

Citadel LNT, LLC  
Form S-4  
July 07, 2006

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As filed with the Securities and Exchange Commission on July 7, 2006

Registration No. 333-

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM S-4**

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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**LINENS HOLDING CO.  
LINENS 'N THINGS, INC.  
LINENS 'N THINGS CENTER, INC.**

\*And the Subsidiary Guarantors listed in Table of Additional Registrants  
(Exact name of Registrant as specified in its charter)

**Delaware**  
**Delaware**  
**California**  
(State or other jurisdiction  
of incorporation)

**5719**  
**5719**  
**5719**  
(Primary Standard Industrial  
Classification Code Number)

**20-4192917**  
**22-3463939**  
**59-2740308**  
(I.R.S. Employer  
Identification Number)

**6 Brighton Road**  
**Clifton, New Jersey 07015**  
**(973) 778-1300**  
(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)

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**Francis M. Rowan**  
**6 Brighton Road**  
**Clifton, New Jersey 07015**  
**Tel: (973) 778-1300**  
(Name and address, including zip code, and telephone number, including area code, of agent for service)

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**Copies to:**

**David R. Earhart, Esq.**  
Gardere Wynne Sewell LLP  
1601 Elm Street, Suite 3000  
Dallas, Texas 75201-4761

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Tel: (214) 999-4645

Fax: (214) 999-3645

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this Form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

## CALCULATION OF REGISTRATION FEE

Title of each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Note	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Senior Secured Floating Rate Notes due 2014	\$650,000,000	100%	\$650,000,000	\$69,550(1)
Guarantees related to the Senior Secured Floating Rate Notes due 2014	Not Applicable	Not Applicable	Not Applicable	Not Applicable(2)

(1) Calculated pursuant to Rule 457(f)(2) under the Securities Act. For purposes of this calculation, the Offering Price Per Note was assumed to be the principal amount as shown on the face of the exchange notes.

(2) No separate consideration was received for the guarantees and, therefore, pursuant to Rule 457(n) under the Securities Act, no separate fee is payable with respect to the guarantees being registered hereby.

The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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**\*Table of Additional Registrants**

<b>Name of Additional Registrant<sup>#</sup></b>	<b>State or other Jurisdiction of Incorporation or Formation</b>	<b>Primary Standard Industrial Classification Code Number</b>	<b>I.R.S. Employer Identification Number</b>
Bloomington MN., L.T., Inc.	Minnesota	5719	22-2708498
Vendor Finance, LLC	Delaware	5719	81-0665543
LNT, Inc.	New Jersey	5719	22-2074668
LNT Services, Inc.	Delaware	5719	20-0392093
LNT Leasing II, LLC	Delaware	5719	26-0004182
LNT West, Inc.	Delaware	5719	20-0391975
LNT Virginia LLC	Virginia	5719	22-0379453
LNT Merchandising Company LLC	Delaware	5719	20-0422616
LNT Leasing III, LLC	Delaware	5719	51-0503599
Citadel LNT, LLC	Delaware	5719	33-1092479

#

Addresses and telephone numbers of principal executive offices are the same as those of Linens 'n Things, Inc.

**THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT COMPLETE THE EXCHANGE OFFER OF THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL NOR DOES IT SEEK AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.**

**SUBJECT TO COMPLETION, DATED JULY 6, 2006**

**PROSPECTUS**

[LOGO]

**LINENS 'N THINGS, INC.  
LINENS 'N THINGS CENTER, INC.**

**Offer to Exchange all of the Outstanding  
\$650,000,000 Senior Secured Floating Rate Notes due 2014  
for  
\$650,000,000 Registered Senior Secured Floating Rate Notes due 2014**

We are offering to exchange all of our outstanding Senior Secured Floating Rate Notes due 2014, which were issued in a private placement on February 14, 2006 and which we refer to as the "old notes," for an equal aggregate amount of our registered Senior Secured Floating Rate Notes due 2014, which have been registered with the Securities and Exchange Commission, or the "Commission," and which we refer to as the "exchange notes." The terms of the exchange notes are identical in all material respects to the terms of the old notes, except that the exchange notes will not bear legends restricting their transfer under the Securities Act of 1933, as amended, and certain transfer restrictions, registration rights and additional interest payment provisions relating to the old notes will not apply to the exchange notes.

The old notes were issued, jointly and severally, by Linens 'n Things, Inc., or "Linens 'n Things," and Linens 'n Things Center, Inc., or "Linens 'n Things Center," on February 14, 2006, in connection with the acquisition of Linens 'n Things by Linens Holding Co. The old notes have been, and the exchange notes will be, guaranteed by Linens Holding Co. and all of its wholly owned domestic restricted subsidiaries other than the co-issuers.

**MATERIAL TERMS OF THE EXCHANGE OFFER**

The exchange offer expires at 5:00 p.m., New York City time, on \_\_\_\_\_, 2006, unless extended.

We will exchange all old notes that are validly tendered and not validly withdrawn prior to the expiration of the exchange offer.

You may withdraw tendered old notes at any time prior to the expiration of the exchange offer.

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes.

The only conditions to completing the exchange offer are that the exchange offer not violate any applicable law or applicable interpretation of the staff of the Commission and no injunction, order or decree has been issued that would prohibit, prevent or materially impair our ability to proceed with the exchange offer.

We will not receive any cash proceeds from the exchange offer.

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There is no active trading market for the old notes and we do not intend to list the exchange notes on any securities exchange or to seek approval for quotations through any automated quotation system.

**Before participating in this exchange offer, consider carefully the "Risk Factors" beginning on page 18 of this prospectus.**

**Neither the Commission nor any state securities commission has approved or disapproved of the exchange notes or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is \_\_\_\_\_, 2006

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The information contained in this prospectus speaks only as of the date of this prospectus unless the information specifically indicates that another date applies. No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this prospectus in connection with the offer contained herein and, if given or made, such information or representations must not be relied upon as having been authorized by us. Neither the delivery of this prospectus nor any sale made hereunder shall under any circumstances create an implication that there has been no change in our affairs or that of our subsidiaries since the date hereof.

In this prospectus and except as the context otherwise requires or indicates:

"Issuers" means Linens 'n Things, Inc. and Linens 'n Things Center, Inc.; and

"Us," "we," "our" or "Company" means Linens Holding Co., a Delaware corporation, together with its consolidated subsidiaries, including Linens 'n Things, Inc. and Linens 'n Things Center, Inc.

**WHERE CAN YOU FIND MORE INFORMATION**

We have filed with the Commission a registration statement on Form S-4 under the Securities Act relating to the offering of the exchange notes. This prospectus is part of that registration statement. You may obtain from the Commission a copy of the registration statement and exhibits that we have filed with the Commission. The registration statement may contain additional information that may be important to you. Statements made in this prospectus about legal documents may not necessarily be complete, and you should read it together with the documents filed as exhibits to the registration statement filed with the Commission.

### **FORWARD-LOOKING STATEMENTS**

Certain information included in this prospectus may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements, other than statements of historical facts, included in this prospectus, are forward-looking statements. In particular, statements that we make relating to our overall volume trends, industry forces, margin trends, anticipated capital expenditures and our strategies are forward-looking statements. When used in this document, the words "believe," "expect," "anticipate," "estimate," "project," "plan," "should" and similar expressions are intended to identify forward-looking statements.

These statements are based on assumptions and assessments made by our management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Any forward-looking statements are not guarantees of our future performance and are subject to risks and uncertainties that could cause actual results, developments and business decisions to differ materially from those contemplated by such forward-looking statements. We disclaim any duty to update any forward-looking statements. Some of the factors that may cause actual results, developments and business decisions to differ materially from those contemplated by such forward-looking statements include the risk factors discussed under the heading "Risk Factors." We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them does, what impact they will have on our results of operations and financial condition.

## PROSPECTUS SUMMARY

*This summary highlights selected information contained elsewhere in this prospectus and may not contain all of the information that is important to you. You should read carefully this entire prospectus and should consider, among other things, the financial statements appearing elsewhere in this prospectus and the matters set forth in the section entitled "Risk Factors." We operate on a fiscal year ending on the Saturday closest to December 31. Fiscal years 2005, 2004 and 2003 were fifty-two week periods.*

### **Our Company**

We are the second largest specialty retailer of home textiles, housewares and home accessories in North America operating 549 stores in 47 U.S. states and six Canadian provinces as of April 1, 2006. We are a destination retailer, offering one of the broadest and deepest selections of high quality brand-name as well as private label home furnishings merchandise in the industry. Our average store size of approximately 33,000 gross square feet enables us to offer a more comprehensive product and brand selection than department stores and other retailers that sell home furnishings. We believe our store format coupled with our knowledgeable sales assistance and attentive service to our customers, whom we refer to as our guests, creates an enjoyable shopping experience. Our primary target guest is female between the ages of 25 and 55 who is fashion and brand conscious, has good-to-better income and focuses on the home as a reflection of her individuality.

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

Our store format features an efficient racetrack layout in a visually appealing format that encourages guests to shop the entire store. We operate various store size formats generally ranging from 25,000 to 40,000 gross square feet. This allows us to match the size of our stores with the market potential of each location. Our stores are located predominately in power strip centers adjacent to complementary broad-based retail chains. In addition, our stores are generally located in geographic trading areas with at least 150,000 people within a five to ten mile radius and with demographic characteristics that match our target guest profile. We were incorporated on September 10, 1996 and were a wholly owned subsidiary of CVS Corporation ("CVS"), formerly Melville Corporation, until November 26, 1996, when CVS completed an initial public offering of our common stock.

### **Business Strategy**

***Improve Our Overall Merchandise Assortments.*** We intend to maximize merchandise productivity by implementing the following assortment planning initiatives:

reduce our overall SKUs and increase the in-stock positions of our most popular merchandise;

re-allocate space in our stores to more productive categories;

increase the use of analytics in our merchandise assortment planning process, enabling us to make more informed, trend-based purchasing decisions in advance of guest demand; and



selectively expand existing merchandise categories and key vendor assortments as well as introduce new merchandise product lines that better reflect the style and regional preferences of our guests.

**Establish a Key Item Program.** We have established a "Best Bets" program in order to provide our guests superior value on our top 100 selling items. We intend to price these key items competitively and maintain deep in-stock positions to meet guest demand. We believe that our key item program will help drive store traffic, improve sales per square foot and strengthen the Linens 'n Things brand over the long-term.

**Increase the Effectiveness of Our Marketing Expenditures.** We intend to implement an aggressive new, multi-tiered marketing campaign that re-invigorates the Linens 'n Things brand, emphasizes our commitment to our Best Bets program and drives traffic to our stores. Our marketing expenditures were approximately \$114.0 million in fiscal 2005, or 4.2% of net sales. We expect to reduce marketing expenditures as a percentage of net sales in fiscal 2006; however, we intend to broaden our reach with a more diversified mix of marketing utilizing broadcast media, preprint, newspaper advertising and direct mail. We believe that these changes, coupled with a greater emphasis on national advertising, will be more effective in communicating our merchandising strategy while attracting new guests into our stores and enhancing our brand.

**Improve Our Guests' Shopping Experience.** Our goal is to exceed our guests' expectations in every store, every day. We intend to achieve this goal by building on our existing service philosophy and by creating a more inviting atmosphere for our guests. We believe we can make our guests' shopping experience more efficient and enjoyable through enhanced merchandise presentation, including more stimulating product displays and clearer in-store signage.

**Improve Our Operating Free Cash Flow.** We are highly committed to increasing our operating free cash flow. As a result, we plan to reduce new store openings over the next few years and focus on improving the operations of our existing stores. We currently expect to open approximately 25 to 30 new stores in 2006, primarily consisting of stores we have already committed to opening, as opposed to an average of approximately 56 new stores per year since 2003. As a result, we currently expect our fiscal 2006 capital expenditures to be approximately \$85.0 million, as opposed to \$127.6 million in fiscal 2005. In addition, in connection with our merchandise assortment planning and sales productivity initiatives, we expect to improve our inventory turns and reduce our working capital. Our new business strategy does not require any out of the ordinary or one-time capital expenditures.

**Realize Improved Financial Performance as Recently Opened Stores Mature.** As of April 1, 2006, we operate 549 stores, 174 of which were opened since the beginning of 2003. These 174 stores have not yet reached sales and store-level EBITDA consistent with our stores that were opened before 2003. Store-level EBITDA represents operating profit derived for each store, before depreciation for all fixed assets located at each store and amortization, where operating profit is based on each store's actual sales less direct expenses excluding an allocation of overhead. Historically, new stores take 4 to 5 years to reach the financial performance of a mature store. Accordingly, we expect our recently opened stores to generate improved financial performance and contribute meaningfully to our overall net sales and store-level EBITDA as they mature over the next few years.

## Competitive Strengths

**Strong Brand Name Recognition.** The Linens 'n Things brand name has a strong reputation as a leading provider of home furnishings. Our brand recognition is reinforced by our national footprint and highly visible store locations. Additionally, we utilize extensive national and local advertising through multiple formats to reinforce our guest recognition and support our promotional events. Based on a

study by Leo J. Shapiro & Associates, an independent market research firm, in May 2005, 9 out of 10 U.S. households located in our markets recognize the Linens 'n Things brand.

**Leading Destination for Home Furnishings.** We are the second largest specialty retailer of home textiles, housewares and home accessories in North America and, as of April 1, 2006, operate 549 stores in 47 U.S. states and six Canadian provinces with an aggregate of approximately 18.3 million gross square feet. With over 25,000 SKUs, we market one of the broadest and deepest selections of home furnishings in the industry, providing us with a competitive advantage over department stores and mass merchants who offer a more limited product selection. Our more comprehensive product and brand selection provides our guests with a one-stop shopping destination for their home furnishing needs.

**Well Maintained Store Base with Attractive Real Estate.** Our portfolio of stores is primarily located in high traffic suburban locations that are convenient and accessible to our core guests and in close proximity to other high quality, national retailers. According to a study done by MapInfo in March 2004, our real estate is extremely competitive as to location and size with other national specialty retailers of home furnishings. Our store base is up to date with an average age per store of approximately five years. We believe that the average age of our store base minimizes our near-term maintenance and remodeling capital expenditure requirements.

**Strong and Diversified Vendor Relationships.** We are one of the largest purchasers of home furnishings in the United States and have developed strong long-term relationships with our vendors, from whom we consistently purchase large quantities of quality merchandise. We believe that our strong and diversified vendor relationships coupled with our buying power provides us a competitive advantage in the U.S. home furnishings industry. In addition, due to our broad range of branded products, our success is not dependent on any one specific product or vendor. In fiscal 2005, no single vendor accounted for more than 8% of our purchases.

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

#### **Attractive Industry Fundamentals**

The U.S. home furnishings market, which we define as the retail market for textile home furnishing and durable home furnishings, was approximately an \$82 billion market in 2005 according to the U.S. Department of Commerce. Textile home furnishings include bedding, bath accessories, kitchen and table linens and window treatments. Durable home furnishings include kitchenware, tabletop, small appliances, floor care, home décor and storage items. According to the U.S. Department of Commerce, the U.S. home furnishings market has generated positive growth in each year since 1990 and has grown at a 5.0% compound annual growth rate between 1990 and 2004. According to Retail Forward, Inc., a market research firm, the U.S. home furnishings market is expected to grow at a 4.4% compound annual growth rate between 2004 and 2009. Positive industry trends include continued consumer focus on the home, greater consumer disposable income and increasing home ownership.

The retail U.S. home furnishings market is highly fragmented. The market includes many different types of retailers including, among others, department stores, home improvement centers, mass

merchandisers and discounters, specialty retailers and warehouse clubs. We believe that specialty retailers have been one of the fastest growing segments of the market over the past few years. As compared to department stores and other retailers of home furnishings, we believe that "big box" specialty retailers offer a broader and deeper merchandise selection, a higher level of customer service and a more convenient, one-stop shopping experience. As a result, we believe that "big box" specialty retailers will continue to gain market share, particularly as department stores focus increasingly on the fashion elements in their business, including apparel and cosmetics.

### **The Transactions**

On November 8, 2005, Linens Merger Sub Co. and its parent company, Linens Holding Co., entered into an Agreement and Plan of Merger with Linens 'n Things, Inc. governing a reverse subsidiary merger (the "Merger") pursuant to which, 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. In the Merger, 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) was converted into the right to receive \$28.00 in cash, without interest, for aggregate consideration of approximately \$1.3 billion. 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 those under the notes and the related indenture. Linens 'n Things Center, Inc., a direct wholly owned subsidiary of Linens 'n Things, Inc., was 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 \$648.0 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. We did not draw on our asset-based revolving credit facility at closing.

The aforementioned transactions, including the Merger and its payment of any costs related to these transactions, are collectively referred to herein as the "Transactions." In connection with the Transactions, we incurred significant indebtedness and became highly leveraged.

Immediately following the Merger, we became a wholly owned subsidiary of Linens Holding Co. Linens Holding Co. is an entity that was formed in connection with the Transactions and had 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 us 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 our \$600.0 million asset-based revolving credit facility;

the termination of our prior \$250.0 million unsecured revolving credit facility and CAN \$40.0 million unsecured credit facility agreements; and

the equity investments described above.

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

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investment vehicle controlled by Apollo Management V, L.P., or one of its affiliates, and Robert J. DiNicola, our Chairman and Chief Executive Officer, acquired the remaining 0.3%.

Upon consummation of the Transactions, we delisted our 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.

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Our principal executive offices are located at 6 Brighton Road, Clifton, New Jersey 07015 and our telephone number at that address is (973) 778-1300. Our corporate website address is *www.lnt.com*. Our website and the information contained on our website are not part of this prospectus.

Linens Holding Co. was incorporated on November 7, 2005. Linens 'n Things, Inc. was incorporated on September 10, 1996. Linens 'n Things Center, Inc. was incorporated on January 12, 1996.

Certain of the titles and logos referenced in this prospectus are our trademarks and service marks. All other trademarks, service marks and trade names referred to in this prospectus are the property of their respective owners.

### Summary of the Exchange Offer

*We are offering to exchange \$650 million aggregate principal amount of our exchange notes for \$650 million aggregate principal amount of our old notes. The following is a brief summary of the terms and conditions of the exchange offer. For a more complete description of the exchange offer, you should read the discussions under the heading "The Exchange Offer."*

Exchange Notes	\$650 million aggregate principal amount of Senior Secured Floating Rate Notes due 2014. The terms of the exchange notes are identical to the terms of the old notes, except that the exchange notes have been registered under the Securities Act and will not bear legends restricting their transfer under the Securities Act. In addition, certain transfer restrictions, registration rights and additional interest payment provisions relating to the old notes will not apply to the exchange notes.
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Old Notes	\$650 million aggregate principal amount of Senior Secured Floating Rate Notes due 2014, which were issued in a private placement on February 14, 2006.
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The Exchange Offer	We are offering to exchange \$1,000 principal amount of our exchange notes for each \$1,000 principal amount of our old notes. We are making this exchange offer to satisfy our obligations under a registration rights agreement that we entered into with the initial purchasers of the old notes in connection with the private placement.
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To exchange your old notes, you must properly tender them in the exchange offer and we must accept your tender. All old notes that you validly tender and do not subsequently validly withdraw will be exchanged in the exchange offer.

We will issue the exchange notes promptly after the expiration of the exchange offer.

Registration Rights Agreement	You are entitled under the registration rights agreement to exchange your old notes for exchange notes with substantially identical terms. This exchange offer is intended to satisfy these rights. After the exchange offer is complete, except as set forth in the next paragraph, you will no longer be entitled to any exchange or registration rights with respect to your old notes.
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The registration rights agreement requires us to file a registration statement for a continuous offering in accordance with Rule 415 under the Securities Act for your benefit if you would not receive freely tradable exchange notes in the exchange offer or you are ineligible to participate in the exchange offer, provided that you indicate that you wish to have your old notes registered under the Securities Act. See "The Exchange Offer Procedures for Tendering."

Resales of the Exchange Notes

We believe that you may resell, offer for resale or otherwise transfer any exchange notes issued to you in the exchange offer without complying with the registration and prospectus delivery requirements of the Securities Act if you meet all of the following conditions:

- (1) you acquired the exchange notes in the ordinary course of your business;
- (2) you are not engaging in and do not intend to engage in a distribution of the exchange notes;
- (3) you do not have an arrangement or understanding with any person to participate in the distribution of the exchange notes; and
- (4) you are not an affiliate of ours, as the term "affiliate" is defined in Rule 405 under the Securities Act.

Our belief is based on interpretations by the staff of the Commission, as set forth in no-action letters issued to third parties unrelated to us. We have not asked the staff for a no-action letter in connection with this exchange offer, however, and we cannot assure you that the staff would make a similar determination with respect to the exchange offer.

If you do not meet all of the above conditions, you may incur liability under the Securities Act if you transfer any exchange note without delivering a prospectus meeting the requirements of the Securities Act. We do not and will not assume or indemnify you against that liability.

Each broker-dealer that is issued exchange notes in the exchange offer for its own account in exchange for old notes that the broker-dealer acquired as a result of market-making activities or other trading activities must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resales of the exchange notes. A broker-dealer may use this prospectus for an offer to resell or to otherwise transfer the exchange notes. We have agreed that, for a period of 180 days from the effective date of this registration statement, upon the request of a broker-dealer, we will make this prospectus, as amended or supplemented, available to the broker-dealer for use in connection with any such resale.

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### Expiration Date

The exchange offer will expire at 5:00 p.m., New York City time, on , 2006, unless we decide to extend the exchange offer. We do not intend to extend the exchange offer, although we reserve the right to do so.

### Conditions to the Exchange Offer

We will complete the exchange offer only if it will not violate applicable law or any applicable interpretation of the staff of the Commission and no injunction, order or decree has been issued which would prohibit, prevent or materially impair our ability to proceed with the exchange offer. See "The Exchange Offer Conditions."

### Procedures for Tendering Old Notes Held in the Form of Book-Entry Interests

The old notes were issued as global securities in fully registered form without interest coupons. Beneficial interests in the old notes are held by direct or indirect participants in The Depository Trust Company, or DTC, through certificateless depository interests that are shown on, and transfers of the old notes can be made only through, records maintained in book-entry form by DTC with respect to its participants.

If you are a holder of an old note held in the form of a book-entry interest and you wish to exchange your old note for an exchange note pursuant to the exchange offer, you must transmit to The Bank of New York, as exchange agent, on or prior to the expiration of the exchange offer a computer-generated message transmitted by means of DTC's Automated Tender Offer Program system and forming a part of a confirmation of book-entry transfer in which you acknowledge and agree to be bound by the terms of the letter of transmittal.

The exchange agent must also receive on or prior to the expiration of the exchange offer either:

a timely confirmation of book-entry transfer of your old notes into the exchange agent's account at DTC, in accordance with the procedure for book-entry transfers described in this prospectus under the heading "The Exchange Offer Procedures for Tendering" and " Book-Entry Transfer"; or

the documents necessary for compliance with the guaranteed delivery procedures described below.

A letter of transmittal accompanies this prospectus. By delivering a computer-generated message through DTC's Automated Tender Offer Program system, you will represent to us, among other things, that:

you are acquiring the exchange notes in the exchange offer in the ordinary course of your business;

you are not engaging in and do not intend to engage in a distribution of the exchange notes;

you do not have an arrangement or understanding with any person to participate in the distribution of the exchange notes; and

you are not our affiliate.

Procedures for Tendering Certificated Notes

No certificated notes are issued and outstanding as of the date of this prospectus. If you are a holder of book-entry interests in old notes, you are entitled to receive, in limited circumstances, in exchange for your book-entry interests, certificated notes in principal amounts equal to your book-entry interests. If you acquire certificated old notes prior to the expiration of the exchange offer, you must tender your certificated old notes in accordance with the procedures described in "The Exchange Offer Procedures for Tendering" and "Certificated Old Notes."

Special Procedures for Beneficial Owners

If you are the beneficial owner of old notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, and you wish to tender your old notes, you should promptly contact the person in whose name your old notes are registered and instruct that person to tender on your behalf. If you wish to tender on your own behalf, you must, prior to completing and executing the letter of transmittal and delivering your notes, either make appropriate arrangements to register ownership of the old notes in your name or obtain a properly completed bond power from the person in whose name your old notes are registered. The transfer of registered ownership may take considerable time. See "The Exchange Offer Procedures for Tendering."

Guaranteed Delivery Procedures

If you wish to tender your old notes and you cannot get the required documents to the exchange agent on time, you may tender your old notes in accordance with the guaranteed delivery procedures set forth in "The Exchange Offer Procedures for Tendering" and "Guaranteed Delivery Procedures."



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Acceptance of Old Notes and Delivery of Registered Notes      Except under the circumstances summarized above under "Conditions to the Exchange Offer," we will accept for exchange any and all old notes that are properly tendered in the exchange offer prior to 5:00 p.m., New York City time, on the expiration date for the exchange offer. The exchange notes to be issued to you in the exchange offer will be delivered promptly following the expiration of the exchange offer. See "The Exchange Offer Terms of the Exchange Offer."

Withdrawal      You may withdraw any tender of your old notes at any time prior to 5:00 p.m., New York City time, on the expiration date of the exchange offer. We will return to you any old notes not accepted for exchange for any reason without expense to you as promptly as we can after the expiration or termination of the exchange offer.

Exchange Agent      The Bank of New York is serving as the exchange agent in connection with the exchange offer.

Consequences of Failure to Exchange      If you do not participate or properly tender your old notes in the exchange offer:

you will retain old notes that are not registered under the Securities Act and that will continue to be subject to restrictions on transfer that are described in the legend on the old notes;

you will not be able, except in very limited instances, to require us to register your old notes under the Securities Act;

you will not be able to offer to resell or transfer your old notes unless they are registered under the Securities Act or unless you offer to resell or transfer them pursuant to an exemption under the Securities Act; and

the trading market for your old notes will become more limited to the extent that other holders of old notes participate in the exchange offer.

Federal Income Tax Consequences      Your exchange of old notes for exchange notes in the exchange offer should not result in any gain or loss to you for U.S. federal income tax purposes. See "Certain United States Federal Income Tax Considerations."

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*The summary below describes the principal terms of the notes. Some of the terms and conditions described below are subject to important limitations and exceptions. The "Description of Exchange Notes" section of this prospectus contains a more detailed description of the terms and conditions of the notes.*

Co-Issuers	Linens 'n Things, Inc. and Linens 'n Things Center, Inc.
Notes Offered	\$650,000,000 aggregate principal amount of senior secured floating rate notes due 2014.
Maturity Date	January 15, 2014.
Interest Payment Date	We pay interest on the old notes and will pay interest on the exchange notes at a per annum rate equal to LIBOR plus 5.625%, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year. The interest rate on the exchange notes will be reset quarterly.
Guarantees	The old notes are and the exchange notes will be fully and unconditionally guaranteed, jointly and severally, on a senior basis by Linens Holding Co., the parent corporation of the Issuers, and by each of our direct and indirect subsidiaries that guarantee our asset-based revolving credit facility except for our Canadian subsidiaries, all of which are referred to in this prospectus as the guarantors. If the Issuers cannot make payments required by the exchange notes, the guarantors are required to make payments instead. The guarantees may be released under certain circumstances.
Ranking	The exchange notes and the guarantees will be our senior secured obligations and: <ul style="list-style-type: none"><li>will rank equally in right of payment with all of our existing and future senior indebtedness;</li><li>will rank senior in right of payment to all of our existing and future senior subordinated and subordinated indebtedness;</li><li>will be effectively senior to our asset-based revolving credit facility to the extent of the value of the collateral securing the exchange notes on a first priority basis;</li><li>will be effectively junior in right of payment to indebtedness under our asset-based revolving credit facility to the extent of the value of the collateral securing our asset-based revolving credit facility on a first priority basis; and</li><li>be effectively junior in right of payment to the indebtedness and all other liabilities, including trade payables, of our subsidiaries that do not guarantee the exchange notes.</li></ul>

As of April 1, 2006, our subsidiaries that do not guarantee the exchange notes had outstanding liabilities of \$35.8 million, excluding intercompany liabilities and notes payable. For the 13 weeks ended April 1, 2006, our foreign subsidiaries had net sales of \$36.5 million (6.2% of our total net sales), net loss of \$1.4 million (2.2% of our total net loss) and assets of \$113 million including intercompany payable and excluding intercompany notes receivable (5.6% of our total assets).

Collateral

The exchange notes and guarantees will be secured by first-priority liens, subject to permitted liens, on all of our and the guarantors' equipment, intellectual property rights and related general intangibles and all of our capital stock and the capital stock of certain subsidiaries. The lien on capital stock may be released under certain circumstances. The exchange notes and guarantees will also be secured by second-priority liens, subject to permitted liens, in all of our and the guarantors' inventory, accounts receivable, cash, securities and other general intangibles. See "Description of Exchange Notes Security."

Intercreditor Agreement

The trustee under the indenture and the agent under our asset-based revolving credit facility (and their respective collateral agents) have entered into an intercreditor agreement as to the relative priorities of their respective security interests in our assets securing the exchange notes and the loans under our asset-based revolving credit facility and certain other matters relating to the administration of such security interests. The terms of the intercreditor agreement are set forth under "Description of Exchange Notes Intercreditor Agreement."

Optional Redemption

We may, at our option, redeem some or all of the exchange notes at any time on or after January 15, 2008 at the redemption prices listed under "Description of Exchange Notes Optional Redemption" plus accrued and unpaid interest and additional interest.

