.

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#### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to this Quarterly Report on Form 10-Q/A to be signed on its behalf by the undersigned thereunto duly authorized.

LINENS 'N THINGS, INC.

Dated: April 19, 2005

By: /s/ Norman Axelrod  
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Name: Norman Axelrod  
Title: Chairman and Chief  
Executive Officer

Dated: April 19, 2005

By: /s/ William T. Giles  
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Name: William T. Giles  
Title: Executive Vice President and  
Chief Financial Officer