Prior to January 15, 2008, we may, at our option, redeem up to 35% of the exchange notes with the proceeds of certain sales of our equity or equity of our parent at the redemption prices listed under "Description of Exchange Notes Optional Redemption" plus accrued and unpaid interest and additional interest. We may make the redemption only if, after the redemption at least 65% of the aggregate principal amount of the exchange notes originally issued remains outstanding.

Prior to January 15, 2008, we may, at our option, redeem some or all of the exchange notes at a price equal to 100% of the principal amount of the exchange notes plus a "make-whole" premium.

Mandatory Repurchase Offer

If we experience certain kinds of changes of control, we must offer to purchase the exchange notes at 101% of their principal amount, plus accrued and unpaid interest and additional interest. For more details, see "Description of Exchange Notes Repurchase at the Option of Holders Change of Control."

If we sell assets under certain circumstances, we must offer to repurchase the exchange notes at a price equal to par plus the accrued and unpaid interest and additional interest, if any, to the repurchase date as described under "Description of Exchange Notes Repurchase at the Option of Holders Asset Sales."

Certain Covenants

We will issue the exchange notes under an indenture with The Bank of New York, which will initially act as trustee on your behalf. The indenture will, among other things, restrict our ability and the ability of our restricted subsidiaries to:

incur, assume or guarantee additional indebtedness;

issue redeemable stock and preferred stock;

repurchase capital stock;

make other restricted payments including, without limitation, paying dividends and making investments;

create liens;

redeem debt that is junior in right of payment to the exchange notes; and

sell or otherwise dispose of assets, including capital stock of subsidiaries.

These covenants are subject to a number of important limitations and exceptions. See "Description of Exchange Notes Certain Covenants."

Absence of Public Market for the Notes

The exchange notes are a new issue of securities and there is currently no established trading market for the exchange notes. The exchange notes generally will be freely transferable but will also be new securities for which there will not initially be a market. Accordingly, there can be no assurance as to the development or liquidity of any market for the exchange notes.

Use of Proceeds

We will not receive any cash proceeds upon completion of the exchange offer.

*You should refer to the section entitled "Risk Factors" for an explanation of certain risks of participating or not participating in the exchange offer.*

**Summary Historical and Unaudited Pro Forma Consolidated Financial and Operating Data**

The following table sets forth our summary historical and pro forma consolidated financial and operating data. The summary historical income statement data for fiscal 2005, fiscal 2004 and fiscal 2003 and the summary historical balance sheet data as at the end of fiscal 2005 and fiscal 2004 have been derived from our consolidated financial statements for such periods and such dates, which have been audited by KPMG LLP and are included in this registration statement. The summary historical, pro forma and financial data should be read in conjunction with the consolidated financial statements for the year ended December 31, 2005, the related notes and the independent registered public accounting firm's report, which refers to a change in the method of accounting for vendor arrangements to conform to the requirements of Emerging Issues Task Force Issue No. 02-16. As a result of the consummation of the transaction, a new entity was formed with an effective date of February 14, 2006. The historical financial data as of and for each of the periods through February 13, 2006 shown under the predecessor entity caption, consists of Linens 'n Things and subsidiaries. The historical financial data for the successor entity as of April 1, 2006 and for the period February 14 to April 1, 2006 show the operations of the successor entity, Linens Holding Co. and subsidiaries. The unaudited historical financial data as of April 1, 2006, for the periods from January 1, 2006 to February 13, 2006 and February 14, 2006 to April 1, 2006, and the thirteen weeks ended April 2, 2005, have been derived from our unaudited consolidated financial statements. The unaudited 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. In the opinion of management, such unaudited financial data reflect all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the results for that period. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year or any future period.

The summary unaudited pro forma consolidated financial data are based on our historical consolidated financial statements appearing elsewhere in this prospectus and give effect to the Transactions as if they had occurred on January 2, 2005. The pro forma adjustments are based upon available information and assumptions that we believe are reasonable; however, we can provide no assurance that the assumptions used in the preparation of the pro forma condensed consolidated financial information are correct. The pro forma condensed consolidated financial information is for illustrative and informational purposes only and is not intended to represent or be indicative of what our financial condition or results of operations would have been had the Transactions described under "Prospectus Summary The Transactions" occurred on such dates. The pro forma condensed consolidated financial information also should not be considered representative of our future financial condition or results of operations. The acquisition of Linens 'n Things, Inc. is being accounted for as a business combination using the purchase method of accounting.

The term "predecessor" refers to Linens 'n Things, Inc. and the term "successor" refers to Linens Holding Co. after its acquisition of Linens 'n Things, Inc. on February 14, 2006. This information is a summary and should be read in conjunction with "Capitalization," "Unaudited Pro Forma Condensed Consolidated Financial Information," "Selected Historical Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

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(Predecessor)				(Successor)			
Fiscal Year Ended			Thirteen Weeks Ended			Thirteen Weeks Ended(1)	Pro Forma Fifty-Two Weeks Ended(2)
January 3, 2004	January 1, 2005(3)	December 31, 2005	April 2, 2005	January 1 to February 13, 2006	February 14 to April 1, 2006	April 1, 2006	April 1, 2006
			(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)

(dollars in thousands)

**Income Statement Data:**

Net sales	\$ 2,395,272	\$ 2,661,469	\$ 2,694,742	\$ 570,946	\$ 284,971	\$ 307,845	\$ 592,816	\$ 2,716,612
Cost of sales, including buying and distribution costs	1,426,880	1,589,700	1,595,394	334,553	180,675	189,068	369,743	1,630,556
Gross profit	968,392	1,071,769	1,099,348	236,393	104,296	118,777	223,073	1,086,056
Selling, general and administrative expenses	846,826	970,479	1,037,521	242,154	174,138	137,761	311,899	1,097,853
Operating profit (loss)	121,566	101,290	61,827	(5,761)	(69,842)	(18,984)	(88,826)	(11,797)
Interest income	(169)	(542)	(894)	(495)	(668)	(86)	(754)	(1,153)
Interest expense	4,001	3,903	4,860	1,218		9,987	9,987	83,778
Income (loss) before provision (benefit) for income taxes	117,734	97,929	57,861	(6,484)	(69,174)	(28,885)	(98,059)	(94,422)
Provision (benefit) for income taxes	44,975	37,408	21,879	(2,410)	(21,270)	(11,313)	(32,583)	(38,173)
Net income (loss)	\$ 72,759	\$ 60,521	\$ 35,982	\$ (4,074)	\$ (47,904)	\$ (17,572)	\$ (65,476)	\$ (56,249)

(Predecessor)				(Successor)			
Fiscal Year Ended			Thirteen Weeks Ended			Thirteen Weeks Ended(1)	Pro Forma Fifty-Two Weeks Ended(2)
January 3, 2004	January 1, 2005(3)	December 31, 2005	April 2, 2005	January 1 to February 13, 2006	February 14 to April 1, 2006	April 1, 2006	April 1, 2006
			(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)

(dollars in thousands, except for ratios and store data)

**Other Financial Data:**

Adjusted EBITDA(4)	\$ 215,669	\$ 226,843	\$ 173,726	\$ 17,618	\$ (14,170)	\$ 10,721	\$ (3,449)	\$ 189,439
Depreciation and amortization	71,348	81,318	90,270	21,176	12,642	15,022	27,664	97,650
Capital expenditures:								
New stores	82,531	87,863	93,678	9,258	6,875	6,517	13,392	97,812
Existing stores and other	30,765	31,189	33,904	2,769	901	2,054	2,955	34,090
	113,296	119,052	127,582	12,027	7,776	8,571	16,347	131,902

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	(Predecessor)				(Successor)			
Total capital expenditures								
Cash interest expense	3,888	4,018	4,851	1,288	135	47	182	69,161
Ratio of total debt to Adjusted EBITDA								3.87x
Ratio of Adjusted EBITDA to cash interest expense								2.74x
Store Data:								
Number of stores (at period end)	440	492	542	499	542	549	549	549
Total gross square footage (000's) (at period end)	15,106	16,702	18,071	16,900	18,071	18,300	18,300	18,300
Comparable net sales(5)	1.3%	1.8%	(5.9)%	(5.4)%			(3.7)%	(5.5)%
Balance Sheet Data (at period end):								
Cash and cash equivalents	\$ 136,129	\$ 204,009	\$ 158,158	\$ 75,271	\$ 90,333	\$ 15,033	\$ 15,033	\$ 15,033
Working capital	458,519	519,686	537,453	533,971	506,757	442,017	442,017	442,017
Total assets	1,467,456	1,591,884	1,650,834	1,509,856	1,613,665	2,003,848	2,003,848	2,003,848
Total debt		2,196	2,139	2,182	2,131	733,725	733,725	733,725
Total shareholders' equity	737,377	809,353	849,863	806,012	820,408	630,184	630,184	630,184

- (1) For comparative purposes, the Company combined the two periods from January 1, 2006 through April 1, 2006. This combination is not GAAP presentation. However, the Company believes this presentation is useful to provide the reader a more accurate comparison.
- (2) The Pro Forma Fifty-Two Weeks ended April 1, 2006 have been derived from historical consolidated financial statements for the fiscal year 2005, less data from the consolidated financial statements for the thirteen weeks ended April 2, 2005 plus data from the consolidated financial statements for the thirteen weeks ended April 1, 2006 giving effect to the Transactions as if they had occurred on January 2, 2005.
- (3) Fiscal year 2004 results include the implementation of the provisions of EITF 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor ("EITF 02-16") which reduced the Company's net income in fiscal 2004 by \$13.3 million net of tax.

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(4)

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

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

EBITDA and Adjusted EBITDA do not reflect our cash used for capital expenditures;

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

EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital requirements;

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

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

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

(5)

Comparable net sales includes our internet sales and sales for our stores beginning on the first day of the month following the 13<sup>th</sup> full month of sales. Stores that are closed for a number of days in a particular month are excluded from comparable net sales if it would cause meaningful disparity in sales over the prior period. In the case of a store to be permanently closed, such store's sales are not considered comparable once the store closing process has commenced.

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

	(Predecessor)			(Successor)		Thirteen Weeks Ended	Pro Forma Fifty-Two Weeks Ended	
	Fiscal Year Ended			Thirteen Weeks Ended	January 1 to February 13, 2006			February 14 to April 1, 2006
	January 3, 2004	January 1, 2005	December 31, 2005	April 2, 2005	January 1 to February 13, 2006	February 14 to April 1, 2006	April 1, 2006	April 1, 2006
Net income (loss)	\$ 72,759	\$ 60,521	\$ 35,982	\$ (4,074)	\$ (47,904)	\$ (17,572)	\$ (65,476)	\$ (56,249)
Income tax provision (benefit)	44,975	37,408	21,879	(2,410)	(21,270)	(11,313)	(32,583)	(38,173)
Interest expense, net	3,832	3,361	3,966	723	(668)	9,901	9,233	82,625



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	(Predecessor)				(Successor)			
Depreciation and amortization	<del>71,348</del>	<del>81,318</del>	<del>90,270</del>	<del>21,176</del>	<del>12,042</del>	<del>13,022</del>	27,664	97,650
<b>EBITDA</b>	192,914	182,608	152,097	15,415	(57,200)	(3,962)	(61,162)	85,853
Non-cash rent expense(a)	8,052	7,978	4,739	1,238	534	1,682	2,216	15,448
Non-cash landlord allowance amortization(b)	(17,283)	(19,968)	(21,633)	(5,234)	(2,959)	(94)	(3,053)	(2,735)
Cash landlord allowances received(c)	30,410	29,096	28,697	5,490	1,277	1,054	2,331	25,538
<b>EBITDA after rent-related adjustments</b>	214,093	199,714	163,900	16,909	(58,348)	(1,320)	(59,668)	124,104
Transaction expenses(d)			3,322		31,730		31,730	35,052
Non-cash fixed asset impairment charge(e)	760	900	4,060					4,059
Non-cash stock-based compensation(f)	816	510	1,243	109	3,143	36	3,179	4,313
Accounting change for vendor allowances(g)		21,468						
Non-recurring consulting expenses(h)		4,251	5,412	600				4,812
Write-down of aged inventory(i)						10,313	10,313	10,313
Accelerated payment of stock option(j)					9,305		9,305	9,305
Executive Severance(k)						1,692	1,692	1,692
Visa/Mastercard litigation settlement(l)			(2,211)					(2,211)
Gain on sale of lease(m)			(2,000)					(2,000)
<b>Adjusted EBITDA</b>	\$ 215,669	\$ 226,843	\$ 173,726	\$ 17,618	\$ (14,170)	\$ 10,721	\$ (3,449)	189,439

(a) Represents the non-cash portion of rent expense.

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- (b) Non-cash landlord allowance amortization represents the amortization of cash allowances received from landlords at inception of leases. Non-cash landlord allowance amortization has the effect of reducing rent expense.
- (c) Represents cash allowances received from landlords at inception of leases.
- (d) Transaction costs represent legal and other merger-related expenses.
- (e) Represents the non-cash accelerated write-down of the book value of certain underperforming fixed assets.
- (f) Represents non-cash compensation expense related to predecessor period restricted stock grants.
- (g) Prior to January 4, 2004, certain funds received from vendors were reflected immediately as a reduction of advertising expense in SG&A or cost of sales. Effective January 4, 2004, in connection with the implementation of EITF 02-16, the Company treats these vendor funds as a reduction in the cost of inventory and as a result, these funds are recognized as a reduction to cost of sales when the inventory is sold. The effect of the implementation of EITF 02-16 was to reduce pre-tax income by \$21.5 million for the fiscal year ended January 1, 2005.
- (h) Represents non-recurring consulting costs related to a strategic corporate profitability project that began in 2004 and was completed in 2005 and that was significantly greater in scope and costs than what the Company typically incurs or is expected to incur.
- (i) Charges related to change in reserves for markdowns on non-productive and aged inventory.
- (j) Represents acceleration of compensation expense related to stock option grants, as a result of the acquisition of the Company by the Sponsors.
- (k) Changes related to severance for departure of Jane Gilmartin.
- (l) Represents the Company's share of the Visa/MasterCard antitrust litigation settlement.
- (m) Represents non-recurring gain from sale of favorable lease.

## RISK FACTORS

*You should carefully consider the risks described below as well as the other information contained in this prospectus before tendering your old notes in the exchange offer. The risks described below are not the only ones facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations.*

### Risks Related to Our Business

***Our profitability would be adversely affected if our merchandise selections do not match guest preferences.***

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

***We do not have long-term contracts with any of our vendors and if we are unable to purchase suitable merchandise in sufficient quantities at competitive prices, we may be unable to offer a merchandise mix that is attractive to our guests and our sales may be harmed.***

Third-party vendors manufacture virtually all of the products that we offer. In fiscal 2005, we purchased our merchandise from approximately 1,200 vendors. Many of our key vendors limit the number of retail channels they use to sell their merchandise and competition among retailers to obtain and sell these goods is intense. In addition, nearly all of the brands of our top vendors are sold by competing retailers, and some of our top vendors also have their own dedicated retail stores. Moreover, we typically buy products from our vendors on a purchase order basis. We have no long-term purchase contracts with any of our vendors and, therefore, have no contractual assurances of continued supply, pricing or access to products, and any vendor could change the terms upon which they sell to us or discontinue selling to us at any time. In fiscal 2005, products supplied by our 25 largest vendors represented approximately 40% of our purchases, with our top three vendors supplying approximately 14% and our largest single vendor supplying approximately 8% of our purchases for that year.

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

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

Virtually all of our merchandise is delivered to us by our vendors as finished goods and is manufactured in numerous locations. Our vendors rely on third party carriers to deliver merchandise to our distribution facilities. In addition, our success depends on our ability to efficiently source and distribute merchandise to our retail stores and online guests. Events such as labor disputes, natural disasters, availability of raw materials, vendor financial liquidity, inclement weather, work stoppages or

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

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

political unrest, terrorist activities, war or other hostilities;

strikes and labor problems;

economic upheaval;

import duties and quotas; and

loss or change in "Most Favored Nation" status of the United States with a particular foreign country.

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

***Our future growth and profitability could be adversely affected if our advertising and marketing programs are not effective in generating sufficient levels of customer awareness and traffic.***

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

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

convert customer awareness into actual store visits and product purchases.

Our planned advertising and marketing expenditures may not result in increased total or comparable net sales or generate sufficient levels of product awareness. We may not be able to manage our advertising and marketing expenditures on a cost-effective basis.

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

***Weak economic conditions may significantly impact discretionary consumer spending and reduce our sales and profitability.***

Most of the products the we sell are not consumer necessities. Purchases of our merchandise are largely dependent upon discretionary spending by our guests. A number of external economic factors could affect the purchases by our guests of the type of merchandise we offer, including:

disposable income or consumer confidence in future economic conditions;



general economic and business conditions; and

increased interest rates or consumer debt levels.

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

***Competitive factors could reduce our sales and profitability.***

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

anticipating and quickly responding to changing consumer demands;

increasing customer awareness and traffic to our stores;

variety and fashion of the products we offer;

maintaining favorable brand recognition and achieving customer perception of value;

effectively marketing and competitively pricing our products to our target guests; and

competing with entities that have substantially greater financial and other resources than we do.

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

***Attrition among our buyers or key sales associates could adversely affect our financial performance and our growth.***

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

***We may not be successful in opening and operating new stores profitably or making our recently opened stores profitable.***

Although at a decreased rate as compared to prior years, we plan to open a number of new stores as part of our growth strategy. There are many risks inherent in our store expansion strategy, and we cannot assure you that we will be able to achieve our expansion goals. Our ability to grow our store base and operate our new and recently opened stores profitably will be affected by many factors, including:

risks inherent in constructing, furnishing and supplying a store in a timely and cost effective manner, including obtaining necessary permits and zoning approvals;

integrating the new store into our distribution network;



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our ability to maintain financing on commercially reasonable terms;

our ability to identify and secure favorable sites for our new stores in well-trafficked areas and to negotiate satisfactory rent and other lease terms;

the competition for favorable store sites;

the presence of other complementary retail outlets at the locations where we open our new stores;

the proximity of our competitors' stores;

the impact on sales at our existing stores if we locate new stores in the same market;

our ability to invest in and expand our distribution, information technology, management and logistics infrastructure to support a continually increasing store base;

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

acceptance of our new stores in markets where we have limited or no existing presence.

We intend to open additional stores in new markets, as well as in existing markets, in fiscal 2006, 2007 and beyond. The new markets we enter may have different competitive conditions, consumer trends and discretionary spending patterns than our existing markets, which may cause our stores in these new markets to be less successful than stores in our existing markets.

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

We cannot assure you that our new or recently opened stores will meet our internal financial operating targets or that we will be able to operate our new or recently opened stores profitably. We also cannot assure you that the operating results of our new or recently built stores will be comparable to the operating results of our mature existing stores.

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

Our inventory is generally shipped by our suppliers to one of our three distribution centers, which are located in Shepherdsville, Kentucky; Swedesboro, New Jersey and Greensboro, North Carolina. At our distribution centers, the merchandise is processed, sorted and shipped to our stores. Events such as fire or other catastrophic events, any malfunction or disruption of our centralized information systems or shipping problems may result in delays or disruptions in the timely distribution of merchandise to our stores, which could adversely impact our sales and our results of operations. Additionally, increases in variable expenses such as fuel costs associated with our distribution operations may adversely impact our results of operations.

***Our revenues and cash requirements are affected by the seasonal nature of our business.***

Our business is subject to substantial seasonal variations. Historically, we have realized a significant portion of our net sales and substantially all of our earnings for the year during the third and fourth quarters, with a majority of sales and earnings for these quarters realized in the fourth quarter. Our quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including the timing of new store openings, holiday spending patterns and general economic conditions. We believe this is the typical pattern associated with our segment of the retail industry, and we expect





this pattern will continue in the future. In anticipation of its peak selling season, we incur substantial additional costs, including additional inventory, payroll and advertising costs. If for any reason our sales during the fourth quarter of any year were significantly below expectations, our results of operations for that full year would be materially adversely affected.

***A problem with our management information systems could impact our flow of product and information and adversely affect our operating productivity and results of operations.***

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

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

***Our business can be affected by extreme or unseasonable weather conditions.***

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

***Acts of terrorism could adversely affect our business.***

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

***We are subject to numerous regulations that could affect our operations.***

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

***If we are unable to enforce our intellectual property rights, or if we are accused of infringing on a third party's intellectual property rights, our profitability may be adversely affected.***

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

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

***If we significantly overestimate our sales, our profitability may be adversely affected.***

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

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

We maintain a proprietary credit card program through which credit is extended to guests under the "Linens 'n Things" name. Changes in our proprietary credit card arrangements that adversely impact our ability to facilitate the provision of consumer credit may adversely affect our performance. Credit card operations are subject to numerous federal and state laws that impose disclosure and other requirements upon the origination, servicing and enforcement of credit accounts and limitations on the maximum amount of finance charges that may be charged by a credit provider. Any effect of these regulations or change in the regulation of credit arrangements that would materially limit the availability of credit to our guest base could adversely affect our business. In addition, changes in credit card use, payment patterns and default rates may result from a variety of economic, legal, social and other factors that we cannot control or predict with certainty.

***Failure to maintain competitive terms under our loyalty programs could adversely affect our business.***

As part of our strategy, we intend to formalize and maintain loyalty programs that are designed to cultivate long-term relationships with our customers and enhance the quality of service we provide to our customers. We must constantly monitor and update the terms of our loyalty programs so that we continue to meet the demands and needs of our customers and remain competitive with loyalty

programs offered by our competitors. Our failure to provide quality service and competitive loyalty programs to our customers could adversely affect our business.

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

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

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

Approximately 5% of our leases contain, and leases related to new stores may contain, various restrictions relating to a change of control of our Company. In such cases, a change of control of our Company without the consent of the landlord may result in a violation of the terms of such lease, thereby exposing us to potential damages or lease termination. This, in turn, could harm our growth and profitability. The presence of such provisions may also make any change of control in the future more difficult.

***We have identified certain issues relating to our internal controls and procedures, which, if not remedied effectively, could have an adverse effect on our business.***

On February 7, 2005, the Office of the Chief Accountant of the SEC issued a clarification regarding lease accounting under Generally Accepted Accounting Principles in the United States ("GAAP"). As a result of this clarification, we reviewed our lease accounting practices and determined that our former methods of accounting for leases and landlord allowances were not consistent with the views expressed by the SEC. As a result, management has concluded that our internal control over the selection and monitoring of appropriate assumptions and factors affecting accounting for leases and landlord allowances was not effective as the end of fiscal 2004. Such internal control deficiencies resulted in the restatement of certain of our financial statements and constituted a material weakness in our internal control over financial reporting. We made this determination in consultation with the audit committee of our board of directors and senior management. Consequently, our assessment resulted in an attestation report with an opinion from our independent registered public accounting firm that we had not maintained effective internal control over financial reporting as of January 1, 2005. In addition, during the fourth quarter of 2004, management determined that there was a material weakness in the design of controls over inventory existence, due to the timing of our physical inventory counts and our cycle counting procedures over inventory. In response to this control deficiency we enhanced our inventory cycle count procedures within the fourth quarter of 2004 to confirm the existence of inventory.

Our management also determined that as of the end of fiscal 2005 we did not have adequate review controls to ensure the propriety of the accounting for the classification of capital expenditures related to store self-development transactions. Our accounting treatment for capital expenditures related to store self-development transactions, initially recorded on the balance sheet as other current assets and on the cash flow statement as a change in other current assets, was subsequently determined

to be incorrect according to generally accepted accounting principles, which principles provide that capital expenditures related to store self-development transactions should be recorded on the balance sheet as property and equipment and on the cash flow statement as additions to property and equipment. Our management corrected the accounting related to store self-development transactions prior to issuance of the financial statements for the fiscal year ended December 31, 2005. There was no change in the overall cash flow generated by us and the incorrect accounting had no impact on our income statement. The control deficiency that resulted in the incorrect accounting for the classification of capital expenditures related to store self-development transactions represented a material weakness in our internal control over financial reporting as of December 31, 2005. Our management has implemented review controls to ensure the propriety of our accounting for these transactions.

A material weakness in internal control over financial reporting is a control deficiency (within the meaning of the Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 2), or combination of control deficiencies, that adversely affects a company's ability to initiate, authorize, record, process or report external financial data reliably in accordance with GAAP that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Although we have taken certain actions to address these issues, if we are unable to identify and remedy all such issues promptly and effectively, it could have a material adverse effect on our business, results of operations and financial condition. Maintaining effective control over financial reporting is necessary for us to produce reliable financial reports and is important in helping to prevent financial fraud. If our management or our independent registered public accounting firm were to conclude again in the future that our internal control over financial reporting was ineffective, investors could lose confidence in our reported financial information.

***We are indirectly owned and controlled by the Sponsors, and their interests as equity holders may conflict with creditors.***

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

**Risks Related to Holding the Notes**

*Our substantial leverage may impair our financial condition and prevent us from fulfilling our obligations under the notes.*

We have a substantial amount of indebtedness. As of April 1, 2006, our total debt was \$733.7 million, and we had \$351.4 million of available borrowings under our asset-based revolving credit facility. For the thirteen weeks ended April 1, 2006, we had a deficit of earnings to fixed charges of \$98.1 million.

Our substantial indebtedness could have important consequences to you, including:

making it more difficult for us to satisfy our obligations with respect to the notes;

increasing our vulnerability to general adverse economic and industry conditions by making it more difficult for us to react quickly to changing conditions;

limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions and other general corporate requirements;

requiring a substantial portion of our cash flow from operations for the payment of interest on our indebtedness and reducing our ability to use our cash flow to fund working capital, capital expenditures, acquisitions and general corporate requirements;

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

limiting our flexibility in planning for, or reacting to, changes in our business, and the industry in which we operate; and

placing us at a competitive disadvantage compared with our competitors that have less indebtedness.

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

Subject to specified limitations, the indenture governing the notes and the credit agreement governing our asset-based revolving credit facility permits us and our subsidiaries to incur substantial additional indebtedness, including \$600.0 million of borrowings under our asset-based revolving credit facility that ranks equally with the notes. If new indebtedness is added to our and our subsidiaries' current indebtedness levels, the risks described above could intensify. See "Description of Certain Indebtedness" and "Description of Exchange Notes Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock" for additional information.

*Covenant restrictions under our indebtedness may limit our ability to operate our business.*

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

incur, assume or guarantee additional indebtedness;

issue redeemable stock and preferred stock;

repurchase capital stock;

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make other restricted payments including, without limitation, paying dividends and making investments;

create liens;

redeem debt that is junior in right of payment to the notes;

sell or otherwise dispose of assets, including capital stock of subsidiaries;

enter into agreements that restrict dividends from subsidiaries;

enter into mergers or consolidations;

enter into transactions with affiliates; and

enter into sale/leaseback transactions.

In addition, our asset-based revolving credit facility requires us to maintain specified financial ratios and satisfy certain financial condition tests in certain situations. Events beyond our control, including changes in general economic and business conditions, may affect our ability to meet those financial ratios and financial condition tests. We cannot assure you that we will meet those tests or that the lenders will waive any failure to meet those tests. A breach of any of these covenants would result in a default under our asset-based revolving credit facility and the indenture. If an event of default under our asset-based revolving credit facility occurs, the lenders could terminate all commitments to lend and elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. If we were unable to pay such amounts, the lenders could proceed against the collateral pledged to them. We have pledged our inventory, accounts receivable, cash, securities, other general intangibles and the capital stock of certain subsidiaries (our "revolving credit collateral") to the lenders on first-priority basis. In such an event, we cannot assure you that we would have sufficient assets to pay amounts due on the notes. As a result, you may receive less than the full amount you would be otherwise entitled to receive on the notes. See "Description of Certain Indebtedness," "Description of Exchange Notes Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock" and "Description of Exchange Notes Certain Covenants Liens" for additional information.

***Certain of the collateral securing the notes is subject to control by creditors with first priority liens. If there is a default, the value of that collateral may not be sufficient to repay both the first priority creditors and the holders of the notes.***

The notes are secured by a first priority lien on equipment, intellectual property rights, related general intangibles and all of our capital stock and the capital stock of certain subsidiaries (our "note lien collateral"), and a second priority lien on our revolving credit collateral. Our asset-based revolving credit facility is secured by a first priority lien on our revolving credit collateral and a second priority lien on our note lien collateral. If we become insolvent or are liquidated, or if payment under any of the instruments governing our secured debt under our asset-based revolving credit facility is accelerated, the lenders under those instruments will be entitled to exercise the remedies available to a secured lender under applicable law and pursuant to the instruments governing such debt. Accordingly, you will have a prior claim on our note lien collateral and the lenders under our asset-based revolving credit facility will have a prior claim on our revolving credit collateral. We cannot assure you that, in the event of a foreclosure, the proceeds from the sale of our note lien collateral would be sufficient to satisfy the amounts outstanding under the notes or that proceeds from the sale of our revolving credit collateral would be sufficient to satisfy the amounts outstanding under the notes and other obligations secured by the second priority liens, if any, after payment in full of all obligations under our asset-based revolving credit facility secured by the first priority liens on our revolving credit collateral. If such proceeds were not sufficient to repay amounts outstanding under the notes, then holders of such notes



(to the extent not repaid from the proceeds of the sale of the collateral) would only have an unsecured claim against our remaining assets, which claim will rank equal in priority to the unsecured claims with respect to any unsatisfied portion of the obligations secured by the first priority liens and our other unsecured senior indebtedness. We have not performed valuations on the value of our note lien collateral or our revolving credit collateral. We will be permitted to borrow substantial additional secured indebtedness in the future under the terms of the indenture. See "Description of Exchange Notes Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock" and "Description of Exchange Notes Certain Covenants Liens."

Under the indenture, we could also incur additional indebtedness secured by first priority liens and second priority liens so long as such first and second priority liens are securing indebtedness permitted to be incurred by the covenants described under "Description of Exchange Notes" and certain other conditions are met. Our ability to designate future debt as either first priority secured or second priority secured and, in either event, to enable the holders thereof to share in the collateral on either a priority basis or a *pari passu* basis with holders of the notes and our asset-based revolving credit facility, may have the effect of diluting the ratio of the value of such collateral to the aggregate amount of the obligations secured by the collateral.

***It may be difficult to realize the value of the collateral securing the notes.***

The collateral securing the notes is subject to any and all exceptions, defects, encumbrances, liens and other imperfections as may be accepted by the trustee for the notes and any other creditors that also have the benefit of first liens on the collateral securing the notes from time to time, whether on or after the date the notes are issued. The existence of any such exceptions, defects, encumbrances, liens or other imperfections could adversely affect the value of the collateral securing the notes as well as the ability of the collateral agent to realize or foreclose on such collateral.

No appraisals of any collateral have been prepared in connection with this offering. The value of the collateral at any time will depend on market and other economic conditions, including the availability of suitable buyers. By their nature, some or all of the pledged assets may be illiquid and may have no readily ascertainable market value. We cannot assure you that the fair market value of the collateral as of the date of this prospectus exceeds the principal amount of the indebtedness secured thereby. The value of the assets pledged as collateral for the notes could be impaired in the future as a result of changing economic conditions, our failure to implement our business strategy, competition or other future trends. In the event that a bankruptcy case is commenced by or against us, if the value of the collateral is less than the amount of principal and accrued and unpaid interest on the notes and all other senior secured obligations, interest may cease to accrue on the notes from and after the date the bankruptcy petition is filed.

The security interest of the collateral agent is subject to practical problems generally associated with the realization of security interests in collateral. For example, the collateral agent may need to obtain the consent of a third party to obtain or enforce a security interest in a contract. We cannot assure you that the collateral agent will be able to obtain any such consent. We also cannot assure you that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. Accordingly, the collateral agent may not have the ability to foreclose upon those assets and the value of the collateral may significantly decrease.

***The lien-ranking provisions set forth in the indenture and the intercreditor agreement will substantially limit the rights of the holders of the notes with respect to the collateral securing the notes.***

The rights of the holders of the notes with respect to the collateral securing the notes is substantially limited pursuant to the terms of the lien-ranking provisions set forth in the indenture and the intercreditor agreement. Under those lien-ranking provisions, at any time that obligations that have

the benefit of the first priority liens are outstanding, any actions that may be taken in respect of the collateral, including the ability to cause the commencement of enforcement proceedings against the collateral and to control the conduct of such proceedings, and the approval of amendments to, releases of collateral from the lien of and waivers of past defaults under, the collateral documents, will be at the direction of the holders of the obligations secured by the first priority liens. The trustee, on behalf of the holders of the notes, will not necessarily have the ability to control or direct such actions, even if the rights of the holders of the notes are adversely affected. Additional releases of collateral from the second priority lien securing the notes are permitted under some circumstances.

***Your rights in the collateral may be adversely affected by the failure to perfect security interests in collateral.***

Applicable law requires that a security interest in certain tangible and intangible assets can only be properly perfected and its priority retained through certain actions undertaken by the secured party. The first priority liens in the collateral securing the notes may not be perfected with respect to the claims or the notes if we are not able to take the actions necessary to perfect any of these liens. There can be no assurance that the lenders under our asset-based revolving credit facility will have taken all actions necessary to create properly perfected security interests in the collateral subject to a second priority lien securing the notes, which, as a result of the intercreditor agreement, may result in the loss of the priority of the security interest in favor of the noteholders to which they would have been entitled as a result of such non-perfection.

***Rights of holders of notes in the collateral may be adversely affected by the failure to perfect security interests in certain collateral acquired in the future.***

The security interest in the collateral securing the notes includes assets of us and of the guarantors, both tangible and intangible, whether now owned or acquired or arising in the future. Applicable law requires that certain property and rights acquired after the grant of a general security interest, such as real property, equipment subject to a certificate and certain proceeds, can only be perfected at the time such property and rights are acquired and identified. We and the guarantors are not obligated to perfect the noteholders' security interest in specified collateral. There can be no assurance that the trustee or the collateral agent will monitor, or that we will inform the trustee or the collateral agent of, the future acquisition of property and rights that constitute collateral, and that the necessary action will be taken to properly perfect the security interest in such after-acquired collateral. The collateral agent for the notes has no obligation to monitor the acquisition of additional property or rights that constitute collateral or the perfection of any security interest. Such failure may result in the loss of the security interest in the collateral or the priority of the security interest in favor of the notes against third parties.

***Bankruptcy laws may limit your ability to realize value from the collateral.***

The right of the collateral agent to repossess and dispose of the collateral securing the notes and guarantees is likely to be significantly impaired by applicable bankruptcy law if another bankruptcy proceeding were to be commenced by or against us. Even if the repossession and disposition has occurred, a subsequent bankruptcy proceeding could give rise to causes of action against the collateral agent and the holders of notes. Following the commencement of a case under the U.S. Bankruptcy Code, a secured creditor such as the collateral agent is prohibited from repossessing its security from a debtor in a bankruptcy case, or from disposing of security repossessed from such debtor, without prior bankruptcy court approval, which may not be given. Moreover, the U.S. Bankruptcy Code permits the debtor to continue to retain and use collateral, and the proceeds, products, rents or profits of the collateral, even though the debtor is in default under the applicable debt instruments, provided that the secured creditor is given "adequate protection." The meaning of the term "adequate protection" varies

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according to circumstances, but it is intended in general to protect the value of the secured creditor's interest in the collateral as of the commencement of the bankruptcy case and may include cash payments, the granting of additional security or otherwise, if and at such times as the bankruptcy court in its discretion determines during the pendency of the bankruptcy case. A bankruptcy court may determine that a secured creditor may not require compensation for a diminution in the value of its collateral if the value of the collateral exceeds the debt it secures.

Given the uncertainty as to what will be the value of the collateral at the time when a bankruptcy case may be commenced, and in view of the fact that the granting of "adequate protection" varies on a case-by-case basis and the broad discretionary power of a bankruptcy court, it is impossible to predict:

how long payments under the notes could be delayed following commencement of a bankruptcy case;

whether or when the collateral agent could repossess or dispose of the collateral; or

whether or to what extent holders of the notes would be compensated for any delay in payment or loss of value of the collateral through the requirement of "adequate protection."

Furthermore, in the event a bankruptcy court determines the value of the collateral is not sufficient to repay all amounts due on first priority lien debt and, thereafter, the notes, the holders of the notes would hold unsecured claims with respect to such insufficiency. The U.S. Bankruptcy Code only permits the accrual of post-petition interest (and sometimes current payment), costs and attorney's fees to a secured creditor during a debtor's bankruptcy case to the extent the value of its collateral exceeds the aggregate outstanding principal amount of the obligations secured by the collateral.

In addition, the intercreditor agreement provides that, in the event of a bankruptcy, the trustee and the collateral agent may not object to a number of important matters following the filing of a bankruptcy petition so long as any first lien debt is outstanding.

### ***Any future pledge of collateral might be avoidable in bankruptcy.***

Any future pledge of collateral in favor of the collateral agent, including pursuant to security documents delivered after the date of the indenture, might be avoidable by the pledgor (as debtor in possession) or by its trustee in bankruptcy if certain events or circumstances exist or occur, including, among others, if the pledgor is insolvent at the time of the pledge, the pledge permits the holders of the notes to receive a greater recovery than if the pledge had not been given and a bankruptcy proceeding in respect of the pledgor is commenced within 90 days following the pledge or, in certain circumstances, a longer period.

### ***We will require a significant amount of cash, and our ability to generate sufficient cash depends upon many factors, some of which are beyond our control.***

Our ability to make payments on and refinance our indebtedness and to fund working capital needs and planned capital expenditures depends on our ability to generate adequate cash flow in the future. To some extent, this is subject to general economic, financial, competitive, legislative and regulatory factors and other factors that are beyond our control. For example, our need to stock substantial inventory could increase our working capital needs. We cannot assure you that our business will continue to generate cash flow from operations at current levels or that our cash needs will not increase. If we are unable to generate sufficient cash flow from operations in the future to service our indebtedness and meet our other needs, we may have to refinance all or a portion of our existing indebtedness, obtain additional financing, reduce expenditures that we deem necessary to our business or sell assets. We cannot assure you that any refinancing of this kind would be possible or that any additional financing could be obtained or could be obtained on commercially reasonable terms. The

inability to obtain additional financing could have a material adverse effect on our financial condition and on our ability to meet our obligations to you under the notes.

***We may not be able to make the change of control offer required by the indenture.***

Upon a change of control, subject to certain conditions, we are required to offer to repurchase all outstanding notes at 101% of the principal amount thereof, plus accrued and unpaid interest to the date of repurchase. The source of funds for that purchase of notes will be our available cash or cash generated from our subsidiaries' operations or other potential sources, including borrowings, sales of assets or sales of equity. We cannot assure you that sufficient funds from such sources will be available at the time of any change of control to make required repurchases of notes tendered. In addition, the terms of our asset-based revolving credit facility limit our ability to repurchase your notes and provides that certain change of control events will constitute an event of default thereunder. Our future indebtedness agreements may contain similar restrictions and provisions. If the holders of the notes exercise their right to require us to repurchase all of the notes upon a change of control, the financial effect of this repurchase could cause a default under our other indebtedness, even if the change of control itself would not cause a default. Accordingly, it is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of our other indebtedness and the notes or that restrictions in our asset-based revolving credit facility and the indenture will not allow such repurchases. In addition, certain corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a "Change of Control" under the indenture. See "Description of Exchange Notes Repurchase at the Option of Holders Change of Control" and "Description of Certain Indebtedness" for additional information.

***Variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.***

Certain of our borrowings, primarily borrowings under our asset-based revolving credit facility and the notes, are, and are expected to continue to be, at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income would decrease. Borrowings under our asset-based revolving credit facility bear interest at a rate equal to, at our option, either (a) an alternate base rate determined by reference to the higher of (1) the base rate in effect on such day and (2) the federal funds effective rate plus 0.50% or (b) a LIBOR rate, with respect to any Eurodollar borrowing, determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs, in each case plus an applicable margin. The initial applicable margin for borrowings under our asset-based revolving credit facility was 0% with respect to alternate base rate borrowings and 1.50% with respect to LIBOR borrowings. The applicable margin with respect to the notes was a percentage per annum equal to 5.625%. Assuming all revolving loans are fully drawn, each quarter point change in interest rates would result in a \$3.1 million change in annual interest expense on our asset-based revolving credit facility and the notes. Pursuant to the indenture governing the old notes and the exchange notes, we are required to enter into interest rate swaps, involving the exchange of floating for fixed rate interest payments, or other forms of derivative transactions, to reduce interest rate volatility. However, we may not be successful in obtaining interest rate swaps on commercially reasonable terms or at all.

***Fraudulent transfer statutes may limit your rights as a holder of the notes.***

Federal and state fraudulent transfer laws as previously interpreted by various courts permit a court, if it makes certain findings, to:

avoid all or a portion of our obligations to holders of the notes;

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subordinate our obligations to holders of the notes to our other existing and future indebtedness, entitling other creditors to be paid in full before any payment is made on the notes; and

take other action detrimental to holders of the notes, including invalidating the notes.

In that event, we cannot assure you that you would ever be repaid. There is also no assurance that amounts previously paid to you would not be subject to return.

Under federal and state fraudulent transfer laws, in order to take any of those actions, courts will typically need to find that, at the time the notes were issued, we:

issued the notes with the intent of hindering, delaying or defrauding current or future creditors; or

received less than fair consideration or reasonably equivalent value for incurring the indebtedness represented by the notes; and

were insolvent or were rendered insolvent by reason of the issuance of the notes;

were engaged, or were about to engage, in a business or transaction for which our capital was unreasonably small; or

intended to incur, or believed or should have believed we would incur, indebtedness beyond our ability to pay as such indebtedness matures.

Many of the foregoing terms are defined in or interpreted under those fraudulent transfer statutes and as judicially interpreted. A court could find that we did not receive fair consideration or reasonably equivalent value for the incurrence of the indebtedness represented by the notes.

The measure of insolvency for purposes of the foregoing considerations will vary depending on the law of the jurisdiction that is being applied in any such proceeding. Generally, a company would be considered insolvent if, at the time it incurred the indebtedness:

the sum of its indebtedness (including contingent liabilities) is greater than its assets, at fair valuation; or

the present fair saleable value of its assets is less than the amount required to pay the probable liability on its total existing indebtedness and liabilities (including contingent liabilities) as they become absolute and matured.

We cannot assure you what standard a court would apply in determining our solvency and whether it would conclude that we were solvent when we incurred our obligations under the notes.

Our obligations under the notes are guaranteed by our parent and all of our direct and indirect present and future subsidiaries that guarantee our obligations under our asset-based revolving credit facility, and the guarantees may also be subject to review under various laws for the protection of creditors. It is possible that creditors of the guarantors may challenge the guarantees as a fraudulent transfer or conveyance. The analysis set forth above would generally apply, except that the guarantees could also be subject to the claim that, because the guarantees were incurred for the benefit of the Issuers, and only indirectly for the benefit of the guarantors, the obligations of the guarantors thereunder were incurred for less than reasonably equivalent value or fair consideration. A court could avoid a guarantor's obligation under its guarantee, subordinate the guarantee to the other indebtedness of a guarantor, direct that holders of the notes return any amounts paid under a guarantee to the relevant guarantor or to a fund for the benefit of its creditors or take other action detrimental to the holders of the notes.

***There is no active trading market for the notes.***

The old notes are not listed, and we do not intend to list the exchange notes, on any securities exchange or to seek approval for quotations through any automated quotation system. We do not anticipate that an active and liquid trading market for the notes will develop as a result of the exchange of the exchange notes for the old notes. For that reason we cannot assure you that:

a liquid market for the notes will develop;

you will be able to sell your notes; or

you will receive any specific price upon any sale of the notes.

If a public market for the notes does develop, the notes could trade at prices that may be higher or lower than their principal amount or purchase price, depending on many factors, including prevailing interest rates, the market for similar notes and our financial performance.

***You may have difficulty selling the old notes that you do not exchange in this exchange offer.***

If you do not participate or properly tender your old notes in this exchange offer:

you will retain old notes that are not registered under the Securities Act and that will continue to be subject to restrictions on transfer that are described in the legend on the old notes;

you will not be able, except in very limited instances, to require us to register your old notes under the Securities Act;

you will not be able to offer to resell or transfer your old notes unless they are registered under the Securities Act or unless you offer to resell or transfer them pursuant to an exemption under the Securities Act; and

the trading market for your old notes will become more limited to the extent that other holders of old notes participate in the exchange offer.

***If you do not properly tender your old notes, you will continue to hold unregistered old notes and be subject to the same limitations on your ability to transfer old notes.***

We will only issue exchange notes in exchange for old notes that are timely received by the exchange agent together with all required documents, including a properly completed and signed letter of transmittal. Therefore, you should allow sufficient time to ensure timely delivery of the old notes and you should carefully follow the instructions on how to tender your old notes. Neither we nor the exchange agent are required to tell you of any defects or irregularities with respect to your tender of the old notes. If you are eligible to participate in the exchange offer and do not tender your old notes or if we do not accept your old notes because you did not tender your old notes properly, then, after we consummate the exchange offer, you will continue to hold old notes that are subject to the existing transfer restrictions and will no longer have any registration rights or be entitled to any additional interest with respect to the old notes. In addition:

if you tender your old notes for the purpose of participating in a distribution of the exchange notes, you will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the exchange notes; and

if you are a broker-dealer that receives exchange notes for your own account in exchange for old notes that you acquired as a result of market making activities or any other trading activities, you will be required to acknowledge that you will deliver a prospectus in connection with any resale of those exchange notes.



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We have agreed that, for a period of 180 days after the exchange offer is consummated, we will make this prospectus available to any broker-dealer for use in connection with any resales of the exchange notes.

After the exchange offer is consummated, if you continue to hold any old notes, you may have difficulty selling them because there will be fewer old notes outstanding.

***The market price for the notes may be volatile.***

Historically, the market for non-investment grade indebtedness has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes. The market for the notes, if any, may be subject to similar disruptions. Any such disruptions may materially adversely affect you as a holder of the notes.



## THE EXCHANGE OFFER

### Purpose and Effect

We issued the old notes in a private placement on February 14, 2006. The old notes were, and the exchange notes will be, issued under the Indenture, dated February 14, 2006, between us, Linens 'n Things, Inc., Linens 'n Things Center, Inc., the subsidiary guarantors and The Bank of New York, as trustee. In connection with the private placement, we entered into a registration rights agreement, which requires that we file this registration statement under the Securities Act with respect to the exchange notes to be issued in the exchange offer and, upon the effectiveness of this registration statement, offer to you the opportunity to exchange your old notes for a like principal amount of exchange notes. The exchange notes will be issued without a restrictive legend and, except as set forth below, you may reoffer and resell them without registration under the Securities Act. After we complete the exchange offer, our obligation to register the exchange of exchange notes for old notes will terminate. A copy of the registration rights agreement has been filed as an exhibit to the registration statement of which this prospectus is a part.

Based on an interpretation by the staff of the Commission set forth in no-action letters issued to third parties, if you are not our "affiliate" within the meaning of Rule 405 under the Securities Act or a broker-dealer referred to in the next paragraph, we believe that you may reoffer, resell or otherwise transfer the exchange notes issued to you in the exchange offer without compliance with the registration and prospectus delivery requirements of the Securities Act. This interpretation, however, is based on your representation to us that:

the exchange notes to be issued to you in the exchange offer are acquired in the ordinary course of your business;

you are not engaging in and do not intend to engage in a distribution of the exchange notes to be issued to you in the exchange offer; and

you have no arrangement or understanding with any person to participate in the distribution of the exchange notes to be issued to you in the exchange offer.

If you tender old notes in the exchange offer for the purpose of participating in a distribution of the exchange notes to be issued to you in the exchange offer, you cannot rely on this interpretation by the staff of the Commission. Under those circumstances, you must comply with the registration and prospectus delivery requirements of the Securities Act in order to reoffer, resell or otherwise transfer your exchange notes. Each broker-dealer that receives exchange notes in the exchange offer for its own account in exchange for old notes that were acquired by the broker-dealer as a result of market-making activities or other trading activities must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resales of those exchange notes. See "Plan of Distribution."

If you will not receive freely tradeable exchange notes in the exchange offer or are not eligible to participate in the exchange offer, you can elect, by indicating on the letter of transmittal and providing certain additional necessary information, to have your old notes registered on a "shelf" registration statement pursuant to Rule 415 under the Securities Act. In the event that we are obligated to file a shelf registration statement, we will be required to keep the shelf registration statement effective for a period of two years following the date of original issuance of the old notes or such shorter period that will terminate when all of the old notes covered by the shelf registration statement have been sold pursuant to the shelf registration statement. Other than as set forth in this paragraph, you will not have the right to require us to register your old notes under the Securities Act. See " Procedures for Tendering" below.

### Consequences of Failure to Exchange

If you do not participate or properly tender your old notes in this exchange offer:

you will retain old notes that are not registered under the Securities Act and that will continue to be subject to restrictions on transfer that are described in the legend on the old notes;

you will not be able to require us to register your old notes under the Securities Act unless, as set forth above, you do not receive freely tradable exchange notes in the exchange offer or are not eligible to participate in the exchange offer, and we are obligated to file a shelf registration statement;

you will not be able to offer to resell or transfer your old notes unless they are registered under the Securities Act or unless you offer to resell or transfer them pursuant to an exemption under the Securities Act; and

the trading market for your old notes will become more limited to the extent that other holders of old notes participate in the exchange offer.

### Terms of the Exchange Offer

Upon the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal, we will accept any and all old notes validly tendered and not withdrawn prior to 5:00 p.m., New York City time, on the expiration date of the exchange offer. We will issue \$1,000 principal amount of the exchange notes in exchange for each \$1,000 principal amount of the old notes accepted in the exchange offer. You may tender some or all of your old notes pursuant to the exchange offer; however, old notes may be tendered only in integral multiples of \$1,000 in principal amount.

The forms and terms of the exchange notes are substantially the same as the forms and terms of the old notes, except that the exchange notes have been registered under the Securities Act and will not bear legends restricting their transfer. The exchange notes will be issued pursuant to, and entitled to the benefits of, the indenture that governs the old notes. The exchange notes and any remaining old notes will be deemed one class of notes under the indenture.

As of the date of this prospectus, \$650 million in aggregate principal amount of the old notes are outstanding. This prospectus, together with the letter of transmittal, is being sent to all registered holders of old notes and to others believed to have beneficial interests in the old notes. You do not have any appraisal or dissenters' rights in connection with the exchange offer under Delaware or California law or the indenture.

We will be deemed to have accepted validly tendered old notes if and when we have given oral or written notice of our acceptance to The Bank of New York, the exchange agent for the exchange offer. The exchange agent will act as our agent for the purpose of receiving from us the exchange notes for the tendering noteholders. If we do not accept any tendered old notes because of an invalid tender, the occurrence of certain other events set forth in this prospectus, or otherwise, we will return certificates, if any, for any unaccepted old notes, without expense, to the tendering noteholder as promptly as practicable after the expiration date of the exchange offer.

You will not be required to pay brokerage commissions or fees or, except as set forth below under " Transfer Taxes," with respect to the exchange of your old notes in the exchange offer. We will pay all charges and expenses, other than certain applicable taxes, in connection with the exchange offer. See " Fees and Expenses" below.

### Expiration Date; Amendment

The exchange offer will expire at 5:00 p.m., New York City time, on \_\_\_\_\_, 2006, unless we determine, in our sole discretion, to extend the exchange offer, in which case it will expire at the later date and time to which it is extended. We do not intend to extend the exchange offer, however, although we reserve the right to do so. If we extend the exchange offer, we will give oral or written notice of the extension to the exchange agent and give each registered holder of old notes notice by means of a press release or other public announcement of any extension prior to 9:00 a.m., New York City time, on the next business day after the scheduled expiration date.

We also reserve the right, in our sole discretion,

to accept tendered notes upon the expiration of the tender offer, and extend the exchange offer with respect to untendered notes;

to delay accepting any old notes or, if any of the conditions set forth below under " Conditions" have not been satisfied or waived, to terminate the exchange offer by giving oral or written notice of such delay or termination to the exchange agent; or

to amend the terms of the exchange offer in any manner by complying with Rule 14e-1(d) under the Exchange Act to the extent that rule applies.

We will notify you as promptly as we can of any extension, termination or amendment. In addition, we acknowledge and undertake to comply with the provisions of Rule 14e-1(c) under the Exchange Act, which requires us to pay the consideration offered, or return the old notes surrendered for exchange, promptly after the termination or withdrawal of the exchange offer.

### Procedures for Tendering

Only a holder of old notes may tender the old notes in the exchange offer. Except as set forth under " Book-Entry Transfer," to tender in the exchange offer a holder must complete, sign and date the letter of transmittal, or a copy of the letter of transmittal, have the signatures on the letter of transmittal guaranteed if required by the letter of transmittal and mail or otherwise deliver the letter of transmittal or copy to The Bank of New York, as the exchange agent, prior to the expiration date. In addition:

the certificates representing your old notes must be received by the exchange agent prior to the expiration date;

a timely confirmation of book-entry transfer of such notes into the exchange agent's account at The Depository Trust Company, or DTC, pursuant to the procedure for book-entry transfers described below under " Book-Entry Transfer" must be received by the exchange agent prior to the expiration date; or

you must comply with the guaranteed delivery procedures described below.

If you hold old notes through a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your old notes, you should contact the registered holder of your old notes promptly and instruct the registered holder to tender on your behalf.

If you tender an old note and you do not properly withdraw the tender prior to the expiration date, you will have made an agreement with us to participate in the exchange offer in accordance with the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal.

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Signatures on a letter of transmittal or a notice of withdrawal must be guaranteed by an eligible institution unless:

old notes tendered in the exchange offer are tendered either by a registered holder who has not completed the box entitled "Special Registration Instructions" or "Special Delivery Instructions" on the holder's letter of transmittal or for the account of an eligible institution; and

the box entitled "Special Registration Instructions" on the letter of transmittal has not been completed.

If signatures on a letter of transmittal or a notice of withdrawal are required to be guaranteed, the guarantee must be by a financial institution, which includes most banks, savings and loan associations and brokerage houses, that is a participant in the Securities Transfer Agents Medallion Program, the New York Stock Exchange Medallion Program or the Stock Exchanges Medallion Program.

If the letter of transmittal is signed by a person other than you, your old notes must be endorsed or accompanied by a properly completed bond power and signed by you as your name appears on those old notes.

If the letter of transmittal or any old notes or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations, or others acting in a fiduciary or representative capacity, those persons should so indicate when signing. Unless we waive this requirement, in this instance you must submit with the letter of transmittal proper evidence satisfactory to us of their authority to act on your behalf.

We will determine, in our sole discretion, all questions regarding the validity, form, eligibility, including time of receipt, acceptance and withdrawal of tendered old notes. Our determination will be final and binding. We reserve the absolute right to reject any and all old notes not properly tendered or any old notes our acceptance of which would, in the opinion of our counsel, be unlawful. We also reserve the right to waive any defects, irregularities or conditions of tender as to certain old notes. Our interpretation of the terms and conditions of the exchange offer, including the instructions in the letter of transmittal, will be final and binding on all parties.

You must cure any defects or irregularities in connection with tenders of your old notes within the time period that we determine unless we waive that defect or irregularity. Although we intend to notify you of defects or irregularities with respect to your tender of old notes, neither we, the exchange agent nor any other person will incur any liability for failure to give this notification. Your tender will not be deemed to have been made and your old notes will be returned to you if:

you improperly tender your old notes;

you have not cured any defects or irregularities in your tender; and

we have not waived those defects, irregularities or improper tender.

The exchange agent will return your old notes, unless otherwise provided in the letter of transmittal, as soon as practicable following the expiration of the exchange offer.

In addition, we reserve the right in our sole discretion to:

purchase or make offers for, or offer exchange notes for, any old notes that remain outstanding subsequent to the expiration of the exchange offer;

terminate the exchange offer; and

to the extent permitted by applicable law, purchase notes in the open market, in privately negotiated transactions or otherwise.

The terms of any of these purchases or offers could differ from the terms of the exchange offer.

In all cases, the issuance of exchange notes for old notes that are accepted for exchange in the exchange offer will be made only after timely receipt by the exchange agent of certificates for your old notes or a timely book-entry confirmation of your old notes into the exchange agent's account at DTC, a properly completed and duly executed letter of transmittal, or a computer-generated message instead of the letter of transmittal, and all other required documents. If any tendered old notes are not accepted for any reason set forth in the terms and conditions of the exchange offer or if old notes are submitted for a greater principal amount than you desire to exchange, the unaccepted or non-exchanged old notes, or old notes in substitution therefor, will be returned without expense to you. In addition, in the case of old notes tendered by book-entry transfer into the exchange agent's account at DTC pursuant to the book-entry transfer procedures described below, the non-exchanged old notes will be credited to your account maintained with DTC, as promptly as practicable after the expiration or termination of the exchange offer.

#### **Book-Entry Transfer**

The old notes were issued as global securities in fully registered form without interest coupons. Beneficial interests in the global securities, held by direct or indirect participants in DTC, are shown on, and transfers of these interests are effected only through, records maintained in book-entry form by DTC with respect to its participants.

The exchange agent will make a request to establish an account with respect to the old notes at DTC for purposes of the exchange offer within two business days after the date of this prospectus, and any financial institution that is a participant in DTC's systems may make book-entry delivery of old notes being tendered by causing DTC to transfer such old notes into the exchange agent's account at DTC in accordance with DTC's procedures for transfer. However, although delivery of old notes may be effected through book-entry transfer at DTC, the letter of transmittal or a copy of the letter of transmittal, with any required signature guarantees and any other required documents, must, in any case other than as set forth in the following paragraph, be transmitted to and received by the exchange agent at the address set forth under " Exchange Agent" on or prior to the expiration date or you must comply with the guaranteed delivery procedures described below.

The Depository Trust Company's Automated Tender Offer Program, or ATOP, is the only method of processing exchange offers through DTC. To accept the exchange offer through ATOP, participants in DTC must send electronic instructions to DTC through DTC's communication system instead of sending a signed, hard copy letter of transmittal. DTC is obligated to communicate those electronic instructions to the exchange agent. To tender old notes through ATOP, the electronic instructions sent to DTC and transmitted by DTC to the exchange agent must contain the character by which the participant acknowledges its receipt of, and agrees to be bound by, the letter of transmittal.

If you hold your old notes in the form of book-entry interests and you wish to tender your old notes for exchange for exchange notes, you must instruct a participant in DTC to transmit to the exchange agent on or prior to the expiration date for the exchange offer a computer-generated message transmitted by means of ATOP and received by the exchange agent and forming a part of a confirmation of book-entry transfer, in which you acknowledge and agree to be bound by the terms of the letter of transmittal.

In addition, in order to deliver old notes held in the form of book-entry interests:

a timely confirmation of book-entry transfer of such notes into the exchange agent's account at DTC pursuant to the procedure for book-entry transfers described above must be received by the exchange agent prior to the expiration date; or

you must comply with the guaranteed delivery procedures described below.

### **Certificated Old Notes**

Only registered holders of certificated old notes may tender those notes in the exchange offer. If your old notes are certificated notes and you wish to tender those notes in the exchange offer, you must transmit to the exchange agent on or prior to the expiration date a written or facsimile copy of a properly completed and duly executed letter of transmittal, including all other required documents, to the address set forth below under " Exchange Agent." In addition, in order to validly tender your certificated old notes:

the certificates representing your old notes must be received by the exchange agent prior to the expiration date; or

you must comply with the guaranteed delivery procedures described below.

### **Guaranteed Delivery Procedures**

If you desire to tender your old notes and your old notes are not immediately available or one of the situations described in the immediately preceding paragraph occurs, you may tender if:

you tender through an eligible financial institution;

on or prior to 5:00 p.m., New York City time, on the expiration date, the exchange agent receives from an eligible institution, a written or facsimile copy of a properly completed and duly executed letter of transmittal and notice of guaranteed delivery, substantially in the form provided by us; and

the certificates for all certificated old notes, in proper form for transfer, or a book-entry confirmation, and all other documents required by the letter of transmittal, are received by the exchange agent within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery.

The notice of guaranteed delivery may be sent by facsimile transmission, mail or hand delivery. The notice of guaranteed delivery must set forth:

your name and address;

the amount of old notes you are tendering; and

a statement that your tender is being made by the notice of guaranteed delivery and that you guarantee that within three New York Stock Exchange trading days after the execution of the notice of guaranteed delivery, the eligible institution will deliver the following documents to the exchange agent:

the certificates for all certificated old notes being tendered, in proper form, for transfer or a book-entry confirmation of tender;

a written or facsimile copy of the letter of transmittal or a book-entry confirmation instead of the letter of transmittal; and

any other documents required by the letter of transmittal.

### **Withdrawal Rights**

You may withdraw tenders of your old notes at any time prior to 5:00 p.m., New York City time, on the expiration date of the exchange offer.

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For your withdrawal to be effective, the exchange agent must receive a written or facsimile transmission of or, for DTC participants, an electronic ATOP transmission of, the notice of withdrawal



at its address set forth below under " Exchange Agent" prior to 5:00 p.m., New York City time, on the expiration date.

The notice of withdrawal must:

state your name;

identify the specific old notes to be withdrawn, including the certificate number or numbers and the principal amount of the old notes to be withdrawn;

be signed by you in the same manner as you signed the letter of transmittal when you tendered your old notes, including any required signature guarantees, or be accompanied by documents of transfer sufficient for the exchange agent to register the transfer of the old notes into your name; and

specify the name in which the old notes are to be registered, if different from yours.

We will determine all questions regarding the validity, form and eligibility, including time of receipt, of withdrawal notices. Our determination will be final and binding on all parties. Any old notes withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any old notes that have been tendered for exchange but that are not exchanged for any reason will be returned to you without cost as soon as practicable after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn old notes may be retendered by following one of the procedures described under " Procedures for Tendering" above at any time on or prior to 5:00 p.m., New York City time, on the expiration date.

#### **Conditions**

Notwithstanding any other provision of the exchange offer, and subject to our obligations under the related registration rights agreement, we will not be required to accept for exchange, or to issue exchange notes in exchange for, any old notes and may terminate or amend the exchange offer, if at any time before the acceptance of any old notes for exchange any one of the following events occurs:

any injunction, order or decree has been issued by any court or any governmental agency that would prohibit, prevent or otherwise materially impair our ability to proceed with the exchange offer; or

the exchange offer violates any applicable law or any applicable interpretation of the staff of the Commission.

These conditions are for our sole benefit and we may assert them regardless of the circumstances giving rise to them, subject to applicable law. We also may waive in whole or in part at any time and from time to time any particular condition in our sole discretion. If we waive a condition, we may be required in order to comply with applicable securities laws, to extend the expiration date of the exchange offer. Our failure at any time to exercise any of the foregoing rights will not be deemed a waiver of these rights and these rights will be deemed ongoing rights which may be asserted at any time and from time to time.

In addition, we will not accept for exchange any old notes tendered, and no exchange notes will be issued in exchange for any tendered old notes if, at the time the notes are tendered, any stop order is threatened by the Commission or in effect with respect to the registration statement of which this prospectus is a part or the qualification of the indenture under the Trust Indenture Act of 1939.

The exchange offer is not conditioned on any minimum principal amount of old notes being tendered for exchange.

### **Exchange Agent**

We have appointed The Bank of New York as exchange agent for the exchange offer. Questions, requests for assistance and requests for additional copies of the prospectus, the letter of transmittal and other related documents should be directed to the exchange agent addressed as follows:

By registered or certified mail, by hand or by overnight courier:

The Bank of New York  
Corporate Trust Operations  
Reorganization Unit  
101 Barclay Street Floor 7 East  
New York, New York 10286  
Attention: Franca Ferrera

By facsimile: (212) 815-5704

By telephone: (212) 815-4779

The exchange agent also acts as trustee under the indenture.

### **Fees and Expenses**

We will not pay brokers, dealers or others soliciting acceptances of the exchange offer. The principal solicitation is being made by mail. Additional solicitations, however, may be made in person or by telephone by our officers and employees.

We will pay the estimated cash expenses to be incurred in connection with the exchange offer. These are estimated in the aggregate to be approximately \$ , which includes fees and expenses of the exchange agent and accounting, legal, printing and related fees and expenses.

### **Transfer Taxes**

You will not be obligated to pay any transfer taxes in connection with a tender of your old notes unless you instruct us to register exchange notes in the name of, or request that old notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder of old notes, in which event the registered tendering holder will be responsible for the payment of any applicable transfer tax.

### **Accounting Treatment**

We will not recognize any gain or loss for accounting purposes upon the consummation of the exchange offer. We will amortize the expense of the exchange offer over the term of the exchange notes under generally accepted accounting principles.

**USE OF PROCEEDS**

We will not receive any cash proceeds from the exchange offer. Any old notes that are properly tendered and exchanged pursuant to the exchange offer will be retired and cancelled.

**CAPITALIZATION**

The following table sets forth our capitalization as of April 1, 2006. The table below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Description of Certain Indebtedness" and our consolidated financial statements and related notes included elsewhere in this prospectus.

	<b>As of April 1, 2006</b>	
	<b>Actual</b>	
	<b>(unaudited)</b> <b>(dollars in thousands)</b>	
Cash and cash equivalents	\$	15,033
Asset-based revolving credit facility	\$	81,601
Mortgage loan payable		2,124
Old Notes		650,000
<b>Total debt</b>		<b>733,725</b>
Shareholders' equity		630,184
<b>Total capitalization</b>	<b>\$</b>	<b>1,363,909</b>

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

The following unaudited pro forma condensed consolidated statements of operations for the fiscal year ended December 31, 2005 and for the thirteen week period ended April 1, 2006 and the thirteen week period ended April 2, 2005 are based on our historical financial statements appearing elsewhere in this prospectus and give effect to the Transactions as if they had occurred on January 2, 2005 (the first day of the 2005 fiscal year).

Pro forma adjustments were made to reflect:

the net increase to depreciation and amortization expense resulting from recording property and equipment and intangible assets at its fair value;

the increase in rent expense based on an assessment of remaining lease terms for those leases in place at January 2, 2005;

the amounts attributable to the annual management fee to be paid to the Sponsors; and

the incremental interest expense related to issuing the old notes, entering into our new asset-based revolving credit facility and the termination of our former \$250.0 million unsecured revolving credit facility.

The unaudited pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable. The unaudited pro forma condensed consolidated financial statements should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements appearing elsewhere in this prospectus. The unaudited pro forma condensed consolidated financial statements are presented for information purposes only and are not intended to represent or be indicative of the results of operations that we would have reported had the Transactions been completed at the beginning of the periods presented, and should not be taken as representative of our consolidated results of operations for future periods.

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

**Fiscal Year Ended December 31, 2005**

(in thousands)

	<u>Historical</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma</u>
Net sales	\$ 2,694,742	\$	\$ 2,694,742
Cost of sales	1,595,394	2	1,595,396
Gross profit	1,099,348	(2)(a)	1,099,346
Selling, general and administrative expenses	1,037,521	39,425(a)	1,076,946
Operating income (loss)	61,827	(39,427)	22,400
Interest income	(894)		(894)
Interest expense	4,860	79,371(b)	84,231
Income (loss) before provision (benefit) for income taxes	57,861	(118,798)	(60,937)
Provision (benefit) for income taxes	21,879	(46,569)(c)	(24,690)
Net income (loss)	\$ 35,982	\$ (72,229)	\$ (36,247)

<b>Historical</b>	<b>Pro Forma Adjustments</b>	<b>Pro Forma</b>
<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
**For the Thirteen Week Period Ended April 1, 2006**  
(in thousands)

	<u>Historical</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma</u>
Net sales	\$ 592,816	\$	\$ 592,816
Cost of sales	369,743	38(a)	369,781
<b>Gross profit</b>	<b>223,073</b>	<b>(38)</b>	<b>223,035</b>
Selling, general and administrative expenses	311,899	(39,191)(a)	272,708
<b>Operating (loss) income</b>	<b>(88,826)</b>	<b>39,153</b>	<b>(49,673)</b>
Interest income	(754)		(754)
Interest expense	9,987	9,502(b)	19,489
(Loss) income before (benefit) provision for income taxes	(98,059)	29,651	(68,408)
(Benefit) provision for income taxes	(32,583)	5,542(c)	(27,041)
<b>Net (loss) income</b>	<b>\$ (65,476)</b>	<b>\$ 24,109</b>	<b>\$ (41,367)</b>

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
**For the Thirteen Week Period Ended April 2, 2005**  
(in thousands)

	<u>Historical</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma</u>
Net sales	\$ 570,946	\$	\$ 570,946
Cost of sales	334,553	68(a)	334,621
<b>Gross profit</b>	<b>236,393</b>	<b>(68)</b>	<b>236,325</b>
Selling, general and administrative expenses	242,154	9,648(a)	251,802
<b>Operating (loss)</b>	<b>(5,761)</b>	<b>(9,716)</b>	<b>(15,477)</b>
Interest income	(495)		(495)
Interest expense	1,218	18,724(b)	19,942
(Loss) before (benefit) for income taxes	(6,484)	(28,440)	(34,924)
(Benefit) for income taxes	(2,410)	(11,148)(c)	(13,558)
<b>Net (loss)</b>	<b>\$ (4,074)</b>	<b>\$ (17,292)</b>	<b>\$ (21,366)</b>



**Notes to the Unaudited Pro Forma Condensed Consolidated Statements of Operations**  
(dollars in thousands)

(a) Reflects the aggregate effect of the following items:

	Fiscal Year Ended	Thirteen Weeks Ended	
	December 31, 2005	April 1, 2006	April 2, 2005
Property and equipment(1)	\$ (2,579)	\$ (312)	\$ (645)
Intangible assets(2)	3,508	424	877
<b>Total depreciation and amortization</b>	<b>929</b>	<b>112</b>	<b>232</b>
Rent(3)	36,498	4,580	8,984
Management fees(4)	2,000	333	500
Transaction costs(5)		(44,178)	
	<b>\$ 39,427</b>	<b>\$ (39,153)</b>	<b>\$ 9,716</b>
Allocated to:			
Costs of goods sold	\$ 2	\$ 38	\$ 68
Selling, general and administrative expenses	39,425	(39,191)	9,648
	<b>\$ 39,427</b>	<b>\$ (39,153)</b>	<b>\$ 9,716</b>

- (1) Represents the net decrease to depreciation expense resulting from recording property and equipment at its fair value. The decrease has been allocated between cost of goods sold and selling, general and administrative expense based on historical allocations between the two items.
- (2) Represents the net increase in amortization expense resulting from the values allocated to our credit card customer relationships and customer list, which is being amortized over lives ranging from 3 to 5 years, on a straight-line basis.
- (3) Represents the adjustment to rent expense based on an assessment of remaining lease terms for those leases in place at January 2, 2005. The adjustment records both rent expense and tenant allowances received after January 2, 2005 on a straight-line basis over an assumed revised rental period from January 2, 2005 to the scheduled termination of the lease. The adjustment also records net favorable lease amortization over an average estimated remaining life of 5 years for the favorable lease asset and 8 years for the unfavorable lease liability.
- (4) Represents the amounts attributable to the annual management fee to be paid to the Sponsors. See "Certain Relationships and Related Party Transactions Management Services Agreement."
- (5) Represents the adjustment for transaction costs related to the merger that were expensed as incurred in the period.

(b) Reflects incremental interest expense related to the additional indebtedness, consisting of the notes offered hereby in the principal amount of \$650,000 and assumed borrowings under our new asset-based revolving credit facility, which borrowings are based on historical levels of borrowings plus (i) expected cash needs as the result of the use of cash in the Transactions and (ii) interest payments on the notes. The interest rates used for pro forma purposes are LIBOR plus 5.625% (10.345%) on borrowings under the notes and LIBOR plus 1.500% (6.220%) on the new asset-based revolving credit facility. The adjustment assumes amortization of debt issuance costs on a straight line basis over the maturities of the indebtedness. A 0.125% change in interest rates on our indebtedness, all of which is floating rate, would change pro forma



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interest expense by approximately \$211 and \$203 for the thirteen weeks ended April 1, 2006 and April 2, 2005, respectively, and \$937 for the fiscal year ended December 31, 2005.

(c) Reflects the estimated tax effect resulting from the pro forma adjustments at an estimated rate of 39.2%. The pro forma adjustments for the thirteen-week period ending April 1, 2006 were adjusted by permanent non-deductible expenses amounting to approximately \$15.5 million.

**SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

The following table sets forth our selected historical consolidated financial and operating data. The historical income statement data for fiscal 2005, fiscal 2004 and fiscal 2003, and the historical balance sheet data as of the end of fiscal 2005 and fiscal 2004 have been derived from our consolidated financial statements and related notes for such periods and such dates, which have been audited by KPMG LLP and are included in this registration statement. The selected historical consolidated financial data should be read in conjunction with the consolidated financial statements for the year ended December 31, 2005, the related notes and the independent registered public accounting firm's report, which refers to a change in the method of accounting for vendor arrangements to conform to the requirements of Emerging Issues Task Force Issue No. 02-16. As a result of the consummation of the transaction, a new entity was formed with an effective date of February 14, 2006. The historical financial data as of and for each of the periods through February 13, 2006 shown under the predecessor entity caption, consists of Linens 'n Things and subsidiaries. The historical financial data for the successor entity as of April 1, 2006 and for the period February 14 to April 1, 2006 show the operations of the successor entity, Linens Holding Co and subsidiaries. The unaudited historical financial data as of and for the thirteen weeks ended April 2, 2005 and for the periods from January 1, 2006 to February 13, 2006 and February 14, 2006 to April 1, 2006 have been derived from our unaudited consolidated financial statements and related notes and are included in this registration statement. The unaudited 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. In the opinion of management, such unaudited financial data reflect all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the results for that period. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year or any future period. Selected historical income statement data for fiscal 2002 and fiscal 2001 and the selected historical balance sheet data as of the end of fiscal 2003, fiscal 2002 and fiscal 2001 have been derived from our unaudited consolidated financial statements for such periods and at such dates are not included in this prospectus.

Our historical results included below and elsewhere in this prospectus are not necessarily indicative of our future performance and the results for the periods from January 1, 2006 to February 13, 2006 and February 14, 2006 to April 1, 2006 are not necessarily indicative of our results of operations for a full fiscal year. The term "predecessor" refers to Linens 'n Things, Inc. and the term "successor" refers to Linens Holding Co. after its acquisitions of Linens 'n Things, Inc. on February 14, 2006. This information is only a summary and should be read in conjunction with "Capitalization," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this prospectus.

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(Predecessor)					(Successor)			
Fiscal Year Ended(1)					Thirteen Weeks Ended			Thirteen Weeks Ended
December 29, 2001	January 4, 2003	January 3, 2004	January 1, 2005(2)	December 31, 2005	April 2, 2005	January 1 to February 13, 2006	February 14 to April 1, 2006	April 1, 2006
(unaudited)	(unaudited)				(unaudited)	(unaudited)	(unaudited)	(unaudited)

(dollars in thousands, except for ratios and store data)

**Income Statement Data:**

Net sales	\$ 1,823,803	\$ 2,184,716	\$ 2,395,272	\$ 2,661,469	\$ 2,694,742	\$ 570,946	\$ 284,971	\$ 307,845	\$ 592,816
Cost of sales, including buying and distribution costs	1,100,470	1,308,524	1,426,880	1,589,700	1,595,394	334,553	180,675	189,068	369,743
Gross profit	723,333	876,192	968,392	1,071,769	1,099,348	236,393	104,296	118,777	223,073
Selling, general and administrative expenses	639,065	764,590	846,826	970,479	1,037,521	242,154	174,138	137,761	311,899
Restructuring and asset impairment charge	34,006								
Litigation charge	4,000								
Operating profit (loss)	46,262	111,602	121,566	101,290	61,827	(5,761)	(69,842)	(18,984)	(88,826)
Interest income	(27)	(79)	(169)	(542)	(894)	(495)	(668)	(86)	(754)
Interest expense	5,849	5,588	4,001	3,903	4,860	1,218		9,987	9,987
Income (loss) before provision (benefit) for income taxes	40,440	106,093	117,734	97,929	57,861	(6,484)	(69,174)	(28,885)	(98,059)
Provision (benefit) for income taxes	15,741	40,508	44,975	37,408	21,879	(2,410)	(21,270)	(11,313)	(32,583)
Net income (loss)	\$ 24,699	\$ 65,585	\$ 72,759	\$ 60,521	\$ 35,982	\$ (4,074)	\$ (47,904)	\$ (17,572)	\$ (65,476)

**Other Financial Data:**

Depreciation and amortization	51,487	60,124	71,348	81,318	90,270	21,176	12,642	15,022	27,664
Capital expenditures:									
New stores	110,164	79,888	82,531	87,863	93,678	9,258	6,875	6,517	13,392
	27,737	30,932	30,765	31,189	33,904	2,769	901	2,054	2,955

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	(Predecessor)					(Successor)				
Existing stores and other										
Total capital expenditures	137,901	110,820	113,296	119,052	127,582	12,027	7,776	8,571	16,347	
Cash interest expense	6,011	5,945	3,888	4,018	4,851	1,288	135	47	182	
Ratio of earnings to fixed charges(3)	1.71x	2.59x	2.65x	2.23x	1.66x	.70x	(5.09)x	(.33)x	(1.97)x	
<b>Store Data:</b>										
Number of stores (at period end)	343	391	440	492	542	499	542	549	549	
Total gross square footage (000's) (at period end)	11,980	13,607	15,106	16,702	18,071	16,900	18,071	18,300	18,300	
Net sales per store (000's)	\$ 5,800	\$ 5,900	\$ 5,700	\$ 5,600	\$ 5,200	\$ 1,144	\$ 526	\$ 561	\$ 1,080	
Net sales per square foot	\$ 168	\$ 171	\$ 167	\$ 166	\$ 156	\$ 164		\$ 153		
Comparable net sales	(2.40)%	3.10%	1.30%	1.80%	(5.90)%	(5.40)%			(3.70)%	
<b>Balance Sheet Data (at period end):</b>										
Cash and cash equivalents	\$ 15,437	\$ 86,605	\$ 136,129	\$ 204,009	\$ 158,158	\$ 75,271	\$ 90,333	\$ 15,033	\$ 15,033	
Working capital	218,163	369,221	458,519	519,686	537,453	533,971	506,757	442,017	442,017	
Total assets	1,046,305	1,277,123	1,467,456	1,591,884	1,650,834	1,509,856	1,613,665	2,003,848	2,003,848	
Total debt	29,675	1,831		2,196	2,139	2,182	2,131	733,725	733,725	
Total shareholders' equity	479,858	646,733	737,377	809,353	849,863	806,012	820,408	630,184	630,184	
<b>Cash Flow:</b>										
Cash provided by (used in):										
Operating activities	\$ 82,131	\$ 109,362	\$ 150,892	\$ 177,341	\$ 78,201	\$ (117,422)	\$ (65,146)	\$ (132,574)	\$ (197,720)	
Investing activities	137,901	(110,820)	(113,296)	(119,052)	(127,582)	(12,027)	(7,776)	(1,214,073)	(1,221,849)	
Financing activities	32,689	72,704	11,375	8,727	3,369	917	4,972	1,361,754	1,366,726	

(1) Fiscal years 2005, 2004, 2003 and 2001 were fifty-two week periods. Fiscal year 2002 was a fifty-three week period.

(2) Fiscal year 2004 results include the implementation of the provisions of EITF 02-16, which reduced the Company's net income in fiscal 2004 by \$13.3 million net of tax.

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



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

*The following discussion of our financial condition and results of operations should be read in conjunction with our audited historical consolidated financial statements and the notes accompanying those statements, which are included in the back of this prospectus and "Unaudited Pro Forma Condensed Consolidated Financial Information." The results described below are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward-looking statements based on our current expectations, which are inherently subject to risks and uncertainties. Actual results may differ significantly from those projected in such forward-looking statements due to a number of factors. We undertake no obligation to update or revise any forward-looking statement.*

**Introduction**

We are the second largest specialty retailer of home textiles, housewares and home accessories in North America operating 549 stores in 47 U.S. states and six Canadian provinces at April 1, 2006. During our fiscal 2005, we opened 55 new stores and closed five stores, increasing our total net square footage by 8.2% to approximately 18.1 million.

Net sales consist of gross sales to customers net of returns, discounts and incentives. Provisions for estimated future sales returns are recorded in the period that the related sales are recorded. We determine the amount of provision based on historical information. Sales discounts, coupons, cash rebates and other similar incentives are recorded as a reduction of sales revenue in the period when the related sales are recorded.

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

On November 8, 2005, Linens Merger Sub Co. and its parent company, Linens Holding Co., entered into an Agreement and Plan of Merger with Linens 'n Things, Inc. governing a reverse subsidiary merger (the "Merger") pursuant to which, 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. In the Merger, 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 demand and perfect appraisal rights) was converted into the right to receive \$28.00 in cash, without interest, for aggregate consideration of approximately \$1.3 billion. 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 those under the notes and the related indenture. Linens 'n Things Center, Inc., a direct wholly owned subsidiary of Linens 'n Things, Inc., was 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 \$648.0 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. We did not draw on our asset-based revolving credit facility at closing.

The aforementioned transactions, including the Merger and the payment of any costs related to these transactions, are collectively referred to herein as the "Transactions." In connection with the Transactions, we incurred significant indebtedness and became highly leveraged.

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

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in connection with the merger agreement with us 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 our \$600.0 million asset-based revolving credit facility;

the termination of our existing \$250.0 million unsecured revolving credit facility and CAD \$40.0 million unsecured credit facility agreements; and

the equity investments described above.

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, our Chairman and Chief Executive Officer, acquired the remaining 0.3%.

Upon consummation of the Transactions, we delisted our 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.

### Overview of Business

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

Our financial performance weakened in 2005 due to less effective merchandising and marketing initiatives that were implemented in the second half of 2004 and in 2005. We believe, however, the underlying fundamentals of our Company remain strong, including our strong brand name recognition and attractive real estate locations, and the fundamentals of our industry are very favorable. As a result, we believe we have the opportunity to significantly improve our financial performance in the near term. Effective upon consummation of the Transactions, Robert J. DiNicola became our new Chairman and Chief Executive Officer. Mr. DiNicola is a 34-year veteran of the retail industry, with extensive experience in retail, including home furnishings. Previously, Mr. DiNicola served as Executive Chairman of General Nutrition Centers, Inc. and as Chairman and Chief Executive Officer of Zale Corporation. Under the leadership of Mr. DiNicola, we intend to focus on growing our sales per square foot and improving the productivity of our existing store base, which we believe is key to improving our profitability and cash flow. To achieve this the we intend to:

improve our overall merchandise assortment;

establish a formalized key item program;

increase the effectiveness and diversify the mix of our marketing expenditures;

improve our guests' shopping experience; and

improve our operating free cash flow.



**Effect of the Transactions**

In connection with the Transactions, we incurred significant additional indebtedness, including \$650.0 million aggregate principal amount of the old notes.

Our acquisition is being accounted for as a business combination using the purchase method of accounting. As a result, our assets and liabilities were assigned new values on a fair value basis.

<i>Cost of Acquisition</i>	
Cash Paid	\$ 1,295,834
Transaction costs	22,824
	\$ 1,318,658
<i>Net Assets Acquired:</i>	
Historical net assets	820,408
Add: deferred rent reversed	252,236
Less: New basis of accounting for previous ownership percentage	(1,112)
Less: historical goodwill	(18,126)
Write-off Southern Linens	(252)
	1,053,154
Net assets acquired	1,053,154
Excess of costs of acquisition over net assets acquired	\$ 265,504
<i>Allocated to:</i>	
Property and equipment	(57)
Definite lived intangibles	38,330
Indefinite lived intangibles	122,688
Unfavorable lease liability	(20,000)
Goodwill	277,435
Deferred Income taxes	(152,892)
	\$ 265,504

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

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

The following discussion and analysis of our historical financial condition and results of operation covers periods prior to and after the consummation of the Transactions. Accordingly, most of the discussion and analysis of such periods does not reflect the significant impact the Transactions have had on us. After the Transactions, we became highly leveraged. Significant additional liquidity requirements, resulting primarily from increased interest expense, and other factors related to the Transactions, such as increased depreciation and amortization as a result of the application of purchase accounting, has significantly affected our financial condition, results of operations and liquidity going forward.

Net sales increased 1.2% to \$2.69 billion in fiscal 2005 compared to \$2.66 billion in fiscal 2004. For fiscal 2005, comparable net sales decreased 5.9% versus a 1.8% increase in fiscal 2004. For fiscal 2005,

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our earnings per share on a fully diluted basis were \$0.79 as compared to \$1.32 on a fully diluted basis for fiscal 2004.

The following table sets forth the results and percentage of net sales included in our Consolidated Statements of Operations for the fifty-two week periods ended December 31, 2005, January 1, 2005 and January 3, 2004 and the periods from January 1, 2006 to February 13, 2006 and February 14, 2006 to April 1, 2006:

	February 14 to April 1, 2006(1) (Successor)		January 1 to February 13, 2006 (Predecessor)		Fiscal Year Ended December 31, 2005 (Predecessor)		Fiscal Year Ended January 1, 2005(2) (Predecessor)		Fiscal Year Ended January 3, 2004 (Predecessor)	
	Unaudited		Unaudited							
(in thousands, except per share data)										
Net sales	\$ 307,845	100.00%	\$ 284,971	100.00%	\$ 2,694,742	100.00%	\$ 2,661,469	100.00%	\$ 2,395,272	100.00%
Cost of sales(3)	189,068	61.42%	180,675	63.40%	1,595,394	59.20%	1,589,700	59.73%	1,426,880	59.57%
Gross profit	118,777	38.58%	104,296	36.60%	1,099,348	40.80%	1,071,769	40.27%	968,392	40.43%
SG&A(4)	137,761	44.75%	174,138	61.11%	1,037,521	38.50%	970,479	36.46%	846,826	35.35%
Operating (loss) profit	(18,984)	(6.17)%	(69,842)	(24.51)%	61,827	2.29%	101,290	3.81%	121,566	5.08%
Interest expense, net	9,901	3.22%	(668)	(0.23)%	3,966	0.15%	3,361	0.13%	3,832	0.16%
(Loss) income before (benefit) provision for income taxes	(28,885)	(9.38)%	(69,174)	(24.27)%	57,861	2.15%	97,929	3.68%	117,734	4.92%
(Benefit) provision for income Taxes	(11,313)	(3.67)%	(21,270)	(7.46)%	21,879	0.81%	37,408	1.41%	44,975	1.88%
Net (loss) income	\$ (17,572)	(5.71)%	\$ (47,904)	(16.81)%	\$ 35,982	1.34%	\$ 60,521	2.27%	\$ 72,759	3.04%
Earnings per share:										
Basic	N/A		N/A		\$ 0.79		\$ 1.34		\$ 1.65	
Fully diluted	N/A		N/A		\$ 0.79		\$ 1.32		\$ 1.62	

- (1) The unaudited 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.
- (2) Results of operations for fiscal 2004 include the implementation of the provisions of EITF 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EITF 02-16"), which negatively impacted our fiscal 2004 net income by \$13.3 million or \$0.29 per fully diluted share. EITF 02-16 had no impact on our net cash flows.
- (3) Decrease in the cost of sales result from management's decision to mark down certain inventory.
- (4) Decrease was a result of transaction costs in the January 1, 2006 to February 13, 2006 period.

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We use a number of key indicators of financial condition and operating performance to evaluate the performance of our business, including the following:

Key Performance Indicators	Fiscal Year Ended				
	February 14 to April 1, 2006 (Successor)	January 1 to February 13, 2006 (Predecessor)	December 31, 2005 (Predecessor)	January 1, 2005 (Predecessor)	January 3, 2004 (Predecessor)
Net sales growth	N/A	N/A	1.20%	11.10%	9.60%
Comparable net sales growth	N/A	N/A	(5.90)%	1.80%	1.30%
Net sales per average square foot	\$ 17.04	\$ 15.57	\$ 156	\$ 166	\$ 167
Average net sales per store (in millions)	\$ 0.57	\$ 0.52	\$ 5.20	\$ 5.60	\$ 5.70
Gross profit as a % of net sales	38.58%	36.60%	40.80%	40.27%	40.43%
SG&A as a % of net sales	44.75%	61.11%	38.50%	36.46%	35.35%
SG&A per average square foot	\$ 7.62	\$ 9.52	\$ 59.90	\$ 60.70	\$ 58.90
Operating (loss) profit as a % of net sales.	(6.17)%	(24.51)%	2.29%	3.81%	5.08%
Net (loss) income as a % of sales	(5.71)%	(16.81)%	1.34%	2.27%	3.04%
Diluted earnings per share	N/A	N/A	\$ 0.79	\$ 1.32	\$ 1.62
Inventory turnover	2.0	N/A	2.0	2.1	2.1
Inventory per square foot	\$ 45.81	N/A	\$ 43.57	\$ 42.82	\$ 46.37
Net square footage growth	1.30%	N/A	8.0%	11.0%	11.0%

During the latter part of fiscal 2004, we implemented several initiatives, which aimed to improve sales productivity and enhance the guest shopping experience. These strategic initiatives impacted several areas throughout our Company, from our buying, assortment planning and inventory management functions, to our sales floor activities. We also intensified our focus on up-front planning and continued to refine our forecasting methods to anticipate the needs of each store on a regular basis, as opposed to merely measuring total stock levels across the entire chain.

Although we made significant progress in implementing these initiatives in 2004, there was more to be accomplished as of the start of fiscal 2005. During fiscal 2005, we planned to leverage our expanded buying team and our improved capabilities to introduce new brands and accelerate new businesses that would distinguish our product selection with a sense of "freshness."

Fiscal 2005 proved to be a very difficult year for us. The external retail environment was challenging as we were faced with a softening home furnishings industry. Many parts of the decorative home furnishings industry were not in a strong cycle. Improving our merchandise assortment and maintaining our focus on trend-merchandising and brand building remained a high priority throughout the year, but the merchandise initiatives undertaken to inject more newness and freshness in our assortment took more time to evolve and were not as effective as was originally expected. We underestimated the impact of these initiatives on guest traffic, transaction conversion and the disruption to the organization as a whole, which ultimately led to the inconsistencies in our financial performance.

Throughout the year, guest response to our marketing content and vehicles was weaker than planned, and changes to our distribution did not generate the level of traffic that was originally anticipated. Other factors that weakened our financial performance in fiscal 2005 included unfavorable weather conditions in the Northeast during the first quarter of the year, the negative impact on our spring and summer outdoor businesses caused by early, unseasonable weather, resulting in both a loss of business and additional merchandise markdowns later in the season when the weather improved, and leaner inventories than planned at various times during the year due to vendor late deliveries.

Although the results of our merchandising and marketing initiatives in fiscal 2005 were disappointing, there were also some noteworthy accomplishments. The "things" business performed well in fiscal 2005, with net sales improving approximately 6% compared to last year. During the year, we

continued the successful expansion of our furniture business to over 400 stores. In September, we launched the Nate Berkus collection exclusively at Linens 'n Things, which generated excitement in our stores around this important new trend-setting brand.

Throughout fiscal 2005 we undertook significant changes within our organization with a view toward improved financial results. But, we were not fully successful in consistently delivering a meaningful recovery in profitability. In September, the board of directors took decisive action to carry out its fiduciary responsibility to our stockholders to do their best to create value, including an exploration of all possible strategic avenues. The board of directors announced that it intended to fulfill its responsibility to explore, examine and evaluate whatever strategic alternatives may emerge, including a possible sale of our Company. This responsibility was fulfilled when the board of directors approved on November 8, 2005 the Merger Agreement.

In fiscal 2006, we continued to take the necessary steps to consummate the Merger Agreement. A key condition to the Merger Agreement was satisfied when, at a special meeting of the stockholders on January 30, 2006, the Merger Agreement was overwhelming approved. On February 14, 2006, the Merger Agreement was consummated and trading of our common stock on the NYSE ceased at the closing bell. Moving forward, as a private concern, we intend to focus on growing our sales per square foot and improving the productivity of our existing store base, which we believe are key to improving our profitability and cash flow. To do so, we intend to improve our overall merchandise assortment, establish a formalized key item program, increase the effectiveness and diversify the mix of our marketing expenditures, improve our guests shopping experience and improve our operating free cash flow.

We expect to slow our square footage growth in fiscal 2006 as we continue to refine our stores' design in order to improve the guest shopping experience and improve our stores' productivity. In fiscal 2006, we expect to open approximately 25 to 30 new stores, primarily consisting of stores that we have already committed to opening, as opposed to approximately 56 new store openings per year since fiscal 2003, inclusive. Additionally, real estate typically has a 12 to 18 month lead-time, and although we believe that there are ample real estate opportunities, we will continue to be selective in executing our real estate strategy.

We were required to begin expensing stock options as compensation cost as of the beginning of fiscal 2006. Prior to the beginning of fiscal 2006, we disclosed the effect on net income and earnings per share related to the expensing of options as a note to our Consolidated Financial Statements. This accounting change in the recognition of compensation expense for stock options impacted our fiscal 2006 consolidated results of operation by approximately \$6.4 million, net of tax, due to the accelerated recognition of compensation expense resulting from the consummation of the Merger Agreement. The expensing of stock options does not have any impact on our net cash flows.

### **Consolidated Results of Operations**

The following discusses the Consolidated Results of Operations for each of the fifty-two week periods ended December 31, 2005 ("fiscal 2005"), January 1, 2005 ("fiscal 2004") and January 3, 2004 ("fiscal 2003") and the thirteen week periods ended April 1, 2006 and April 2, 2005:

#### **Thirteen Week Period Ended April 1, 2006 Compared With Thirteen Week Period Ended April 2, 2005**

For comparative purposes, the Company combined the two periods from January 1, 2006 to February 13, 2006 and February 14, 2006 to April 1, 2006. This combination is not GAAP presentation. However, the Company believes this presentation is useful to provide the reader a more accurate comparison.

*Net Sales*

Net sales for the thirteen weeks ended April 1, 2006 increased approximately 3.8% to \$592.8 million compared to \$570.9 million for the same period last year. We believe that the increased sales associated with new store openings since last year were partially offset by declines in guest traffic. Guest traffic was negatively impacted by the shift of the Easter holiday to the second quarter of this year versus the first quarter last year, and to changes in our marketing programs. At April 1, 2006, we operated 549 stores, including 30 stores in Canada, as compared with 499 stores, including 24 stores in Canada, at April 2, 2005. Store square footage increased approximately 8.4% to 18.3 million at April 1, 2006 compared with 16.9 million at April 2, 2005. During the thirteen weeks ended April 1, 2006, we opened seven stores and closed no stores as compared with opening eight stores and closing one store during the same period last year.

Comparable net sales decreased 3.7% for the thirteen weeks ended April 1, 2006 compared to a decline of 5.4% for the same period last year. The continuing decline in comparable net sales is due to lower guest traffic.

*Gross Profit*

In addition to the cost of inventory sold, we include our buying and distribution expenses in our cost of sales. Buying expenses include all direct and indirect costs to procure merchandise. Distribution expenses include the cost of operating our distribution centers and freight expense related to transporting merchandise. Gross profit for the thirteen weeks ended April 1, 2006 was \$223.1 million, or 37.6% of net sales, compared with \$236.4 million, or 41.4% of net sales, for the same period last year. During the first quarter, increases in gross margin from improved markup, through lower acquisition costs, and vendor allowances were offset by an increase in markdowns associated with our efforts to move old and slow moving merchandise in anticipation of replacing it with better selling items in the second half of the year.

*Expenses*

Our selling, general and administrative expenses consist of store selling expenses, occupancy costs, advertising expenses and corporate office expenses. SG&A for the thirteen weeks ended April 1, 2006 was \$311.9 million, or 52.6% of net sales, compared with \$242.2 million, or 42.4% of net sales, for the same period last year. The increase in SG&A as a percent of net sales is primarily due to an increase in occupancy costs as a result of new store additions and costs associated with the purchase of Linens 'n Things, Inc. Fixed costs, such as occupancy, increased as a percentage of net sales as a result of the overall decline in our net sales. In response to our sales performance, we reduced certain variable expenses, such as payroll and corporate overhead, but maintained overall marketing spend to support sales. Marketing as a percentage of net sales was 3.8% for the thirteen weeks ended April 1, 2006 versus 3.8% for the thirteen weeks ended April 2, 2005.

Operating loss for the thirteen weeks ended April 1, 2006 was approximately \$88.8 million or 15.0% of net sales, compared with an operating loss of \$5.8 million or 1.0% of net sales, for the same period last year.

Net interest expense for the thirteen weeks ended April 1, 2006 increased to approximately \$9.2 million from \$0.7 million during the same period last year primarily due to the additional interest expense associated with the \$650 million Senior Secured Floating Rate Notes due 2014 issued on February 14, 2006. In addition, lower average investment balances and higher average borrowings required to fund working capital needs and an increase in average borrowing interest rates also contributed to the overall increase in net interest expense.

Our income tax benefit was approximately \$32.6 million for the thirteen weeks ended April 1, 2006, compared with an income tax benefit of \$2.4 million for the same period last year. This increase is due to additional merger related charges. Due to an increase in nondeductible expenses related to the merger, our effective tax rate for the thirteen weeks ended April 1, 2006 declined to 33.2% compared to 37.2% for the same period last year.

*Net Income*

As a result of the factors described above, net loss for the thirteen weeks ended April 1, 2006 was approximately \$65.5 million compared with a net loss of \$4.1 million for the same period last year.

**Fiscal 2005 Compared With Fiscal 2004**

*Net Sales*

Net sales for fiscal 2005 were \$2,694.7 million, an increase of 1.2% over fiscal 2004 net sales of \$2,661.5 million, primarily as a result of new store openings offset by a decrease in comparable net sales. We opened 55 stores and closed five stores in fiscal 2005, compared with opening 54 stores and closing two stores in fiscal 2004. Net square footage increased 8.2% to 18.1 million at December 31, 2005 compared with 16.7 million at January 1, 2005.

Comparable net sales decreased 5.9% for fiscal 2005 compared with an increase of 1.8% in fiscal 2004. Comparable net sales percentages are based on total net sales. Comparable net sales include our Internet sales and sales for our stores beginning on the first day of the month following the 13th full month of sales. Stores that are closed for a number of days in a particular month are excluded from comparable net sales if it would cause meaningful disparity in sales over the prior period. In the case of a store to be permanently closed, such store's sales are not considered comparable once the store closing process has commenced. The decrease in comparable net sales is primarily attributable to a decrease in guest traffic as further discussed in the following paragraph.

Our average net sales per store were \$5.2 million in fiscal 2005 and \$5.6 million in fiscal 2004. The external retail environment was challenging as we were faced with a softening home furnishings industry. Improving our merchandise assortment and maintaining our focus on trend-merchandising and brand building remained a high priority throughout the year, but the initiatives undertaken to inject more newness and freshness in our assortment were not as effective as was originally hoped for. We underestimated the impact of these initiatives on guest traffic, transaction conversion and the disruption to the organization as a whole, which ultimately led to the inconsistencies in our financial performance and the decline of comparable net sales. Throughout the year, guest response to our marketing content and vehicles was weaker than planned, and changes to our distribution did not generate the level of traffic that was originally anticipated.

Our core business strategy is to offer a broad and deep selection of high quality brand name "linens" (e.g., bedding, towels and table linens) and "things" (e.g., housewares and home accessories) merchandise. For fiscal 2005, net sales of "linens" merchandise decreased approximately 3% compared to the prior year, while net sales of "things" increased approximately 6% over the prior year. The increase in net sales for "things" merchandise resulted primarily from the continued expansion of product categories within the "things" business and our continued strength in our functional housewares business. Our textile business remained challenging due to the large number of assortment changes during the year, the impact of which was further compounded by inventory in-stock deficiencies caused by vendor late deliveries.

Our proprietary merchandise accounted for approximately 15% of fiscal 2005 sales. Our proprietary product is an important point of differentiation from our competitors, providing our guests with high value merchandise in categories that we believe are underserved by national brand names.

*Gross Profit*

Gross profit for fiscal 2005 was \$1,099.3 million, or 40.8% of net sales, compared with \$1,071.8 million, or 40.3% of net sales, for fiscal 2004. Increases in gross margin from improved markup through lower merchandise acquisition costs were largely offset by an increase in markdowns associated with the acceleration of our transitions to newer assortments.

*Expenses*

SG&A expenses consist of store selling expenses, occupancy costs, advertising expenses and corporate office expenses. SG&A expenses for fiscal 2005 were \$1,037.5 million, or 38.5% of net sales, compared with \$970.5 million, or 36.5% of net sales, for fiscal 2004. The increase in SG&A as a percent of net sales is primarily due to the impact of our flat sales performance compared to the previous year. Although new store additions increased fixed costs, such as occupancy, we responded with reductions in certain variable expenses, such as store payroll and corporate overhead. As a result, SG&A per average square foot declined approximately 1.3% to \$59.90 in fiscal 2005 compared to \$60.70 in fiscal 2004.

Operating profit for fiscal 2005 was \$61.8 million, or 2.3% of net sales, compared with \$101.3 million, or 3.8% of net sales for fiscal 2004.

Net interest expense in fiscal 2005 was \$4.0 million compared to \$3.4 million in fiscal 2004. An increase in interest expense, due to higher average borrowings required to fund working capital needs and an increase in average borrowing interest rates, was partially offset by a decrease in interest expense due to the termination of the trade payables arrangement with General Electric Capital Corporation and an increase in interest income from short-term investments due to higher average interest rates.

Our income tax expense for fiscal 2005 was \$21.9 million, compared with \$37.4 million for fiscal 2004. Due to a change in the mix of earnings within jurisdictions, our effective tax rate for fiscal 2005 declined to 37.8% compared to 38.2% for the same period last year.

*Net Income*

As a result of the factors described above, net income for fiscal 2005 was \$36.0 million, or \$0.79 per share on a fully diluted basis, compared with \$60.5 million, or \$1.32 per share on a fully diluted basis, for fiscal 2004.

**Fiscal 2004 Compared With Fiscal 2003**

Results of operations for fiscal 2004 include the implementation of the provisions of EITF 02-16, which negatively impacted our fiscal 2004 net income by \$13.3 million, net of tax, or \$0.29 per fully diluted share. EITF 02-16 did not impact fiscal 2003.

*Net Sales*

Net sales for fiscal 2004 were \$2,661.5 million, an increase of 11.1% over fiscal 2003 net sales of \$2,395.3 million, primarily as a result of new store openings as well as comparable net sales increases. We opened 54 stores and closed two stores in fiscal 2004, compared with opening 58 stores and closing nine stores in fiscal 2003. Net square footage increased 10.6% to 16.7 million at January 1, 2005 compared with 15.1 million at January 3, 2004.

Comparable net sales, which include our Internet sales, increased 1.8% for fiscal 2004 compared with an increase of 1.3% in fiscal 2003.

Our average net sales per store were \$5.6 million in fiscal 2004 and \$5.7 million in fiscal 2003.

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For fiscal 2004, net sales of "linens" merchandise increased approximately 9% over the prior year, while net sales of "things" increased approximately 13% over the prior year. The increase in net sales for "things" merchandise resulted primarily from the continued expansion of product categories within the "things" business and its continued strength in its functional housewares business. Although our textile business was challenging in fiscal 2004, we were undergoing significant assortment changes in its textile business to inject more newness into our overall assortment.

Our proprietary merchandise accounted for approximately 15% of fiscal 2004 sales.

### *Gross Profit*

Gross profit for fiscal 2004 was \$1,071.8 million, or 40.3% of net sales, compared with \$968.4 million, or 40.4% of net sales, for fiscal 2003. The EITF 02-16 adjustment impact was to increase gross profit by \$5.9 million, or 0.3% of net sales, for fiscal 2004. The increase in gross profit from the EITF 02-16 impact was offset primarily by higher markdowns, as well as higher fuel costs.

### *Expenses*

SG&A expenses for fiscal 2004 were \$970.5 million, or 36.5% of net sales, compared with \$846.8 million, or 35.3% of net sales, for fiscal 2003. The EITF 02-16 adjustment impact was \$27.4 million, or 1.1% of net sales, for the fifty-two weeks ended January 1, 2005. SG&A for fiscal 2003 also included advertising allowances equaling 1.0% of net sales, which, as a part of the EITF 02-16 implementation, were no longer classified as an offset to SG&A in fiscal 2004. In addition to the increase in SG&A from the EITF 02-16 impact, SG&A increased as a percentage of net sales primarily due to higher occupancy costs as a percentage of net sales, partially offset by store payroll. SG&A per average square foot was \$60.70 in fiscal 2004 compared to \$58.90 in fiscal 2003. The EITF 02-16 adjustment impact to SG&A per square foot in fiscal 2004 was \$1.70.

Operating profit for fiscal 2004 was \$101.3 million, or 3.8% of net sales, compared with \$121.6 million, or 5.1% of net sales for fiscal 2003. The EITF 02-16 adjustment impact was \$21.5 million, or 0.8% of net sales, for fiscal 2004.

Net interest expense in fiscal 2004 was \$3.4 million compared to \$3.8 million in fiscal 2003. The decrease in net interest expense was mainly due to lower average borrowings compared to the same period last year.

Our income tax expense for fiscal 2004 was \$37.4 million, compared with \$45.0 million for fiscal 2003. The EITF 02-16 impact was a decrease of \$8.2 million for fiscal 2004. Our effective tax rate was 38.2% for fiscal 2004 and 2003.

### *Net Income*

As a result of the factors described above, net income for fiscal 2004 was \$60.5 million, or \$1.32 per share on a fully diluted basis, compared with \$72.8 million, or \$1.62 per share on a fully diluted basis, for fiscal 2003. The EITF 02-16 adjustment negatively impacted net income by \$13.3 million, or \$0.29 per share on a fully diluted basis for fiscal 2004.

### **Liquidity and Capital Resources**

In connection with the Transactions the Company had significant cash outlays during the first quarter of 2006 and became highly leveraged upon the issuance of \$650 million aggregate principal amount of the notes. As of December 31, 2005, the Company had no indebtedness outstanding except for \$2.1 million for the mortgage note. Cash outlays for the payment of interest will be significantly higher in the current fiscal year compared to the last fiscal year as a result of the notes.



*Post-Transactions*

We fund our operations through a combination of internally generated cash from operations and from borrowings under our asset-based revolving credit facility. Prior to the Transactions, these requirements were funded through a combination of internally generated cash flows from operations and short-term borrowings. Our primary incremental uses of cash after the consummation of the Transactions are working capital requirements, new store expenditures, new store inventory purchases and debt service requirements. We anticipate that cash generated from operations together with amounts available under our asset-based revolving credit facility will be sufficient to meet our future working capital requirements, new store expenditures, new store inventory purchases and debt service obligations as they become due. However, our ability to fund future operating expenses and capital expenditures and our ability to make scheduled payments of interest on, to pay principal on or refinance indebtedness and to satisfy any other present or future debt obligations will depend on future operating performance which will be affected by general economic, financial and other factors beyond our control. See "Risk Factors We will require a significant amount of cash, and our ability to generate sufficient cash depends upon many factors, some of which are beyond our control."

As a result of the Transactions, the cash flow results for the first quarter of fiscal 2006 have been separately presented in the Condensed Consolidated Statements of Cash Flows, presented elsewhere herein, split between the "Predecessor Entity," covering the period January 1, 2006 through February 13, 2006 and the "Successor Entity" covering the period February 14, 2006 through April 1, 2006. The results for the prior year's first quarter are presented under "Predecessor Entity." For comparative purposes, the Company combined the two periods from January 1, 2006 through April 1, 2006 in its discussion below. This combination is not a GAAP presentation. However, the Company believes this combination is useful to provide the reader a more accurate comparison and is provided to enhance the reader's understanding of cash flows for the periods presented.

*Historical*

Net cash used in operating activities for the periods January 1 to February 13, 2006 and February 14 to April 1, 2006 was \$65.1 million and \$132.6 million, respectively. Net cash used in operating activities for the combined thirteen weeks ended April 1, 2006 was \$197.7 million compared with \$117.4 million used in operating activities for the same period last year.

The increase in net cash used in operating activities is due to the timing of vendor payments, an increase to prepaid rent due to timing of payments and additional costs incurred by the Company resulting from the consummation of the Transactions.

Net cash used in investing activities for the periods January 1 to February 13, 2006 and February 14 to April 1, 2006 was \$7.8 million and \$1,214.0 million, respectively. Net cash used in investing activities for the combined thirteen weeks ended April 1, 2006 was \$1,221.8 million compared with \$12.0 million used in investing activities for the same period last year. Excluding acquisition cost in connection with the Transaction, net cash used in investing activities was \$16.3 million. The Company currently estimates capital expenditures will be approximately \$85 million in fiscal 2006, primarily to open approximately 25 to 30 new stores, to maintain existing stores, and for system enhancements.

Net cash provided by financing activities for the periods January 1 to February 13, 2006 and February 14 to April 1, 2006 was \$5.0 million and \$1,361.8 million, respectively. Net cash provided by financing activities for the combined thirteen weeks ended April 1, 2006 was \$1,336.7 million compared with \$0.9 million provided by financing activities for the same period last year. The increase is due to the issuance of the Notes, the issuance of Company stock to the Sponsors in connection with the Transactions, and an increase in borrowings under the asset-based revolving credit facility to fund working capital needs.

Net cash provided by operating activities for fiscal 2005 was \$78.2 million compared with \$177.3 million for fiscal 2004. The decrease in net cash provided between periods is primarily attributable to an increase in inventories due to new store openings, an increase in income tax payments, the timing of receivable collections for guest-related credit card and debit card transactions and for landlord allowances and the decrease in our net sales and net profitability compared to last year.

Net cash used in investing activities for fiscal 2005 was \$127.6 million, primarily for 55 new stores, maintenance of existing stores and system enhancements, compared with \$119.1 million for fiscal 2004. We currently estimate capital expenditures will be approximately \$85.0 million in fiscal 2006, primarily for an estimated 25 to 30 new stores, maintenance of existing stores, and system enhancements.

Net cash provided by financing activities for fiscal 2005 was \$3.4 million, compared with \$8.7 million for fiscal 2004. The decrease is primarily attributable to a decline in proceeds from common stock issued under stock incentive plans. In addition, we had no short-term borrowings at the end of fiscal 2005 and 2004, other than an amount due GECC at the end of fiscal 2004 which was included in accounts payable.

#### *Credit Agreements*

In November 2004, we entered into a \$250.0 million senior revolving credit facility agreement with third party institutional lenders which was to expire November 23, 2009, and in July 2005 we entered into a CAD \$40.0 million unsecured credit facility agreement which was to expire July 29, 2008 (collectively, the "Credit Agreements"). The Credit Agreements were terminated simultaneously with the consummation of the Transactions.

#### *Asset-Based Revolving Credit Facility*

In connection with the Transactions, as of February 14, 2006 we have an asset-based revolving credit facility (the "Credit Facility") that provides for senior secured financing of up to \$600.0 million, subject to the 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 \$40.0 million, is also available to Linens 'n Things Canada Corp. subject to the Canadian borrowing base. The Credit Facility requires us 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 the date of closing of the Transactions.

All obligations under the Credit Facility are unconditionally guaranteed by Linens Holding Co. and certain of our 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 our assets and the assets of the Issuers 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 our option, either (a) an alternate base rate determined by reference to the higher of (1) the base rate in effect on such day and (2) the federal funds effective rate plus 0.50% or (b) a LIBOR rate, with respect to any Eurodollar borrowing, determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs, in each case plus an applicable margin. The initial applicable margin for borrowings under the 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, we 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. We must also pay customary letter of credit fees and agency fees. We initiated borrowings under our Credit Facility on February 23, 2006 to meet our operational working capital needs.

Management regularly reviews and evaluates our liquidity and capital needs. We experience peak periods for our cash needs generally during the second quarter and fourth quarter of the fiscal year. As our business continues to grow and our current store expansion plan is implemented, such peak periods may require increases in the amounts available under the Credit Facility from those currently existing and/or other debt or equity funding.

Management currently believes that our cash flows from operations, our access to increases to the Credit Facility or additional capacity from new credit facilities will be sufficient to fund our expected capital expenditures, working capital and non-acquisition business expansion requirements as they become due.

#### **Off-Balance Sheet Arrangements**

We do not have any transactions or relationships that could be considered material off-balance sheet arrangements.

#### **Contractual Commitments**

We maintained a trade payables arrangement with General Electric Capital Corporation ("GECC") under which GECC purchased our payables at a discount directly from our suppliers prior to the payables due date, thereby permitting a supplier to receive payment prior to the due date of the payable, with us sharing in part of the GECC discount. We and GECC terminated the trade payables program effective January 13, 2006. As of December 31, 2005, we paid all amounts outstanding under the program. As of January 1, 2005, we owed approximately \$65.0 million to GECC under this program, which was included in accounts payable. We, in our sole discretion, may continue to offer early payment options to suppliers in exchange for discounted payments. The discontinuance of the availability of the GECC program did not have a material adverse effect on our financial position, results of operations or cash flows.

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The following table summarizes existing contractual obligations requiring the use of cash, as of April 1, 2006:

Payments Due By Period (in millions)					
Contractual Obligations	Total	Less Than 1 Year	2-3 Years	4-5 Years	More Than 5 Years
Operating leases real property	\$ 2,662.8	\$ 273.6	\$ 568.0	\$ 558.8	\$ 1,262.4
Operating leases personal Property	11.5	5.1	4.4	2.0	
Total operating leases(1)	2,674.3	278.7	572.4	560.8	1,262.4
Inventory purchases	128.6	128.6			
New store capital additions	7.2	7.2			
Short and long-term debt obligations(2)	733.9	81.8	0.2	0.2	651.7
Total	\$ 3,544.0	\$ 496.3	\$ 572.6	\$ 561.0	\$ 1,914.1

(1) Operating leases consist of future minimum rental payments required under non-cancelable operating leases excluding lease obligations of closed stores in the amount of \$18.9 million.

As of April 1, 2006, we had fully executed leases for 36 stores planned to open in fiscal 2006 and 2007, for which aggregate minimum rental payments over the term of the leases is approximately \$193.1 million. The table above includes payments for stores that had fully executed leases as of April 1, 2006.

We also have assigned property at a retail location in which we guarantee the payment of rent over the specified lease term in the event of non-performance. As of April 1, 2006 the maximum potential amount of future payments we could be required to make under such guarantee is approximately \$0.7 million.

(2) Short and long-term debt obligations include senior notes, asset-based revolving credit facility and monthly payments of principal and interest for a mortgage on the land and building of one of our closed stores. Floating interest rate payments related to the senior notes and any future indebtedness and interest under the asset-based revolving credit facility, which will significantly increase our long-term liabilities, are not included in the above table.

### Seasonality

Our business is subject to substantial seasonal variations. Historically, we have realized a significant portion of our net sales and net income for the year during the third and fourth quarters. Our quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including the timing of new store openings. We believe this is the general pattern associated with our segment of the retail industry and expect this pattern will continue in the future. Consequently, comparisons between quarters are not necessarily meaningful and the results for any quarter are not necessarily indicative of future results.

### Accounting Pronouncements

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In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No. 123 (Revised 2004)"). SFAS No. 123 (Revised 2004) focuses primarily on accounting for transactions in which an entity obtains employee services through share-based payment transactions.

SFAS No. 123 (Revised 2004) requires us to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award at the date of grant. Under SFAS No. 123 (Revised 2004), the cost is recognized as compensation expense over the period during which an employee is required to provide service in exchange for the award. SFAS No. 123 (Revised 2004) provides guidance but expresses no preference for the type of valuation method to use in determining the fair value of options. Under SFAS No. 123 (Revised 2004), we would have been required to implement the standard as of the beginning of the first interim period that begins after June 15, 2005 (our fiscal 2005 third quarter). On April 14, 2005, the Commission adopted a new rule that allows us to implement SFAS No. 123 (Revised 2004) at the beginning of our next fiscal year, instead of the next interim reporting period that begins after June 15, 2005. Accordingly, we adopted SFAS No. 123 (Revised 2004) as of the beginning of our first fiscal quarter of 2006, using the modified prospective method. Beginning in fiscal 2006, our results of operations reflect compensation expense for new stock option grants, if any, and for the unvested portion of previous stock options granted. Previously, we disclosed the effect on net income and earnings per share related to the expensing of options as a note to our Consolidated Financial Statements (see Note 2). For fiscal 2006, the accounting change in the recognition of compensation expense for stock options resulting from the adoption of SFAS 123 (Revised 2004) impacted our fiscal 2006 consolidated results of operations by approximately \$6.4 million, net of tax. The adoption of SFAS No. 123 (Revised 2004) did not have any impact on our net cash flows.

In December 2004, FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." This Statement requires that exchanges should be recorded and measured at the fair value of the assets exchanged, with certain exceptions. The Statement is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of this Statement did not have a material effect on our financial position or results of operations.

In November 2004, FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." This Statement amends the guidance to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current period charges. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversions be based on the normal capacity of the production facilities. The Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of this Statement did not have a material effect on our financial position or results of operations.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143" ("FIN 47"). FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of FIN 47 did not have a material effect on our financial position or results of operations.

#### **Impact of Inflation**

We do not believe that our operating results have been materially affected by inflation during the preceding three years. There can be no assurance, however, that our operating results will not be affected by inflation in the future.

## Critical Accounting Estimates

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 period. We base our estimates on historical experience and on other assumptions that we believe to be relevant under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our management believes the following critical accounting estimates involve such significant judgments and estimates inherent in the preparation of the Consolidated Financial Statements. Management discussed the development and selection of these critical accounting estimates with the audit committee of the board of directors.

*Valuation of Inventory:* Merchandise inventory is a significant portion of our balance sheet, representing approximately 41.3% of total assets at April 1, 2006. 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. Inherent in RIM calculations are certain significant management judgments and estimates including, among others, merchandise mark-on, mark-up, markdowns and shrinkage based on historical experience between the dates of physical inventories, all of which significantly impact the ending inventory valuation at cost. The methodologies utilized by us in our 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. At any one time, inventories include items that have been written down to our best estimate of their realizable value. Factors considered in estimating realizable value include the age of merchandise and anticipated demand. Actual realizable value could differ materially from this estimate based upon future customer demand or economic conditions.

*Sales Returns:* We estimate future sales returns and record a provision in the period that the related sales are recorded based on historical return rates. Should actual returns differ from our estimates, we 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 our financial statements as of April 2, 2005, December 31, 2005 and April 1, 2006, our sales returns reserve was approximately \$5.2 million, \$7.1 million and \$5.5 million, respectively.

*Impairment of Long-Lived Assets (including Goodwill):* In accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets," long-lived assets, such as property and equipment and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying value of the asset exceeds the fair value of the asset.

Goodwill and intangible assets that have indefinite useful lives are tested annually for impairment. These assets are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. For goodwill, the impairment determination is made at the reporting unit

level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of the goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with FASB Statement No. 141, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. As of April 2, 2005, December 31, 2005 and April 1, 2006, our net value for property and equipment was approximately \$569.3 million, \$612.2 million and \$601.8 million, respectively, and goodwill was approximately \$18.1 million, \$18.1 million and \$277.3 million, respectively. The increase in goodwill was due to the acquisition.

*Store Closure Costs:* In fiscal 2001, we 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 2, 2005, December 31, 2005 and April 1, 2006, we had \$8.3 million, \$5.4 million and \$4.2 million, respectively, remaining related to this reserve. We have closed all of the initially identified stores other than one store, which we decided to keep open and whose reserve was reversed. We continue to negotiate and/or explore lease buyouts or sublease agreements for certain of these stores. For the remaining store for which an acceptable buyout or sublease agreement has not yet been negotiated and entered into, we are considering other alternatives, including reopening the store. The activity in the thirteen-week period ended April 1, 2006 includes the reversal of estimated lease commitment costs of approximately \$55,000 which were not needed, offset by an increase to lease commitment costs of approximately \$130,000 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:* We purchase third party insurance for worker's compensation, medical, auto and general liability costs that exceed certain limits for each type of insurance program. We are responsible for the payment of claims under these insured excess limits. We establish accruals for our insurance programs based on available claims data and historical trend and experience, as well as loss development factors prepared by third party actuaries. The ultimate cost of these claims may be greater than or less than the established accrual. The accrued obligation for these self-insurance programs was approximately \$13.1 million as of April 2, 2005, \$15.3 million as of December 31, 2005 and \$14.6 million as of April 1, 2006.

*Stock-based Compensation:* SFAS No. 123 (Revised 2004) requires the recognition of compensation expense in the Consolidated Statements of Operations related to the fair value of employee share-based options. Determining the fair value of share-based awards at the grant date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, the associated volatility and the amount of share-based awards expected to be forfeited prior to vesting. Prior to adopting SFAS No. 123 (Revised 2004), on January 1, 2006 we applied the recognition and measurement principles of Accounting Principles Board Opinion No. 25, and related Interpretations, in accounting for our stock-based compensation plans. All employee stock options were granted at or above the grant date market price. Accordingly, no compensation cost was recognized for fixed stock option grants prior to January 1, 2006.

*Litigation:* We record 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, we assess the potential liability related to our pending claims and may adjust our estimates accordingly.

*Accounting Control Deficiency:* Our management determined that as of the end of fiscal 2005, we did not have adequate review controls to ensure the propriety of the accounting for the classification of capital expenditures related to store self-development transactions. Our accounting treatment for



capital expenditures related to store self-development transactions, initially recorded on the balance sheet as other current assets and on the cash flow statement as a change in other current assets, was subsequently determined to be incorrect according to generally accepted accounting principles, which principles provide that capital expenditures related to store self-development transactions should be recorded on the balance sheet as property and equipment and on the cash flow statement as additions to property and equipment. Our management corrected the accounting related to store self-development transactions prior to issuance of the financial statements for the fiscal year ended December 31, 2005. There was no change in the overall cash flow generated by us and the incorrect accounting had no impact on our income statement. The control deficiency that resulted in the incorrect accounting for the classification of capital expenditures related to store self-development transactions represented a material weakness in our internal control over financial reporting as of December 31, 2005. Our management has implemented review controls to ensure the propriety of our accounting for these transactions.

A material weakness in internal control over financial reporting is a control deficiency (within the meaning of the Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 2), or combination of control deficiencies, that adversely affects a company's ability to initiate, authorize, record, process or report external financial data reliably in accordance with GAAP that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Although we have taken certain actions to address these issues, if we are unable to identify and remedy all such issues promptly and effectively, it could have a material adverse effect on our business, results of operations and financial condition. Maintaining effective control over financial reporting is necessary for us to produce reliable financial reports and is important in helping to prevent financial fraud. If our management or our independent registered public accounting firm were to conclude again in the future that our internal control over financial reporting was ineffective, investors could lose confidence in our reported financial information.

#### **Quantitative and Qualitative Disclosure About Market Risk**

We continuously evaluate the market risk associated with our financial instruments. Market risks relating to our operations result primarily from changes in interest rates. We do not engage in financial transactions for trading or speculative purposes.

Since fiscal year end 2005, market risk exposure has significantly increased due to the issuance of the notes in connection with the Merger and Transactions.

*Interest Rate Risk:* Our financial instruments include cash and cash equivalents and borrowings under our asset-based revolving credit facility and our notes. Our asset-based revolving credit facility and our notes carry floating rate interest and, therefore, our Consolidated Statement of Operations and our Consolidated Statement of Cash Flows for fiscal 2006 will be exposed to changes in interest rates. As of April 1, 2006, we had \$81.6 million in borrowings under our asset-based revolving credit facility at an average interest rate of 6.3% and \$650 million aggregate principal amount in notes at an interest rate of 10.3%. As of April 1, 2006 a one percentage point change in floating rate interest would cause an increase to interest expense of approximately \$7.3 million. We do not currently use derivative financial instruments in our investment portfolio but expect to hedge a portion of our floating rate interest in future periods.

*Foreign Currency Risk:* We enter into some purchase obligations outside of the United States, which are predominately settled in U.S. dollars, and therefore, we do not have a material exposure to foreign currency exchange risks. We operated 30 stores in Canada as of April 1, 2006. We believe our foreign currency translation risk is not material, as a hypothetical 10% strengthening or weakening of the U.S. dollar relative to the Canadian dollar would not materially affect our results from operations or cash flow. As of April 1, 2006 and for the thirteen-week period then ended we did not hedge against foreign currency risks.

## BUSINESS

### About Our Company

We are the second largest specialty retailer of home textiles, housewares and home accessories in North America operating 549 stores in 47 U.S. states and six Canadian provinces as of April 1, 2006. We are a destination retailer, offering one of the broadest and deepest selections of high quality brand-name as well as private label home furnishings merchandise in the industry. Our average store size of approximately 33,000 gross square feet enables us to offer a more comprehensive product and brand selection than department stores and other retailers that sell home furnishings. We believe our store format coupled with our knowledgeable sales assistance and attentive service to our customers, whom we refer to as our guests, creates an enjoyable shopping experience. Our primary target guest is female between the ages of 25 and 55 who is fashion and brand conscious, has good-to-better income and focuses on the home as a reflection of her individuality.

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

Our store format features an efficient racetrack layout in a visually appealing format that encourages guests to shop the entire store. We operate various store size formats generally ranging from 25,000 to 40,000 gross square feet. This allows us to match the size of our stores with the market potential of each location. Our stores are located predominately in power strip centers adjacent to complementary broad-based retail chains. In addition, our stores are generally located in geographic trading areas with at least 150,000 people within a five to 10 mile radius and with demographic characteristics that match our target guest profile. We were incorporated on September 10, 1996 and were a wholly owned subsidiary of CVS Corporation ("CVS"), formerly Melville Corporation, until November 26, 1996, when CVS completed an initial public offering of our common stock.

### Business Strategy

**Improve Our Overall Merchandise Assortments.** We intend to maximize merchandise productivity by implementing the following assortment planning initiatives:

reduce our overall SKUs and increase the in-stock positions of our most popular merchandise;

re-allocate space in our stores to more productive categories;

increase the use of analytics in our merchandise assortment planning process, enabling us to make more informed, trend-based purchasing decisions in advance of guest demand; and

selectively expand existing merchandise categories and key vendor assortments as well as introduce new merchandise product lines that better reflect the style and regional preferences of our guests.

**Establish a Key Item Program.** We have established a "Best Bets" program in order to provide our guests superior value on our top 100 selling items. We intend to price these key items competitively and

maintain deep in-stock positions to meet guest demand. We believe that our key item program will help drive store traffic, improve sales per square foot and strengthen the Linens 'n Things brand over the long-term.

***Increase the Effectiveness of Our Marketing Expenditures.*** We intend to implement an aggressive new, multi-tiered marketing campaign that re-invigorates the Linens 'n Things brand, emphasizes our commitment to our Best Bets program and drives traffic to our stores. Our marketing expenditures were approximately \$114.0 million in fiscal 2005, or 4.2% of net sales. We expect to reduce marketing expenditures as a percentage of net sales in fiscal 2006; however, we intend to broaden our reach with a more diversified mix of marketing utilizing broadcast media, preprint, newspaper advertising and direct mail. We believe that these changes, coupled with a greater emphasis on national advertising, will be more effective in communicating our merchandising strategy while attracting new guests into our stores and enhancing our brand.

***Improve Our Guests' Shopping Experience.*** Our goal is to exceed our guests' expectations in every store, every day. We intend to achieve this goal by building on our existing service philosophy and by creating a more inviting atmosphere for our guests. We believe we can make our guests' shopping experience more efficient and enjoyable through enhanced merchandise presentation, including more stimulating product displays and clearer in-store signage.

***Improve Our Operating Free Cash Flow.*** We are highly committed to increasing our operating free cash flow. As a result, we plan to reduce new store openings over the next few years and focus on improving the operations of our existing stores. We currently expect to open approximately 25 to 30 new stores in 2006, primarily consisting of stores we have already committed to opening, as opposed to an average of approximately 56 new stores per year since 2003. As a result, we currently expect our fiscal 2006 capital expenditures to be approximately \$85.0 million, as opposed to \$127.6 million in fiscal 2005. In addition, in connection with our merchandise assortment planning and sales productivity initiatives, we expect to improve our inventory turns and reduce our working capital. Our new business strategy does not require any out of the ordinary or one-time capital expenditures.

***Realize Improved Financial Performance as Recently Opened Stores Mature.*** As of April 1, 2006, we operate 549 stores, 174 of which were opened since the beginning of 2003. These 174 stores have not yet reached sales and store-level EBITDA consistent with our stores that were opened before 2003. Store-level EBITDA represents operating profit derived for each store, before depreciation for all fixed assets located at each store and amortization, where operating profit is based on each store's actual sales less direct expenses excluding an allocation of overhead. Historically, new stores take 4 to 5 years to reach the financial performance of a mature store. Accordingly, we expect our recently opened stores to generate improved financial performance and contribute meaningfully to our overall net sales and store-level EBITDA as they mature over the next few years.

## **Competitive Strengths**

***Strong Brand Name Recognition.*** The Linens 'n Things brand name has a strong reputation as a leading provider of home furnishings. Our brand recognition is reinforced by our national footprint and highly visible store locations. Additionally, we utilize extensive national and local advertising through multiple formats to reinforce our guest recognition and support our promotional events. Based on a study by Leo J. Shapiro & Associates, an independent market research firm, in May 2005, 9 out of 10 U.S. households located in our markets recognize the Linens 'n Things brand.

***Leading Destination for Home Furnishings.*** We are the second largest specialty retailer of home textiles, housewares and home accessories in North America and operate 549 stores in 47 U.S. states and six Canadian provinces with an aggregate of approximately 18.3 million gross square feet as of April 1, 2006. With over 25,000 SKUs, we market one of the broadest and deepest selections of home

furnishings in the industry, providing us with a competitive advantage over department stores and mass merchants who offer a more limited product selection. Our more comprehensive product and brand selection provides our guests with a one-stop shopping destination for their home furnishing needs.

***Well Maintained Store Base with Attractive Real Estate.*** Our portfolio of stores is primarily located in high traffic suburban locations that are convenient and accessible to our core guests and in close proximity to other high quality, national retailers. According to a study done by MapInfo in March 2004, our real estate is extremely competitive as to location and size with other national specialty retailers of home furnishings. Our store base is up to date with an average age per store of approximately five years. We believe that the average age of our store base minimizes our near-term maintenance and remodeling capital expenditure requirements.

***Strong and Diversified Vendor Relationships.*** We are one of the largest purchasers of home furnishings in the United States and have developed strong long-term relationships with our vendors, from whom we consistently purchase large quantities of quality merchandise. We believe that our strong and diversified vendor relationships coupled with our buying power provides us a competitive advantage in the U.S. home furnishings industry. In addition, due to our broad range of branded products, our success is not dependent on any one specific product or vendor. In fiscal 2005, no single vendor accounted for more than 8% of our purchases.

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

## **Products and Merchandising**

We offer quality home textiles, housewares and home accessories at compelling values. Our extensive merchandise offering of over 25,000 SKUs in an average store enables our guests to select from within each of our major product lines a wide assortment of styles, brands, colors and designs that exceed the selection generally available in department stores. Our "linens" product line includes home textiles such as bedding, towels, window treatments and table linens. Our "things" product line includes housewares, home accessories and storage and cleaning, such as cookware, dinnerware, glassware, small appliances, candles and picture frames. We are committed to maintaining a consistent in-stock inventory position and ensuring that our stores carry a broad and deep merchandise selection.

We also intend to continue to implement our assortment planning and space management initiatives to maximize productivity. By increasing the use of analytics in our merchandise assortment planning process, we will be in a stronger position to make more informative, trend-based purchasing decisions well in advance of guest demand and will be more able to streamline our merchandise selection, reduce product duplication and develop a more balanced overall assortment. We also continue to re-allocate space in our stores to merchandise categories that better reflect guest demand. This effort allows us the opportunity to maximize productivity by expanding high-growth categories such as rugs, furniture, specialty foam and home environment. Furthermore, we continue to implement our regional merchandising initiatives, thereby positioning our stores to better reflect local geographic tastes and needs. As a result, our stores now carry a deeper, more balanced selection of merchandise that more closely corresponds with the preferences of our guests. In addition, our merchandise is displayed with impactful presentations in groups of related product lines, and seasonal merchandise and impulse

items are prominently displayed in the front of the store. The presentation of our merchandise is designed to maximize customer convenience and reinforce our guests' impression that we offer a wide selection. For fiscal 2006, we intend to focus on adding more newness in our assortment by offering updated merchandise and building brands both within a category and across categories. In addition, we intend to focus on improving the in-store experience with enhanced merchandise presentation and clearer signage.

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

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

Our merchandise procurement is done centrally rather than in store operations. We utilize an auto-replenishment system, whereby approximately 65% of our core products are replenished from a centralized monitoring system.

### **Guest Service and Marketing**

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

### ***Sales Associates***

We seek to maintain a sales force of knowledgeable, professional and well-trained sales associates to deliver personal attention and service to our guests. We offer competitive wages and on-going

training and personnel development in order to attract and retain qualified, motivated associates committed to providing superior guest service. Training at the sales associate level focuses on the areas of guest interaction, product knowledge and store systems usage. We actively monitor and analyze the service levels in our stores in order to maximize sales associate productivity and store profitability.

### ***Marketing and Advertising***

We use our advertising programs to communicate, build and strengthen the Linens 'n Things brand. We intend to implement an aggressive new, multi-tiered marketing campaign that re-invigorates the Linens 'n Things brand, emphasizes our commitment to our key item program and drives traffic to our stores. We expect to reduce marketing expenditures as a percentage of net sales in fiscal 2006; however, we intend to broaden our reach with a more diversified mix of marketing utilizing broadcast media, preprint, newspaper advertising and direct mail. We believe that these changes, coupled with a greater emphasis on national advertising, will be more effective in communicating our merchandising strategy while attracting new guests into our stores and enhancing our brand. We focus our advertising programs during key selling seasons such as spring/summer, back-to-school and holidays. In addition, we utilize our proprietary marketing database to track the buying habits of our guests.

### ***Private Label Charge Card***

In April 2002, we launched our private label charge card program. The intent of this program is to build guest loyalty. Through a points program, guests receive enhanced value by using the card. The program also allows us to provide consistent and effective communication with our guests, while increasing our information base of our guests' purchasing patterns. Subject to customary exceptions, credit risk relating to this program is borne by GE Consumer Finance, a top issuer of private label credit cards.

### **Vendor Relationships**

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

We purchase our merchandise from a diverse vendor base of approximately 1,200 suppliers, of which approximately 17% are located overseas. In fiscal 2005, products supplied by our 25 largest vendors represented approximately 40% of our purchases, with our top three vendors supplying approximately 14% of our purchases and our largest single vendor supplying approximately 8% of our purchases. We believe that this buying power and our ability to make centralized purchases generally allows us to acquire products at favorable terms. In addition, the breadth of our sourcing helps mitigate risks associated with a single brand or designer.

### **Store Operations**

#### ***Store Management and Operations***

We place a strong emphasis on our people, their development and their opportunity for advancement, and are committed to maintaining a high internal promotion rate. Our practice is to open each new store with a seasoned management team, which usually includes managers who have

significant experience with our Company. Additionally, our structured management training program requires that each new manager learn all facets of the business within the framework of a fully operational store. This program includes, among other things, product knowledge, merchandise presentation, business and sales perspective, employee relations and manpower planning. At the sales associate level, we focus our training on guest interaction, product knowledge and store systems usage. We believe that our policy of promoting from within, as well as the opportunities for advancement from our store expansion program, serve as incentives to attract and retain quality individuals.

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

### ***Distribution***

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

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

### ***Management Information Systems***

We continually evaluate and upgrade our management information systems to enhance the quantity, quality and timeliness of information available to management. We believe our management information systems have fully integrated our stores, headquarters and distribution process. Over the last several years, we have made significant investments in technology to improve guest service such as Internet and online bridal and gift registry tools. We operate an IBM AS/400 management information system that integrates all major aspects of our business, including sales, distribution, purchasing, inventory control, merchandise planning and replenishment and financial systems. Information obtained from management information systems results in automatic inventory replenishment in response to specific requirements of each store, thereby improving in-stock positions and enhancing guest service. We also utilize hand-held scanners with inventory status and price look-up capabilities, which allow our sales associates to remain accessible to guests on the selling floor.

### **Competition**

The U.S. retail home furnishings market is highly fragmented. The market includes many different types of retailers including, among others, department stores, mass merchandisers and discounters, specialty retailers, home improvement centers and warehouse clubs. We believe that our ability to compete successfully in our market is influenced by several factors, including price, breadth and quality of product selection, in-stock availability of merchandise, effective merchandise presentation, guest service and superior store locations. We believe that we are well positioned to compete on the basis of these factors. Nevertheless, there can be no assurance that any or all of the factors that enable us to compete favorably will not be adopted by companies having greater financial and other resources than

we do. See "Risk Factors Competitive factors could reduce our sales and profitability." We generally classify our competition as follows:

***Department Stores***

This category includes national and regional department stores such as J.C. Penney Company Inc., Sears, Roebuck and Co. and the department store chains operated by Federated Department Stores, Inc. These retailers offer name brand merchandise as well as their own private label furnishings. Department stores also offer certain designer merchandise, such as Ralph Lauren, which is not generally distributed through the specialty and mass merchandise distribution channels. In general, department stores offer a more limited selection of home furnishings merchandise than we do. The prices offered by department stores during off-sale periods generally are significantly higher than ours and during on-sale periods are comparable to or slightly higher than ours.

***Mass Merchandisers***

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

***Specialty Stores/Retailers***

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

***Other Retailers***

This category includes mail order retailers, such as Domestications; off-price retailers, such as Kohl's Corporation; the T.J. Maxx and Marshall's divisions of the TJX Companies, Inc.; home improvement stores, such as The Home Depot, Inc. and Lowe's Companies, Inc.; warehouse clubs, such as Costco Wholesale Corporation and Sam's Club and smaller local retail stores. These retailers, with the exception of off-price retailers, generally offer a more limited selection of merchandise. Off-price retailers typically offer closeout or out of season name brand merchandise at competitive prices.

**Seasonality and Inflation**

Our business is subject to substantial seasonal variations. Historically, we have realized a significant portion of our net sales and substantially all of our net income for the year during the third and fourth quarters. Our quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including the timing of new store openings. We believe this is the general pattern associated with our segment of the retail industry and expect that this pattern will continue in the future. Consequently, comparisons between quarters are not necessarily meaningful and the results for any quarter are not necessarily indicative of future results.



We do not believe that our operating results have been materially affected by inflation during the past year. There can be no assurance, however, that our operating results will not be affected by inflation in the future.

### Intellectual Property

We use "Linens 'n Things" and "LNT" as trademarks and as service marks in connection with retail services. We have registered the "Linens 'n Things" and "LNT" marks with both the United States Patent and Trademark Office and the Canadian Intellectual Property Office. We believe that the name "Linens 'n Things" and its related marks are important elements of our business. Our corporate website address is [www.lnt.com](http://www.lnt.com).

### Employees

As of April 1, 2006, we employed approximately 17,500 individuals, of whom approximately 7,500 were full-time employees and 10,000 were part-time employees. None of our employees is represented by a union, and we believe that we have a good relationship with our employees.

### Government Regulation

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

Our and our competitors' practices are subject to review in the ordinary course of business by the Federal Trade Commission and are subject to numerous federal and state laws. Additionally, we are subject to certain customs, truth-in-advertising and other laws, including consumer protection regulations that regulate retailers generally and/or govern the importation, promotion and sale of merchandise. We undertake to monitor changes in these laws and believe that we are in material compliance with all applicable state and federal regulations with respect to such practices.

### Foreign Sales

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

	<u>Thirteen Weeks Ended</u> <u>April 1, 2006</u>		<u>Fiscal 2005</u>		<u>Fiscal 2004</u>		<u>Fiscal 2003</u>	
	(in millions)							
Net sales from stores located within:								
United States	\$ 556.3	93.8%	\$ 2,535.5	94.1%	\$ 2,537.5	95.3%	\$ 2,310.9	96.6%
Canada	36.5	6.2%	159.2	5.9%	124.0	4.7%	84.4	3.5%
<b>Total</b>	<b>\$ 592.8</b>	<b>100.0%</b>	<b>2,694.7</b>	<b>100.0%</b>	<b>\$ 2,661.5</b>	<b>100.0%</b>	<b>\$ 2,395.3</b>	<b>100.0%</b>
Long-lived assets(1):								
United States	\$ 1,015.1	94.4%	\$ 601.2	93.6%	\$ 573.9	94.4%	\$ 542.1	95.6%
Canada	60.0	5.6%	41.2	6.4%	34.0	5.6%	24.7	4.4%
<b>Total</b>	<b>\$ 1,075.1</b>	<b>100.0%</b>	<b>\$ 642.4</b>	<b>100.0%</b>	<b>\$ 607.9</b>	<b>100.0%</b>	<b>\$ 566.8</b>	<b>100.0%</b>

(1)

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Includes property and equipment, intangible assets, goodwill and deferred charges and other non-current assets.

## MANAGEMENT

Our executive officers and directors, and their ages and positions, are as follows:

Name	Age	Position
Robert J. DiNicola	58	Chairman of the Board of Directors, President and Chief Executive Officer
Francis M. Rowan	43	Senior Vice President and Chief Financial Officer
F. David Coder	48	Executive Vice President, Store Operations
Robert Homler	60	Executive Vice President, Merchandising
Joyce F. Brown	60	Director
Peter P. Copses	47	Director
Andrew S. Jhavar	34	Director
Lee S. Neibart	55	Director
Richard Baker	40	Director
Michael A. Gatto	38	Director
George G. Golleher	58	Director
Damian J. Giangiacomo	29	Director

**Robert J. DiNicola** became the Chairman of our board of directors and our President and Chief Executive Officer in February 2006 upon the consummation of the Merger. Mr. DiNicola has operated in the retail industry for 33 years. He is currently the Executive Chairman of GNC Corporation and General Nutrition Centers, Inc. (collectively, "GNC") and has been in that capacity since October 2004. He also served as GNC's interim Chief Executive Officer from December 2004 to May 2005. Mr. DiNicola is the former Chairman of the Board of Directors of Zale Corporation. Mr. DiNicola joined Zale Corporation as its Chairman and Chief Executive Officer in April 1994. In July 1999, Mr. DiNicola relinquished his position as Chief Executive Officer of Zale Corporation and as an officer of the company the following year, but remained a member of the board. At the request of the board, he rejoined Zale Corporation in February 2001 as Chairman and Chief Executive Officer. Mr. DiNicola subsequently relinquished his position as Chief Executive Officer of Zale Corporation in August 2002 but retained his position as Chairman of the Board until March 2004. Prior to joining Zale Corporation, Mr. DiNicola served as the Chairman and Chief Executive Officer of the Bon Marché, a division of Federated Department Stores, located in Seattle, Washington. Mr. DiNicola also serves as the Senior Retail Advisor for Apollo Management, L.P. Beginning his retail career in 1972, Mr. DiNicola has also worked for Macy's, May Company and Federated Department Stores. He has held numerous executive positions in buying, merchandising and store operations across the country during his retail career. Mr. DiNicola is a graduate of St. Peter's College in New Jersey and a veteran of the U.S. Army.

**Francis M. Rowan** became our Senior Vice President and Chief Financial Officer in April 2006. Mr. Rowan joined Linens 'n Things, Inc. in 1989 as the Budget Manager. He was promoted in April 1993 to Director of Inventory Control and promoted to Assistant Controller in November 1995, Executive Director in August 1999 and Vice President in August 2000. Most recently, Mr. Rowan served as Divisional Vice President. Mr. Rowan has a Bachelor of Science degree in Accounting from St. Peter's College and a Master of Business Administration degree from Montclair State University.

**F. David Coder** became our Executive Vice President of Stores in 2005. Mr. Coder joined Linens 'n Things, Inc. in 1989 as Regional Manager Mid-Atlantic Region. He was promoted to Vice President in 1994, was promoted to Vice President of Stores Eastern Zone in 1995 and was promoted to Senior Vice President, Store Operations in 2001. Prior to joining Linens 'n Things, Inc. Mr. Coder held various store management positions including Market Manager at Branden's, a Division of Dayton-Hudson, and Regional Merchandise Manager at Montgomery Wards. Mr. Coder studied Business Management and Psychology at Anderson College.

**Robert Homler** became our Executive Vice President, Merchandising in May 2006. Mr. Homler joined Linens 'n Things, Inc. in April 2006 as Senior Vice President of Marketing. Prior to that, he was Executive Vice President and Chief Operating Officer of GNC, after having served as Chief Merchandising Officer of GNC from February to December 2005. From March 2001 until January 2005, the Mr. Homler owned a Coffee Beanery (a gourmet coffee retailer) franchise operation in East Brunswick, New Jersey. From July 1998 to January 2000, Mr. Homler was President of Merchandising and Marketing of Levitz Furniture Corporation. Prior to joining Levitz Furniture Corporation, Mr. Homler was, from January 1994 to June 1998, Executive Vice President of Home Store Operations at Macy's East Division of Federated Department Stores. From 1984 through 1994, Mr. Homler was a General Merchandise Manager of Home Store Operations at various Federated Department Store divisions: A & S/Jordan Marsh from 1992 until 1994; Rich's Department Stores from 1991 until 1992; and the Bon Marché from 1988 until 1992. From 1984 until 1988, Mr. Homler was Senior Vice President Director of Merchandising for R.H. Macy Corporation where he began his retail career in 1968 as a buyer and merchandiser.

**Dr. Joyce F. Brown** became a member of our board of directors in June 2006. Dr. Brown is president of the Fashion Institute of Technology ("FIT"), a specialized college of art and design, business, and technology of the State University of New York. Prior to her appointment at FIT in 1998, Dr. Brown was Professor of Clinical Psychology at the Graduate School and University Center of the City University of New York ("CUNY"), where she is currently Professor Emerita. From 1983 to 1992, Dr. Brown served CUNY in a variety of capacities, including acting President of Bernard Baruch College and Vice Chancellor for Urban Affairs and Development. From 1993 to 1994, Dr. Brown served as Deputy Mayor for Public and Community Affairs in the Office of the Mayor of the City of New York. In addition to her position at FIT, Dr. Brown serves as Chief Executive Officer of the Educational Foundation for the Fashion Industries, an advisory and support body to FIT. She is also a director of Paxar Corporation, Polo Ralph Lauren Corporation and USEC Inc. Dr. Brown earned her doctorate and master's degrees in Counseling Psychology from New York University and her bachelor's degree from Marymount College in Tarrytown, New York. She also received a certificate from the Institute for Educational Management at Harvard University.

**Peter P. Copses** became a member of our board of directors in February 2006 upon the consummation of the Merger. Mr. Copses became a founding senior partner at Apollo Management, L.P., one of the Sponsors, in 1990. Mr. Copses is also a director of Rent-A-Center, Inc. and GNC. Mr. Copses received his Master of Business Administration degree from Stanford University's Graduate School of Business and his Bachelor of Commerce degree from the University of Toronto.

**Andrew S. Jhawar** became a member of our board of directors in February 2006 upon the consummation of the Merger. Mr. Jhawar is a partner of Apollo Management, L.P., where he has been employed since February 2000. Prior to joining Apollo, Mr. Jhawar was an investment banker at Donaldson, Lufkin & Jenrette Securities Corporation and, prior to that, at Jefferies & Company, Inc. where he specialized in leveraged finance. Mr. Jhawar is also a director of GNC and was a director of Rent-A-Center, Inc. from October 2001 through May 2005. Mr. Jhawar received his Master of Business Administration degree from Harvard University's Graduate School of Business and his Bachelor of Science degree in Economics with a concentration in Finance from the Wharton School of the University of Pennsylvania.

**Lee S. Neibart** became a member of our board of directors in February 2006 upon the consummation of the Merger. Mr. Neibart has been a Partner of Apollo Real Estate Advisors since 1993 and is a Partner of NRDC Advisors. From 1989 to 1993, Mr. Neibart was with the Robert Martin Company, most recently as Executive Vice President and Chief Operating Officer. Robert Martin was a real estate development and management firm with a portfolio of approximately seven million square feet of commercial real estate. Mr. Neibart serves on the Advisory Boards of both The Enterprise Foundation and The Real Estate Institute of New York University. He is also a past President of the

New York Chapter of the National Association of Industrial and Office Parks. Mr. Neibart graduated with a Bachelor of Arts degree from the University of Wisconsin and a Master of Business Administration degree from New York University.

**Richard Baker** became a member of our board of directors in February 2006 upon the consummation of the Merger. Mr. Baker is President and Chief Operating Officer of National Realty & Development Corp., one of the Sponsors. Mr. Baker is a graduate of the Cornell Hotel School. He is a director of City and Suburban Savings Bank, a New York based savings and loan, and is on the Board of Trustees of Brunswick School in Greenwich, Connecticut. In July 2004, Mr. Baker was elected to the Cornell University Council for a four-year term. He is also a member of the Waterside School Board of Trustees in Stamford, Connecticut.

**Michael A. Gatto** became a member of our board of directors in February 2006 upon the consummation of the Merger. Mr. Gatto is currently a Partner at Silver Point Capital, an affiliate of one of the Sponsors. He was previously a Vice President in the Special Situations Investing Group of Goldman Sachs Group, Inc. from 1998 to 2001, a Principal of Stroble & Associates, a financial consulting firm, from 1997 to 1998 and a Corporate Finance Associate in the Retail Industry Group of Citibank, N.A. from 1993 to 1997. Mr. Gatto served as a director of Party City Corporation from February 2001 to August 2003 and is currently a director of Bush Industries, Inc. Mr. Gatto received a Bachelor of Arts degree in Economics from Cornell University and a Master of Business Administration degree from Columbia Business School. He is also a Chartered Financial Analyst.

**George G. Golleher** became a member of our board of directors in March 2006. Mr. Golleher has been a business consultant and private equity investor since June 1999. Mr. Golleher was a director of Simon Worldwide, Inc., a former promotional manufacturing company, from September 1999 to April 2006 and was also its Chief Executive Officer from March 2003 to April 2006. From March 1998 to May 1999, Mr. Golleher served as President, Chief Operating Officer and director of Fred Meyer, Inc. a food and drug retailer. Prior to joining Fred Meyer, Inc., Mr. Golleher served for 15 years with Ralphs Grocery Company until March 1998, ultimately as the Chief Executive Officer and Vice Chairman of the Board. Mr. Golleher is also a director of GNC and Rite Aid Corporation.

**Damian J. Giangiacomo** became a member of our board of directors in March 2006. Mr. Giangiacomo is a principal at Apollo Management, L.P., where he has been employed since July 2000. Prior to joining Apollo, Mr. Giangiacomo was an investment banker at Morgan Stanley & Co. Mr. Giangiacomo received a Bachelor of Business degree in Finance from the University of Notre Dame.

#### **Board Composition**

Our board of directors is composed of nine directors. Each director serves for annual terms and until his or her successor is elected and qualified. Apollo Management V, L.P. indirectly controls a majority of the common stock of our parent company. Pursuant to the stockholders' agreement governing ownership of our parent, the Sponsors have the right to appoint all of the members of its board of directors. See "Certain Relationships and Related Party Transactions - Stockholders' Agreement," which follows.

#### **Board Committees**

The board of directors has the authority to appoint committees to perform certain management and administration functions. The board of directors has provided for an audit committee and a compensation committee. The members of the Audit Committee are Messrs. Copses (chair), Gatto and Giangiacomo. The members of the Compensation Committee are Messrs. Jhavar (chair), Baker and Golleher. The audit committee is responsible for reviewing and monitoring our accounting controls and internal audit functions and recommending to the board of directors the engagement of our outside

auditors. The compensation committee reviews and either approves, on behalf of our board of directors, or recommends to the board of directors for approval the annual salaries and other compensation of our executive officers and individual stock and stock option grants. The compensation committee also provides assistance and recommendations with respect to our compensation policies and practices and assists with the administration of our compensation plans.

We have adopted a Code of Business Conduct and Ethics (the "Code of Ethics") that applies to our chief executive officer, principal financial officer, principal accounting officer and to all other directors, officers and employees. A waiver from any provision of the Code of Ethics for executive officers and directors may only be granted by the board of directors.

### Compensation of Directors

We pay the chairman of our board of directors and each non-employee director an aggregate annual retainer of \$40,000 and a stipend of \$2,000 for each board meeting attended in person or \$500 for each meeting attended telephonically. Additionally, we expect to pay non-employee directors serving on board committees a stipend of \$1,000 for each meeting attended in person or \$500 for each meeting attended telephonically. In addition, we grant stock options to purchase shares of our parent's common stock to the chairman and each non-employee director, upon first election or appointment to our board of directors, outside of the equity incentive plan described below, with the number of shares to be determined by the board of directors in its discretion. To date, each of the grants have been for 5,000 shares.

### Stock Option Plan

Our parent, Linens Holding Co., adopted a stock option plan pursuant to which it intended to offer equity incentives in the form of options to purchase up to 7.5% of the fully-diluted common stock of Linens Holding Co. to our directors, senior executives and other key employees. The Compensation Committee approved 346,946 stock options under the stock option plan to the following executive officers:

Name	Principal Position	Number of Stock Options Granted	Grant Date of Stock Options
Robert J. DiNicola	Chairman and Chief Executive Officer	281,946(1)	3/27/2006
F. David Coder	Executive Vice President, Store Operations	25,000(1)	3/27/2006
Robert Homler	Executive Vice President of Merchandising	25,000(2)	4/17/2006
Francis M. Rowan	Senior Vice President/CFO	5,000(1) 10,000(3)	3/27/2006 4/28/2006

In addition to the above stock option awards, the Compensation Committee also approved the grant of 441,000 to certain other of our employees. As of June 19<sup>th</sup>, 2006 the Compensation Committee has approved a total of 798,946 stock options, which includes all grants.

(1) The stock options granted under the stock option 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, expire seven years after the date of grant and become vested and exercisable in four equal installments on each of February 14, 2007, February 14, 2008, February 14, 2009 and February 14, 2010 with respect to the Time Options and as provided in the standard form of option grant letter with respect to the Performance Options.

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(2)

The stock options granted under the stock option plan to each optionee are equally divided between a "Time Option" and a "Performance Option," as those terms is defined in the standard form of option grant letter. The stock options have an exercise price of \$50.00 per share, expire seven years after the date of grant and become vested and exercisable in four equal installments on each of April 17, 2007, April 17, 2008, April 17, 2009, and April 17, 2010 with respect to the Time Options and as provided in the standard form of option grant letter with respect to the Performance Options.

(3)

The stock options granted under the stock option plan to each optionee are equally divided between a "Time Option" and a "Performance Option," as those terms is defined in the standard form of option grant letter. The stock options have an exercise price of \$50.00 per share, expire seven years after the date of grant and become vested and exercisable in four equal installments on each of April 28, 2007, April 28, 2008, April 28, 2009, and April 28, 2010 with respect to the Time Options and as provided in the standard form of option grant letter with respect to the Performance Options.

## EXECUTIVE COMPENSATION

The following table sets forth information with respect to the compensation for the years 2005, 2004 and 2003 of Norman Axelrod (former Chairman and CEO), Jack E. Moore (former President and COO), William T. Giles (former Executive Vice President and Chief Financial Officer), Brian D. Silva (former Senior Vice President, Human Resources, Administration and Corporate Secretary), F. David Coder and Jane Gilmartin (former Executive Vice President, Chief Merchandising Officer), or collectively, the named executive officers.

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)(5)
		Salary (\$)	Bonus (\$)(1)	Other Annual Compensation (\$)(2)	Awards		Payouts	
					Restricted Stock Award(s) (\$)(3)	Number of Securities Underlying Options(4)	LTIP Payouts (\$)(3)	
Norman Axelrod, Former Chairman and Chief Executive Officer(7)	2005	904,231						25,602
	2004	893,269	126,000		55,131	200,000		35,382
	2003	813,462	389,400			200,000		22,844
Jack E. Moore, Former President and Chief Operating Officer(6)	2005	585,962		69,427				3,639
	2004	309,615	560,000	151,371	720,500	400,000		
William T. Giles, Former Executive Vice President and Chief Financial Officer(10)	2005	350,769	250,000					4,372
	2004	351,462	33,858		640,902	50,000		4,312
	2003	315,896	94,548		312,750	40,000		4,041
Brian D. Silva, Former Senior Vice President, Human Resources, Administration and Corporate Secretary(8)	2005	287,308	125,000					4,100
	2004	287,692	22,680		12,599	25,000		
	2003	267,115	71,685			25,000		3,712
F. David Coder, Executive Vice President, Store Operations	2005	339,769						4,100
	2004	320,308	25,272		8,431	50,000		4,303
	2003	278,654	100,000			50,000		4,028
Jane Gilmartin, Former Executive Vice President, Chief Merchandising Officer(9)	2005	222,115	543,193		1,576,240	175,000		4,100

(1)

Ms. Gilmartin received a \$100,000 sign-on bonus upon her commencement of employment in July 2005. Ms. Gilmartin is also entitled to a guaranteed minimum bonus under our annual incentive compensation plan of \$300,000, payable no later than March 31, 2006, subject to continued active employment. We also reimbursed Ms. Gilmartin in the amount of \$143,193, for part of her signing bonus, relocation allowance and other amounts she was required to repay to her previous employer.

Based on their services during the strategic review process leading up to the execution of the Merger Agreement, Mr. Giles and Mr. Silva each received additional compensation of \$250,000 and \$125,000, respectively. Mr. Giles and Mr. Silva are also each entitled to additional compensation of \$250,000 and \$125,000, respectively, due to the consummation of the Merger. In addition, Mr. Coder is entitled to additional compensation of \$100,000 due to the consummation of the Merger.

(2)

For fiscal 2005 represents reimbursement of Mr. Moore's relocation costs of \$15,027 and moving expenses of \$54,400. For fiscal 2004 represents reimbursement of Mr. Moore's relocation costs including moving costs, temporary housing and purchase-related costs of \$120,677, tax gross-up related to these costs of \$27,299 and COBRA payments of \$3,395.

(3)

Ms. Gilmartin was awarded 61,000 restricted stock units in connection with her hiring as Executive Vice President and Chief Merchandising Officer.





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The number and value of all restricted stock unit holdings at December 31, 2005 were:

Name	Units	Value
Mr. Axelrod	2,341	\$ 62,505
Mr. Moore	20,000	534,000
Mr. Giles	33,154	885,212
Mr. Silva	535	14,285
Mr. Coder	358	9,559
Ms. Gilmartin	53,500	1,428,450

Holders of restricted stock units are entitled to be credited with any dividends on such units. Awards under our long term incentive plan ("LTIP") had previously been made based on the executive officers having achieved certain preestablished financial performance targets. The LTIP was discontinued in Fiscal 2004. For the 3-year cycles ending in fiscal 2003 and 2004 the financial targets were based on earnings and net return on assets over the prior 3 years, but no awards were achieved.

- (4) Upon the commencement of her employment in July 2005 and in November 2005, Ms. Gilmartin was awarded 150,000 options and 25,000 options, respectively, to purchase shares of our common stock.
- (5) For fiscal 2005 these values represent amounts contributed under our 401(k) profit sharing plan (401(k) employer matches). In addition, for Mr. Axelrod, the fiscal 2005 amount represents: (i) \$13,821 credited to his account maintained under the defined contribution component of the supplemental executive retirement program and (ii) imputed income of \$7,681 associated with the term portion of the split dollar insurance component of the supplemental executive retirement program.
- (6) Mr. Moore ceased serving as President and Chief Operating Officer on January 12, 2006. His final date of employment was February 14, 2006.
- (7) Mr. Axelrod ceased serving as Chairman and Chief Executive Officer on February 14, 2006.
- (8) Mr. Silva resigned as Senior Vice President, Human Resources, Administration and Corporate Secretary effective February 27, 2006.
- (9) Ms. Gilmartin ceased serving as Executive Vice President, Chief Merchandising Officer on March 24, 2006.
- (10) Mr. Giles resigned as Executive Vice President, Chief Financial Officer effective April 28, 2006.

*Option Grants In Last Fiscal Year.* The table below sets forth certain information concerning stock options granted during fiscal 2005 to the named executive officers.

The grant date present values shown in the following table are required by SEC regulations, and are not intended to forecast possible future appreciation. We are not aware of any formula which will predict with reasonable accuracy the future appreciation of equity securities. No benefit from the grant of stock options can be realized unless there is an appreciation in stock price, which benefits all shareholders.

All of the equity interests disclosed in the table below were cashed-out upon consummation of the Merger.

## OPTION GRANTS IN LAST FISCAL YEAR

## Individual Grants

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Share)	Expiration Date	Grant Date Present Value (\$)(2)
Jane F. Gilmartin	100,000(1)	39.9%	25.84	07/20/2012	598,680
	50,000(1)	20.0%	25.84	07/20/2012	523,635
	25,000(1)	10.0%	25.61	12/31/2012	148,337

- (1) These option grants were made in connection with the hiring of Ms. Gilmartin as Executive Vice President and Chief Merchandising Officer. In accordance with the original terms and conditions of each grant
- (a) The 100,000 options were issued in July 2005 pursuant to our New Hire Authorization. The options vest and are exercisable on or after December 31, 2005, provided that the shares of common stock acquired upon exercise of this option may not be sold or otherwise disposed of at the earlier of (1) June 20, 2012 or (2) in one-third increments if, and at such point, over ten days (which need not be consecutive) in an established period of thirty days, the fair market value of our common stock is at or above \$31.01, \$34.11, and \$37.52, respectively;
- (b) The 50,000 options were issued in July 2005 pursuant to our New Hire Authorization which vest in one-third annual increments beginning March 1, 2006; and
- (c) The 25,000 options were issued in November 2005 pursuant to our New Hire Authorization. The options vest and are exercisable on or after December 31, 2005, provided that the shares of common stock acquired upon exercise of this option may not be sold or otherwise disposed of at the earlier of (1) November 30, 2012 or (2) in one-third increments if, and at such point, over ten days (which need not be consecutive) in an established period of thirty days, the fair market value of our common stock is at or above \$30.73, \$33.81, and \$37.19, respectively.
- (2) The hypothetical present values on the grant date are calculated under the modified Black-Scholes Model, which is a mathematical formula used to value options traded on stock exchanges. This formula considers a number of factors used in hypothesizing an option's present value. Weighted-average factors used to value options granted include the stock's expected volatility rate of 32.8%, risk free rate of return of 4.0%, dividend yield of 0.0%, projected time of exercise of 3.23 years and projected risk of forfeiture and non-marketability for the vesting period of 0% per annum.

*Option Exercises and Year-end Option Holdings.* The following table shows information regarding option exercises during fiscal 2005 as well as fiscal 2005 year-end option holdings for each of the named executive officers. All of the equity interests disclosed in the table below (exercisable and unexercisable) were cashed-out upon consummation of the Merger.

**AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR  
AND FISCAL YEAR-END OPTION VALUES**

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at FY-End (#) Exercisable/ Unexercisable		Value of Unexercised In-the-Money Options at FY-End (\$) Exercisable/ Unexercisable	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Norman Axelrod			1,865,984		4,892,076	
Jack E. Moore			120,000	280,000	168,000	
William T. Giles			345,000		1,495,725	
Brian D. Silva			186,250		564,175	
F. David Coder			172,500	10,000	290,575	31,600
Jane Gilmartin			125,000	50,000	113,250	43,000

**Employment Agreements and Other Executive Agreements**

***Robert J. DiNicola***

Upon the consummation of the Merger, Robert J. DiNicola became Chairman of our board of directors and Chief Executive Officer. We and Mr. DiNicola have entered into an employment agreement containing the following terms: an initial term expiring on December 31, 2008, subject to automatic one-year renewals unless either party provides one-year advance notice of non-renewal; a base salary of \$1,350,000; a target bonus of up to 100% of base salary subject to meeting pre-established performance goals; an option grant for 2% of the fully-diluted common stock of Linens Holding Co. from the 7.5% equity pool described in "Stock Option Plan" above; severance pay, in the event of a termination of employment by us, other than for cause, or by Mr. DiNicola for good reason equal to continued base salary and benefits for the remainder of the term (but no less than two years if such termination occurs during the six month period following a change in control); restrictions on Mr. DiNicola's engaging in competitive and similar activities during his employment and for 12 months following termination of his employment, or, if longer, the period during which he is receiving severance pay. In addition, upon consummation of the Merger, Mr. DiNicola purchased 40,000 shares, or approximately 0.3% of the fully diluted common stock, of Linens Holding Co. for \$2 million, and also received a fully vested option, outside of the stock option plan, to purchase 40,000 shares at an exercise price of \$50.00 per share.

***Other Executive Officers***

We have employment agreements with each of Mr. Rowan, Mr. Coder and Mr. Homler (the "Executives") (the "Employment Agreements"). The following summarizes the principal terms of these Employment Agreements. The Employment Agreements are for an initial term ending on December 31, 2007. The Employment Agreements contain automatic one-year extensions at the end of the term unless either party provides one-year advance notice of non-renewal (the "Employment Period").

The Employment Agreements provide that we agree to pay to the Executives an annual base salary (the "Base Salary") in the following amounts: Mr. Rowan \$250,000, Mr. Coder \$400,000, and Mr. Homler \$400,000. Our Board of Directors or the Compensation Committee of the Board of Directors will review the Executive's performance on an annual basis and, based on such review, may change the Base Salary, as it, acting in its sole discretion, shall determine to be reasonable and appropriate.

The Employment Agreements also provide, with respect to the 2006 calendar year, and each calendar year that commences during the Employment Period, that the Executive will be eligible to receive an annual performance bonus ("Annual Bonus") on a basis and in an amount to be determined by our Board of Directors or the Compensation Committee of the Board of Directors in the exercise of their sole discretion. The Annual Bonus, if any, may be up to 40-100% of the Executive's Base Salary, depending on the Executive, and shall be payable in full as soon as reasonably practicable following the determination thereof, but in no event later than May 15 of the following year. The Executive shall also be eligible to participate in and be granted stock options under the Linens Holding Co. Stock Option Plan to purchase shares of Common Stock, par value \$0.01 per share, of Linens Holding Co.

The Employment Agreements also provide for (1) participation during the Employment Period in benefit plans and programs including life insurance, medical benefits and financial planning services, (2) restrictive covenants including non-competition, non-disclosure and non-solicitation of employees and (3) with respect to Mr. Homler, the payment of his relocation from the Pittsburgh, Pennsylvania area to the Clifton, New Jersey area. The Executives agree not to compete with us during the Employment Period and until the longer of (a) 12 months after the date of termination of employment (the Executive's last day of work for us) or (b) the period during which the Executive is receiving payments from us.

In the event the Executive's employment is terminated by us other than for cause, or resignation by the Executive for good reason, the Employment Agreement provides for continued payment of Base Salary to which the Executive would have been entitled had he remained in the employ of us until the expiration of the Employment Period in effect immediately prior to the date of termination. Subject to the sole discretion of our Board of Directors or the Compensation Committee of the Board of Directors, we may pay to the Executive a prorated share of the Annual Bonus that he would have been entitled to had the Executive worked the full year during which the termination occurred.

In the event the Executive's employment is terminated by us within six months following a "change in control" and other than for cause, the Employment Agreement provides that we shall continue to pay the Executive the Base Salary to which he would have been entitled for the greater of (1) the period had the Executive remained in the employ of us until the expiration of the Employment Period or (2) a two-year period following such date of termination.

In May 2006, Mr. Coder purchased 3,000 shares of our parent's common stock for \$150,000, and also received a fully vested option, outside of the stock option plan, to purchase 3,000 shares at an exercise price of \$50.00 per share.

Brian D. Silva resigned as Senior Vice President, Human Resources, Administration and Corporate Secretary effective February 27, 2006. Mr. Silva was not entitled to any severance under his employment agreement with us because he voluntarily terminated his employment with us.

Jane Gilmartin ceased serving as Executive Vice President, Chief Merchandising Officer on March 24, 2006. We and Ms. Gilmartin have entered into a separation agreement and general release pursuant to which Ms. Gilmartin agreed to release us and our affiliates from any claims Ms. Gilmartin may have had, and we agreed to pay Ms. Gilmartin's severance and other entitlements under her employment agreement, including a cash lump sum severance payment equal to \$1,522,500 representing two times her base salary plus two times her target annual bonus (45% of base salary) and a prorated annual bonus equal to \$59,062.50.

William T. Giles submitted his resignation as Executive Vice President, Chief Financial Officer on April 21, 2006, effective April 28, 2006. Mr. Giles was not entitled to any severance under his employment agreement with us because he voluntarily terminated his employment with us.

## Severance Arrangements

### *Norman Axelrod*

Upon the consummation of the Merger, Norman Axelrod ceased to be Chairman of our board of directors and Chief Executive Officer, and his employment terminated on February 16, 2006. We and Mr. Axelrod have entered into a general release agreement pursuant to which Mr. Axelrod agreed to release us and our affiliates from any claims Mr. Axelrod may have had, and we agreed to pay Mr. Axelrod's severance and other entitlements under his employment agreement. These entitlements include a payment equal to \$4,924,530 representing 2.99 times his base salary and annual incentive compensation, \$135,495 representing the pro rated portion of his annual cash incentive compensation and a pro rated portion of his annual equity grant at his target rates, medical and life coverage until he attains age 60 at no cost (and at his cost from age 60 to age 65), approximately \$5,562,674 representing the defined benefit portion of his supplemental executive retirement program ("SERP"), \$971,988 representing the defined contribution portion of his SERP, and his current interest under a frozen split dollar life insurance arrangement, estimated to be \$443,449.

### *Jack E. Moore*

Jack E. Moore ceased serving as our President and Chief Operating Officer on January 12, 2006, and his employment terminated upon consummation of the Merger. We and Mr. Moore have entered into a separation and general release agreement pursuant to which Mr. Moore agreed to release us and our affiliates from any claims Mr. Moore may have had, and we agreed to pay Mr. Moore's severance and other entitlements under his employment agreement, including a cash lump sum severance payment equal to \$2,419,000 representing 2.5 times his base salary plus 2 times his target annual bonus (80% of base salary), a prorated annual bonus equal to \$39,333, continued health and life insurance benefits for up to two years, and a payment equal to \$1,197,872 representing a gross-up payment to make him whole for golden parachute excise taxes imposed upon him.

### *Jane Gilmartin*

Jane Gilmartin ceased serving as Executive Vice President, Chief Merchandising Officer on March 24, 2006. We and Ms. Gilmartin have entered into a separation agreement and general release pursuant to which Ms. Gilmartin agreed to release us and our affiliates from any claims Ms. Gilmartin may have had, and we agreed to pay Ms. Gilmartin's severance and other entitlements under her employment agreement, including a cash lump sum severance payment equal to \$1,522,500 representing two times her base salary plus two times her target annual bonus (45% of base salary) and a prorated annual bonus equal to \$59,062.50.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

We own all of Linens 'n Things, Inc.'s issued and outstanding capital stock.

The table below sets forth certain information regarding the beneficial ownership of our common stock with respect to each entity or person that is a beneficial owner of more than 5% of its outstanding common stock and beneficial ownership of its common stock by each director and executive officer and all directors and officers as a group, at May 31, 2006:

Name of Beneficial Owner	Number of Shares	Percentage
Linens Investors, LLC(1)	13,000,000(2)(3)	99.3%
Robert J. DiNicola(3)(4)	80,000(3)	*
Francis M. Rowan(3)(4)		
F. David Coder(4)	6,000	*
Robert Homler(4)		
Peter P. Copses(5)	13,000,000(2)(5)	99.3%
Andrew S. Jhawar(5)	13,000,000(2)(5)	99.3%
Lee S. Neibart(6)	(2)(6)	
Richard Baker(6)	(2)(6)	
Michael A. Gatto(7)	(2)(7)	
George G. Golleher(4)		
Damian J. Giangiacomo(5)	(2)(5)	%
All officers and directors as a group (12 persons)(2)(8)	13,086,000	100%

\*  
Less than 1% of the outstanding shares.

(1) The address of Linens Investors, LLC ("Linens Investors") is c/o Apollo Management V, L.P., 10250 Constellation Boulevard, Los Angeles, California 90067.

(2) Linens Investors is our principal stockholder. We are a special purpose entity that was created in connection with the Merger and are controlled by Apollo Linens Investors, LLC and its affiliates ("Apollo Linens Investors") which, together with NRDC Real Estate Advisors I LLC and Silver Point Capital Fund Investments LLC, and their respective affiliates, own all of the membership interests of Linens Investors.

(3) Upon consummation of the Merger, Robert J. DiNicola purchased 40,000 shares of our common stock for \$2.0 million, and also received a fully vested option to purchase the same number of shares for an additional \$2.0 million. Mr. Coder holds a fully vested option to purchase 3,000 shares of our common stock for \$150,000. A person is deemed to be the beneficial owner of any securities of which that person has the right to acquire beneficial ownership within 60 days.

As of May 31, 2006, our only stockholders were Robert J. DiNicola, F. David Coder and Linens Investors. In connection therewith, we and Linens Investors entered into a stockholders' agreement. See "Certain Relationships and Related Transactions Stockholders' Agreement." Pursuant to the stockholders' agreement, Mr. DiNicola, Mr. Coder, and any subsequent stockholders, agreed to give Linens Investors a voting proxy to vote all of our shares held by such stockholder with respect to certain matters as set forth in the stockholders' agreement. As a result, Linens Investors may be deemed to be the beneficial owner of the shares of common stock held by the parties to the stockholders' agreement. Linens Investors expressly disclaims beneficial ownership of such shares of common stock held by each of the parties to the stockholders' agreement, except to the extent of its pecuniary interest in us.

(4) The address for each of Messrs. DiNicola, Rowan, Coder, Homler and Golleher is c/o Linens 'n Things, Inc., 6 Brighton Road, Clifton, New Jersey 07015.





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- (5) Apollo Linens Investors is controlled by its manager, Apollo Management V, L.P. Peter P. Copses and Andrew S. Jhavar, two of our directors, are affiliates of Apollo Management V, L.P., and therefore, may be deemed to be beneficial owners of the membership interests of Apollo Linens Investors. Each of Messrs. Copses and Jhavar disclaim beneficial ownership of any such interests in which he does not have a pecuniary interest. The address for each of Messrs. Copses, Jhavar and Giangiacomo is c/o Apollo Management V, L.P., 10250 Constellation Boulevard, Los Angeles, California 90067.
- (6) Lee S. Neibart and Richard Baker, two of our directors, are affiliates of NRDC Real Estate Advisors I LLC, and therefore, may be deemed to be beneficial owners of the membership interests of NRDC Real Estate Advisors I LLC. Each of Messrs. Neibart and Baker disclaim beneficial ownership of any such interests in which he does not have a pecuniary interest. The address for each of Messrs. Neibart and Baker is c/o NRDC Real Estate Advisors I LLC, 3 Manhattanville Road, Purchase, New York 10577.
- (7) Michael A. Gatto is an affiliate of Silver Point Capital Fund Investments LLC, and therefore, may be deemed to be the beneficial owner of the membership interests of Silver Point Capital Fund Investments LLC. Mr. Gatto disclaims beneficial ownership of any such interests in which he does not have a pecuniary interest. The address of Mr. Gatto is c/o Silver Point Capital Fund Investments LLC, 2 Greenwich Plaza, Greenwich, Connecticut 06830.
- (8) Includes shares held by Linens Investors.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**Management Services Agreement**

Upon consummation of the Merger, we entered into a management services agreement with Apollo Management V, L.P., NRDC Linens B LLC and Silver Point Capital Fund Investments LLC (the "Sponsors") (each of whom is an affiliate of us). Under this management services agreement, the Sponsors agree to provide to us certain investment banking, management, consulting, financial planning and real estate advisory services on an ongoing basis for a fee of \$2.0 million per year. Under this management services agreement, Apollo Management V, L.P. will also agree to provide to us certain financial advisory and investment banking services from time to time in connection with major financial transactions that may be undertaken by us or our 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, we also agreed to provide customary indemnification. In addition, we agreed to pay a transaction fee of \$15.0 million in the aggregate (plus reimbursement of expenses) to the Sponsors for financial advisory services rendered in connection with the Merger. These services included assisting us in structuring the Merger, taking into account tax considerations and optimal access to financing, and assisting in the negotiation of our material agreements and financing arrangements in connection with the Merger.

**Stockholders' Agreement**

Our only stockholders are Robert J. DiNicola, F. David Coder and Linens Investors, LLC, a limited liability company owned by the Sponsors. In connection therewith, Linens Investors, LLC has entered into a stockholders' agreement with us that sets forth applicable provisions relating to the management and ownership of us and our subsidiaries. Pursuant to the stockholders' agreement, Mr. DiNicola and Mr. Coder agreed to give Linens Investors a voting proxy to vote all of our shares held by them with respect to certain matters as set forth in the stockholders' agreement. In addition, the stockholders' agreement contains customary drag along rights, tag along rights, registration rights, restrictions on the transfer of our common stock and an indemnity of the Sponsors.

## DESCRIPTION OF CERTAIN INDEBTEDNESS

### Asset-Based Revolving Credit Facility

In connection with the Merger, as of February 14, 2006, we have an asset-based revolving credit facility (the "Credit Facility") that provided for senior secured financing of up to \$600.0 million, subject to the 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 \$40.0 million, is also available to Linens 'n Things Canada Corp. subject to the Canadian borrowing base. The Credit Facility requires us 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 the date of closing of the Merger.

All obligations under the Credit Facility are unconditionally guaranteed by Linens Holding Co., our direct parent company, and certain of our 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 our assets and the assets of the Issuers 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 us and the capital stock of certain subsidiaries.

Borrowings under the Credit Facility bear interest at a rate equal to, at our option, either (a) an alternate base rate determined by reference to the higher of (1) the base rate in effect on such day and (2) the federal funds effective rate plus 0.50% or (b) a LIBOR rate, with respect to any Eurodollar borrowing, determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for certain additional costs, in each case plus an applicable margin. The initial applicable margin for borrowings under the 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, we 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. We must also pay customary letter of credit fees and agency fees. We initiated borrowings under our Credit Facility on February 23, 2006 to meet our operational working capital needs. As of April 1, 2006, we had \$81.6 million in borrowings under the Credit Facility.

Management regularly reviews and evaluates its liquidity and capital needs. We experience peak periods for our cash needs generally during the second quarter and fourth quarter of the fiscal year. As our business continues to grow and our current store expansion plan is implemented, such peak periods may require increases in the amounts available under the Credit Facility from those currently existing and/or other debt or equity funding.

Management currently believes that our cash flows from operations, our access to increases to the Credit Facility or additional capacity from new credit facilities will be sufficient to fund our expected capital expenditures, working capital and non-acquisition business expansion requirements as they become due.

## DESCRIPTION OF EXCHANGE NOTES

The old notes were issued, and the exchange notes will be issued, under an indenture, dated as of February 14, 2006 (the "Indenture"), among Linens 'n Things, Inc., Linens 'n Things Center, Inc., Linens Holding Co., The Bank of New York, as trustee (the "Trustee"), and the Initial Subsidiary Guarantors, as subsidiary guarantors. The terms of the old notes and the exchange notes (collectively, the "notes") include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939. The form and terms of the exchange notes and the old notes are identical in all material respects, except that the exchange notes will be registered under the Securities Act and will not contain terms with respect to transfer restrictions or additional interest upon a failure to fulfill certain of our obligations under the registration rights agreement.

You can find the definitions of certain terms used in this description under the subheading "Certain Definitions." In this description, "Linens 'n Things, Inc." and the "Company" refer only to Linens 'n Things, Inc. and not to any of its subsidiaries, "Linens 'n Things Center, Inc." and the "Co-Issuer" refer only to Linens 'n Things Center, Inc. and not to any of its subsidiaries and the "Issuers" refers to the Company and the Co-Issuer.

The following description is a summary of the material provisions of the indenture, the registration rights agreement, certain Note Lien Documents and the Intercreditor Agreement. It does not restate those agreements in their entirety. We urge you to read the indenture, the registration rights agreement, the Note Lien Documents and the Intercreditor Agreement, because they, and not this description, define your rights as holders of the notes. Copies of the indenture and the registration rights agreement are filed as exhibits to the registration statement to which this prospectus is a part. Certain defined terms used in this description but not defined below under "Certain Definitions" have the meanings assigned to them in the indenture.

The registered holder of a note will be treated as the owner of it for all purposes. Only registered holders will have rights under the indenture.

### Brief Description of the Notes and the Note Guarantees

The notes:

are general obligations of the Issuers;

are secured on a first-priority basis, equally and ratably with all obligations of the Issuers under any future Note Lien Debt, by Liens on Note Lien Collateral, which is substantially all of the assets of the Issuers and the Note Guarantors consisting of Intellectual Property, Equipment, documents of title related to Equipment, Note Lien General Intangibles and the Note Capital Stock Collateral (which consists of all of the Capital Stock in the Company and certain of the Company's Domestic Subsidiaries and 65% of the Capital Stock of the Foreign Subsidiaries owned directly by the Parent or its Domestic Subsidiaries) subject to certain Permitted Liens;

are secured on a second-priority basis, equally and ratably with all obligations of the Issuers under any future Note Lien Debt, by Liens on the Revolving Credit Collateral, subject to the Liens on the Revolving Credit Collateral securing the Issuers' obligations under the Revolving Credit Agreement and any future Revolving Credit Obligations that we may incur and certain Permitted Liens;

are effectively junior, to the extent of the value of the Revolving Credit Collateral, to the Issuers' obligations under the Revolving Credit Agreement and any future Revolving Credit Obligations that we may incur, which will be secured on a first-priority basis by the Revolving Credit Collateral;

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are effectively junior to certain Permitted Liens, to the extent of the value of the assets subject to those Permitted Liens;

are *pari passu* in right of payment with all existing and future senior Indebtedness of the Issuers, including Indebtedness outstanding under the Revolving Credit Agreement;

are senior in right of payment to all existing and future subordinated indebtedness of the Issuers;

are effectively subordinated to all liabilities (including Trade Payables) and Preferred Stock of each Subsidiary of the Company that is not a Guarantor; and

are fully and unconditionally guaranteed by our parent, Linens Holding Co., and each of the Issuers' current and future Subsidiaries that guarantee the Revolving Credit Agreement except for the Canadian Subsidiaries of the Issuers.

### The Note Guarantees:

are general obligations of such Guarantor;

are secured on a first-priority basis, equally and ratably with all obligations of each Guarantor under any future Note Lien Debt, by Liens on Note Lien Collateral of such Guarantor, subject to certain Permitted Liens;

are secured on a second-priority basis, equally and ratably with all obligations of each Guarantor under any future Note Lien Debt, by the Liens on the Revolving Credit Collateral of such Guarantor, subject to Liens on the Revolving Credit Collateral securing the Guarantor's obligations under the Revolving Credit Agreement and any future Revolving Credit Obligations guaranteed by such Guarantor and certain Permitted Liens;

are effectively junior, to the extent of the value of the Revolving Credit Collateral that secures Revolving Credit Obligations, to each Guarantor's obligations under the Revolving Credit Agreement and any future Revolving Credit Obligations guaranteed by such Guarantor, which will be secured on a first-priority basis by Revolving Credit Collateral;

are effectively junior to certain Permitted Liens, to the extent of the value of the assets of the Guarantors subject to those Permitted Liens;

are *pari passu* in right of payment with all existing and future senior Indebtedness of each Guarantor, including Indebtedness outstanding under the Revolving Credit Agreement; and

are senior in right of payment to any subordinated Indebtedness of each Guarantor.

The Note Lien Collateral consists of substantially all Intellectual Property, Equipment (whether or not constituting Fixtures), Note Lien General Intangibles, the Note Capital Stock Collateral, and other related assets of the Issuers and the Guarantors; but the Note Lien Collateral does not include the Revolving Credit Collateral, the Canadian Collateral and certain Excluded Assets. The Revolving Credit Collateral consists of substantially all of the remaining assets of our parent, Linens Holding Co., the Issuers and their Subsidiaries, including all Inventory, Accounts (including Payment Intangibles), Chattel Paper, Instruments (including Intercompany Notes of Subsidiaries), Letter of Credit Rights, Deposit Accounts (other than the Net Available Cash Account to the extent constituting a Deposit Account), Credit Card Processing Accounts and Securities Accounts (other than the Net Available Cash Account to the extent constituting a Securities Account), other Investment Property (other than Capital Stock Collateral), General Intangibles (other than Intellectual Property and Note Lien General Intangibles), the Revolving Credit Capital Stock Collateral and other related assets. The notes and the Revolving Credit Agreement (and the respective Guarantees thereof) will be secured by Liens on the Note Lien Collateral and the Revolving Credit Collateral, although the relative priority of such Liens is



different on each Collateral Class. The Revolving Credit Agreement will also be secured by Liens on the Canadian Collateral. In addition, the Liens on the Note Capital Stock Collateral to secure the notes and the Note Guarantees may be released under certain circumstances.

The notes and Note Guarantees are effectively subordinated to all Revolving Credit Obligations to the extent of the value of the Revolving Credit Collateral securing Revolving Credit Obligations. Pursuant to the indenture, the Issuers will be permitted to Incur additional Indebtedness and designate such Indebtedness as Revolving Credit Obligations, subject to the Revolving Credit Facility Debt Cap. The Issuers also will be permitted to Incur additional Indebtedness and designate such Indebtedness as Note Lien Debt, subject to the limitations described in the definition of that term. The Incurrence by the Issuers or any of its Restricted Subsidiaries of any additional secured Indebtedness is also subject to the covenants described below under " Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock" and " Certain Covenants Liens."

Linens Holding Co. and each of the current and future Subsidiaries of the Issuers that guarantee the Revolving Credit Agreement, except for the Canadian Subsidiaries of the Issuers, also have guaranteed the notes. In the event of a bankruptcy, liquidation or reorganization of any of the non-guarantor Subsidiaries, the non-guarantor Subsidiaries will pay the holders of their debt (including the holders of the Revolving Credit Obligations) and their trade creditors before they will be able to distribute any of their assets to us. For the year ended December 31, 2005, and the three months ended April 1, 2006, the non-guarantor Subsidiaries had net sales of approximately \$159.2 million and \$36.5 million and income/(loss) from continuing operations of approximately \$6.4 million and (\$1.4) million, respectively. At April 1, 2006, the non-guarantor Subsidiaries had total assets of approximately \$113.0 million.

As of the date of the indenture, all of our Subsidiaries will be "Restricted Subsidiaries." However, under the circumstances described below under the captions " Certain Covenants Designation of Restricted and Unrestricted Subsidiaries" and the definition of "Unrestricted Subsidiary" under " Certain Definitions," we will be permitted to designate certain of our other Subsidiaries as "Unrestricted Subsidiaries." Our Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the indenture. Our Unrestricted Subsidiaries will not guarantee the notes.

#### **Principal, Maturity and Interest**

The Issuers will issue up to \$650.0 million aggregate principal amount of exchange notes in this offering. The Issuers may issue additional notes under the indenture from time to time after this offering. Any issuance of additional notes is subject to all of the covenants in the indenture, including the covenant described below under the caption " Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock." The notes and any additional notes subsequently issued under the indenture will be treated as a single class for all purposes under the indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. The Issuers will issue notes in denominations of \$2,000 and larger integral multiples of \$1,000. The notes will mature on January 15, 2014.

Interest on the notes will accrue at a per annum rate equal to the Applicable Eurodollar Rate from the most recent date to which interest has been paid or, if no interest has been paid, from February 14, 2006. The Applicable Eurodollar Rate will be reset quarterly. The Applicable Eurodollar Rate for the first quarterly period will be 10.34500%. The Issuers will pay interest on the notes quarterly, in arrears, every January 15, April 15, July 15 and October 15 of each year, commencing on April 15, 2006, to holders of record at the close of business on the immediately preceding January 1, April 1, July 1 and October 1, and at maturity.

Interest on overdue principal and interest and Additional Interest, if any, will accrue at a rate that is 1% higher than the then applicable interest rate on the notes. Interest on the notes will accrue from

the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

The interest rate on the notes will in no event be higher than the maximum rate permitted by New York law as the same may be modified by U.S. law of general application. All percentages resulting from the calculation of the Applicable Eurodollar Rate will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point being rounded upwards (e.g., 9.876545% will be rounded to 9.87655%) and all dollar amounts used in or resulting from such calculations will be rounded to the nearest cent, with one-half cent being rounded upwards. The Issuers will, upon the request of the holder of any note, provide the interest rate then in effect with respect to the notes.

#### **Methods of Receiving Payments on the Notes**

If a holder of notes has given wire transfer instructions to the Issuers, the Issuers will pay all principal, interest and premium and Additional Interest, if any, on that holder's notes in accordance with those instructions. All other payments on the notes will be made at the office or agency of the paying agent and registrar within the City and State of New York unless the Issuers elect to make interest payments by check mailed to the noteholders at their address set forth in the register of holders.

#### **Paying Agent and Registrar for the Notes**

The Trustee will initially act as paying agent and registrar. The Issuers may change the paying agent or registrar without prior notice to the holders of the notes, and any of the Issuers or their respective Subsidiaries may act as paying agent or registrar.

#### **Transfer and Exchange**

A holder may transfer or exchange notes in accordance with the provisions of the indenture. The registrar and the Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. Holders will be required to pay all taxes due on transfer. The Issuers will not be required to transfer or exchange any note selected for redemption. Also, the Issuers will not be required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

#### **Note Guarantees**

The notes are guaranteed by Linens Holding Co. and each of the Issuers' current and future Subsidiaries that guarantee any portion of the Revolving Credit Agreement, other than solely a portion of the Revolving Credit Agreement with respect to which only one or more of the Canadian Subsidiaries of the Issuers is a borrower. These Note Guarantees are joint and several obligations of the Guarantors. The obligations under each Note Guarantee will be limited as necessary. See "Risk Factors Risks Relating to the Notes Fraudulent transfer statutes may limit your rights as a holder of the notes."

The Note Guarantee of a Guarantor will be released:

- (1) in connection with any sale or other disposition of all or substantially all of the assets of that Guarantor (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) any of the Issuers or their respective Restricted Subsidiaries, if the sale or other disposition does not violate the "Asset Sale" provisions of the indenture;



- (2) in connection with any sale or other disposition of all of the Capital Stock of that Guarantor to a Person that is not (either before or after giving effect to such transaction) any of the Issuers or their respective Restricted Subsidiaries, if the sale or other disposition does not violate the "Asset Sale" provisions of the indenture;
- (3) if the Issuers designate any Restricted Subsidiary that is a Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the indenture; or
- (4) upon legal defeasance or satisfaction and discharge of the indenture as provided below under the captions " Legal Defeasance and Covenant Defeasance" and " Satisfaction and Discharge."

See " Repurchase at the Option of Holders Asset Sales."

### Optional Redemption

At any time prior to January 15, 2008, the Issuers may on any one or more occasions redeem up to 35% of the aggregate principal amount of notes issued under the indenture at a redemption price of 100% plus the Applicable Eurodollar Rate then in effect of the principal amount thereof, plus accrued and unpaid interest and Additional Interest, if any, to the redemption date, with the net cash proceeds of an Equity Offering of Linens 'n Things, Inc. or Parent; provided that:

- (1) at least 65% of the aggregate principal amount of notes originally issued under the indenture (excluding notes held by the Issuers and their respective Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and
- (2) the redemption occurs within 90 days of the date of the closing of such initial public offering.

In addition, at any time prior to January 15, 2008, the Issuers may redeem all or a part of the notes upon not less than 30 nor more than 60 days' notice, at a redemption price of 100% plus the Applicable Premium, plus accrued and unpaid interest and Additional Interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

"Applicable Premium" means, with respect to a note at any redemption date, the greater of (i) 1.0% of the principal amount of such note and (ii) the excess of (A) the present value at such time of (1) the redemption price of such note at January 15, 2008, (such redemption price being described under " Optional Redemption") plus (2) all required interest payments due on such note through January 15, 2008 assuming that the rate of interest is the rate of interest in effect on the date the notice of redemption is given, computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (B) the principal amount of such note.

"Treasury Rate" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two business days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source or similar market data)) most nearly equal to the period from the redemption date to January 15, 2008; *provided, however*, that if the period from the redemption date to January 15, 2008, is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the redemption date to January 15, 2008 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

On or after January 15, 2008, the Issuers may redeem all or a part of the notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and Additional Interest, if any, on the notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on January 15 of the years indicated below, subject to the rights of holders of notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Percentage
2008	102.00%
2009	101.00%
2010 and thereafter	100.00%

Unless the Issuers default in the payment of the redemption price, interest will cease to accrue on the notes or portions thereof called for redemption on the applicable redemption date.

### **Mandatory Redemption**

The Issuers are not required to make mandatory redemption or sinking fund payments with respect to the notes.

### **Security**

Both the notes and the Revolving Credit Agreement (and the respective Guarantees thereof) are secured by Liens on the Note Lien Collateral and the Revolving Credit Collateral. The Collateral consists of substantially all of the assets of the Issuers and the Note Guarantors, other than Excluded Assets. The relative priority of the Liens securing the notes and the Revolving Credit Agreement will be different for each Collateral Class. The Note Lien Collateral consists of substantially all Intellectual Property, Equipment (whether or not constituting Fixtures), Note Lien General Intangibles, the Note Capital Stock Collateral, and other related assets of the Issuers and the Note Guarantors; but the Note Lien Collateral does not include the Revolving Credit Collateral, the Canadian Collateral and certain Excluded Assets. The Revolving Credit Collateral consists of substantially all of the remaining assets of our parent, Linens Holding Co., the Issuers and their Subsidiaries, including all Inventory, Accounts (including Payment Intangibles), Chattel Paper, Instruments (including Intercompany Notes of Subsidiaries), Letter of Credit Rights, Deposit Accounts (other than the Net Available Cash Account to the extent constituting a Deposit Account), Credit Card Processing Accounts and Securities Accounts (other than the Net Available Cash Account to the extent constituting a Securities Account), other Investment Property (other than Capital Stock Collateral), General Intangibles (other than Intellectual Property and Note Lien General Intangibles), the Revolving Credit Capital Stock Collateral and other related assets. The Capital Stock Collateral consists of all of the Capital Stock in the Company, all of the Capital Stock in certain of the Company's Domestic Subsidiaries and 65% of the Capital Stock of the Foreign Subsidiaries owned directly by the Parent or its Domestic Subsidiaries. The Liens on the Note Capital Stock Collateral to secure the notes and the Note Guarantees may be released in certain circumstances.

Security interests in respect of the specific items of Collateral described below have not been, and in the case of any after-acquired property consisting of the below property, will not be, perfected with respect to the notes:

Goods included in Collateral received by any Person for "sale or return" within the meaning of Section 2-326 of the Uniform Commercial Code of the applicable jurisdiction, to the extent of claims of creditors of such Person;

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Money which has not been transferred to or deposited in a Deposit Account in which the Priority Lien Collateral Agent maintains "control" as described in the UCC and which does not constitute identifiable Cash Proceeds of other Collateral;

any Deposit Account (other than the Net Available Cash Account) containing an average daily balance not to exceed a certain dollar amount individually and in the aggregate for all such Deposit Accounts;

any Intellectual Property outside of the United States;

real property owned on the closing date of the Transactions; and

any other property or assets (other than Intellectual Property) in which a Lien cannot be perfected either automatically or by the filing of a financing statement under the UCC of the relevant jurisdiction, so long as the aggregate fair market value of all such property and assets does not at any one time exceed \$5.0 million.

The obligations of the Issuers with respect to the notes, the obligations of the Guarantors under the Note Guarantees, all other Note Lien Obligations and the performance of all other obligations of the Issuers and the Guarantors under the Note Documents are secured equally and ratably by:

first-priority Liens on the Note Lien Collateral; and

second-priority Liens on the Revolving Credit Collateral,

in each case, granted to the Note Lien Collateral Agent for the benefit of the holders of the Note Lien Obligations. The Liens on the Note Lien Collateral securing the Note Lien Obligations are senior in priority to the Liens on the Note Lien Collateral securing Revolving Credit Obligations, but are junior to all Permitted Liens. The Liens on the Revolving Credit Collateral securing the Note Lien Obligations are junior in priority to the Priority Liens on the Revolving Credit Collateral securing Revolving Credit Obligations and to all Permitted Liens.

Conversely, the Revolving Credit Obligations are secured by:

second priority Liens on the Note Lien Collateral; and

first priority Liens on the Revolving Credit Collateral,

in each case, granted to the Revolving Credit Collateral Agent for the benefit of the holders of the Revolving Credit Obligations. The Liens on the Revolving Credit Collateral securing the Revolving Credit Obligations are senior in priority to the Liens on the Revolving Credit Collateral securing Note Lien Obligations. The Liens on the Note Lien Collateral securing the Revolving Credit Obligations are junior in priority to the Liens on the Note Lien Collateral securing Note Lien Obligations and to all Permitted Liens. The Revolving Credit Obligations are also secured by Liens on the Canadian Collateral, but the Note Lien Obligations are not.

The indenture provides that, so long as the Note Lien Collateral Agent has not exercised its rights with respect to Collateral upon the occurrence and during the continuance of an Event of Default, the Issuers and the Note Guarantors have the right, as against the Note Lien Collateral Agent, Note Lien Representatives and holders of Note Lien Obligations:

to remain in possession and retain exclusive control of the Collateral, to conduct ordinary course activities with respect to the Collateral, to acquire, manufacture, process and sell Inventory and collect Receivables and expend the proceeds thereof, and to operate, alter or repair the Collateral and to collect, invest and dispose of any income therefrom; and

to sell or otherwise dispose of any property subject to the Note Liens, subject to the restrictions and obligations set forth below under the captions " Repurchase at the Option of Holders Asset Sales" and " Certain Covenants Merger, Consolidation or Sale of Assets."

The Issuers and the Note Guarantors have the right to obtain a release of items of Collateral upon any such sale or disposition or the occurrence of any of the other events or circumstances described under " Intercreditor Agreement Release of Liens on Collateral" and under " Provisions of the Indenture Relating to Security Release of Liens in Respect of Notes." The Note Lien Collateral Agent will release such Collateral from the Lien of the relevant Note Lien Security Document and reconvey such Collateral to the Issuers and the Note Guarantors, so long as (i) such release complies with the Trust Indenture Act, if applicable and (ii) all conditions precedent to such release in the indenture and the Note Lien Security Documents have been complied with, each of (i) and (ii) to be evidenced by an opinion of counsel and an officers' certificate delivered to the Trustee and the Note Lien Collateral Agent (see " Provisions of the Indenture Relating to Security Compliance with the Trust Indenture Act").

### **Intercreditor Agreement**

On the date of the indenture, the Issuers and the Note Guarantors entered into the Intercreditor Agreement with the Revolving Credit Collateral Agent, the Trustee and the Note Lien Collateral Agent. The Intercreditor Agreement sets forth certain agreements between the holders of Liens on the Revolving Credit Collateral and the holders of Liens on the Note Lien Collateral.

#### ***Ranking of Liens***

The Intercreditor Agreement provides that, notwithstanding:

- (1) anything to the contrary contained in the Revolving Credit Loan Documents or the Note Lien Documents;
- (2) the time of incurrence of any of Note Lien Obligations or the Revolving Credit Obligations;
- (3) the date, time, method, manner or order of grant, attachment or perfection of any Liens securing the Note Lien Obligations granted on the Collateral or of any Liens securing the Revolving Credit Obligations granted on the Collateral;
- (4) any provision of any UCC, or any other applicable law;
- (5) any defect or deficiencies in, or failure to perfect, the Liens securing the Revolving Credit Obligations or Note Lien Obligations or any other circumstance whatsoever;

all Liens of the Revolving Credit Collateral Agent on the Revolving Credit Collateral, whether now or hereafter held by or on behalf of the Revolving Credit Collateral Agent or any Revolving Credit Claimholder or any agent or Trustee therefor, regardless of how acquired, whether by grant, possession, statute, operation of law, subrogation or otherwise, shall be senior in all respects and prior to any Lien on the Revolving Credit Collateral securing any Note Lien Obligations; and, conversely, all Liens of the Note Lien Collateral Agent or any Note Lien Representative on Note Lien Collateral, whether now or hereafter held by or on behalf of the Note Lien Collateral Agent, any Note Lien Representative, any Note Lien Claimholder or any agent or Trustee therefor regardless of how acquired, whether by grant, possession, statute, operation of law, subrogation or otherwise, shall be senior in all respects and prior to any Liens on the Note Lien Collateral securing any Revolving Credit Obligations. The indenture and the Revolving Credit Agreement impose limits on the aggregate amount of Note Lien Debt that may be secured by Liens on the Note Lien Collateral and the aggregate amount of Revolving Credit Obligations that may be secured by Liens on the Revolving Credit Collateral.

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The provisions described under this caption " Ranking of Liens" are intended for the benefit of, and will be enforceable as a third party beneficiary by, each present and future holder of Note Lien Debt and Revolving Credit Obligations, each present and future Note Lien Collateral Agent, any Note Lien Representative and Revolving Credit Collateral Agent, in each case with respect to the applicable Collateral Class. No other Person will be entitled to rely on, have the benefit of or enforce those provisions. The Note Lien Representative of each future Series of Note Lien Debt will be required to deliver a Lien Sharing and Priority Confirmation to the Revolving Credit Collateral Agent, each Note Lien Representative and the Note Lien Collateral Agent at the time of incurrence of such Series of Note Lien Debt.

In addition, the provisions described under this caption " Ranking of Liens" are intended solely to set forth the relative ranking, as Liens, of the Liens on each Collateral Class securing Note Lien Debt as against the Liens on such Collateral Class securing Revolving Credit Obligations. Neither the notes nor any other Note Lien Obligations, nor any Revolving Credit Obligations, nor the exercise or enforcement of any right or remedy for the payment or collection thereof are intended to be, or will ever be by reason of the foregoing provision, in any respect subordinated, deferred, postponed, restricted or prejudiced.

### ***Notice of Enforcement***

The Revolving Credit Collateral Agent, the Note Lien Collateral Agent and the Note Lien Representatives have agreed not to commence Enforcement until the earlier of date on which (A) an Enforcement Notice has been given to the Note Lien Collateral Agent or the Revolving Credit Collateral Agent, as the case may be and (B) any insolvency or liquidation proceeding is commenced by or against any Grantor that has not been dismissed.

### ***Restrictions on Enforcement of Junior Liens***

Until the Discharge of Priority Lien Obligations with respect to a Collateral Class, whether or not any insolvency or liquidation proceeding has been commenced by or against any Grantor, the Junior Lien Collateral Agent and Junior Lien Claimholders:

will not exercise or seek to exercise any rights or remedies with respect to any Priority Liens on such Collateral Class (including the exercise of any right of setoff or any right under any Account Agreement, landlord waiver or bailee's letter or similar agreement or arrangement to which Junior Lien Collateral Agent or any Junior Lien Claimholder is a party) or institute any action or proceeding with respect to such rights or remedies (including any action of foreclosure);

*provided, however*, that the Junior Lien Collateral Agent may exercise any or all such rights or remedies after the passage of a period of at least 180 days has elapsed since the earlier of: (x) the date of the commencement of any insolvency or liquidation proceeding by or against any Grantor that has not been dismissed, or (y) the date on which the Junior Lien Collateral Agent first declares the existence of a Junior Lien Default, demands the repayment of all the principal amount of any Junior Lien Obligations; and the Priority Lien Collateral Agent has received notice from the Junior Lien Collateral Agent of such declaration of a Junior Lien Default (the "Junior Lien Standstill Period") (*provided* that the Revolving Credit Collateral Agent and Revolving Credit Claimholders may exercise rights set forth in the provisions described below under the caption " Cooperation and Access with Respect to Revolving Credit Collateral");

*provided, further, however*, that in no event shall the Junior Lien Collateral Agent or any Junior Lien Claimholder exercise any rights or remedies with respect to the Priority Lien on such Collateral Class if, notwithstanding the expiration of the Junior Lien Standstill Period, any Priority Lien Collateral Agent or Priority Lien Claimholders shall have commenced and be

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diligently pursuing the exercise of their rights or remedies with respect to all or any material portion of such Collateral Class (prompt notice of such exercise to be given to the Junior Lien Collateral Agent);

will not contest, protest or object to any foreclosure proceeding or action brought by any Priority Lien Collateral Agent or any Priority Lien Claimholder or any other exercise by any Priority Lien Collateral Agent or any Priority Lien Claimholder of any rights and remedies relating to such Collateral Class, whether under the Priority Lien Documents or otherwise; and

subject to their rights under first paragraph above and except as may be otherwise permitted by the Intercreditor Agreement, will not object to the forbearance by any Priority Lien Collateral Agent or the Priority Lien Claimholders from bringing or pursuing any Enforcement;

*provided, however*, that, in the case of the three paragraphs above, the Liens granted to secure the Junior Lien Obligations shall attach to any proceeds resulting from actions taken by any Priority Lien Collateral Agent or any Priority Lien Claimholder in accordance with the Intercreditor Agreement after application of such proceeds to the extent necessary to meet the requirements of a Discharge of Priority Lien Obligations.

Notwithstanding the foregoing paragraph, each holder of Junior Liens on a Collateral Class may, subject to the rights of the holders of Permitted Liens: