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LINENS N THINGS INC  
Form 10-K  
March 18, 2004

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-K  
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ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED JANUARY 3, 2004

(NO FEE REQUIRED)

COMMISSION FILE NUMBER 1-12381  
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LINENS 'N THINGS, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

22-3463939  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

6 BRIGHTON ROAD  
CLIFTON, NEW JERSEY  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

07015  
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (973) 778-1300

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
----- COMMON STOCK, \$0.01 PAR VALUE	----- NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:  
None

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO  
--- ---

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

Indicate by checkmark whether the Registrant is an accelerated filer (as defined by Rule 12b-2 of the Securities Exchange Act).

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YES X NO  
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The aggregate market value of voting stock held by non-affiliates of the Registrant as of July 3, 2003, based on the closing sale price on the New York Stock Exchange on such date, was approximately \$1,031 million. The number of outstanding shares of the Registrant's common stock, \$0.01 par value, as of March 15, 2004 was 45,045,859.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended January 3, 2004 are incorporated by reference into Part II, and portions of the Registrant's Proxy Statement for the 2004 Annual Meeting of Shareholders are incorporated by reference into Part III.

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## PART I

### ITEM 1. BUSINESS

#### GENERAL

Linens 'n Things, Inc., a Delaware corporation, and its subsidiaries ("Linens 'n Things" or the "Company") is one of the leading, national large format retailers of home textiles, housewares and home accessories operating 440 stores in 45 states and four Canadian provinces as of fiscal year end 2003. The Company's business strategy is to offer a broad selection of high quality brand-name as well as private label home furnishings merchandise at exceptional everyday values, to provide knowledgeable and friendly service and to maintain low operating costs. The Company's target customer, or guest, is a woman between the ages of 25 and 55 who is fashion and brand conscious, has good to better income, and focuses on the home as a reflection of her individuality.

The Company is committed to providing its guests with a one-stop shopping destination for their home furnishing needs by offering a broad and deep selection of high quality, brand name "linens" (E.G., bedding, towels, window treatments and table linens) and "things" (E.G., housewares, home and decorative accessories) merchandise with a "won't be undersold" everyday low pricing strategy. As part of its strategic initiative to capitalize on customer demand for one-stop shopping destinations, the Company has balanced its merchandise mix from being driven primarily by the "linens" side of its business to a fuller selection of both "linens" and "things." The Company's extensive merchandise offering of over 25,000 SKUs in an average store enables its guests to select from a wide assortment of styles, brands, colors and designs within each of the Company's major product lines. Nationally recognized brand names the Company offers include All-Clad, Braun, Calphalon, Conair, Croscill, Cuisinart, Henckels, Krups, KitchenAid, Liz Claiborne, Nautica, OXO, Wamsutta, Waverly and Yankee Candle. The Company also sells merchandise under its own private label, LNT Home, which is designed to supplement the Company's offering of brand name products by combining quality and value in a range of product offerings.

The Company's store format features an efficient racetrack layout that offers a broad merchandise selection in a visually appealing, guest-friendly format. The Company has developed various store size formats, generally ranging from 25,000 to 50,000 gross square feet, which allow the Company to match the size of its stores with the market potential of each location. The Company's gross square footage was approximately 15.1 million as of fiscal year end 2003. The Company's stores are located predominately in power strip centers adjacent to complementary broad-based retail chains.

As part of its business strategy, the Company instituted centralized management and operating programs and invested significant capital in its distribution and management information systems infrastructure in order to control operating expenses as the Company grows.

The Company was a wholly owned subsidiary of CVS Corporation ("CVS"), formerly Melville Corporation, until November 26, 1996, when CVS completed an initial public offering ("IPO") of 13,000,000 shares of the Company's common stock, on a pre-split basis. Immediately subsequent to the IPO, CVS owned approximately 32.5% of the Company's common stock. During 1997, CVS sold

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substantially all of its remaining shares of the Company's common stock in a public offering. At December 31, 1997, CVS held no shares of the Company's common stock.

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### EXECUTIVES OFFICERS

The following table sets forth information regarding the current executive officers of the Company:

NAME	AGE	POSITION
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Norman Axelrod.....	51	Chairman and Chief Executive Officer
William T. Giles.....	44	Executive Vice President, Chief Financial Officer
Audrey Schlaepfer.....	49	Executive Vice President, Chief Merchandising Officer
Brian D. Silva.....	47	Senior Vice President, Human Resources, Administration and
F. David Coder.....	45	Senior Vice President, Store Operations

Mr. Axelrod has been Chief Executive Officer of the Company since 1988 and was elected to the additional position of Chairman of the Board of Directors of the Company effective as of January 1997. Prior to joining Linens 'n Things, Mr. Axelrod held various management positions at Bloomingdale's from 1976 to 1988 including: Buyer, Divisional Merchandise Manager, Vice President/Merchandise Manager and Senior Vice President/General Merchandise Manager. Mr. Axelrod earned his B.S. from Lehigh University and his M.B.A. from New York University.

Mr. Giles joined Linens 'n Things in 1991 as Assistant Controller. He was promoted to Vice President, Finance and Controller in 1994, was promoted to Vice President, Chief Financial Officer in 1997, was promoted to Senior Vice President, Chief Financial Officer in 2000 and was promoted to Executive Vice President, Chief Financial Officer in 2003. From 1981 to 1990, Mr. Giles was with PriceWaterhouse LLP. From 1990 to 1991, Mr. Giles held the position of Director of Financial Reporting with Melville Corporation. Mr. Giles is a certified public accountant and member of the American Institute of Certified Public Accountants. He graduated from Alfred University with a B.A. in Accounting and Management.

Ms. Schlaepfer joined Linens 'n Things in 2001 as Executive Vice President and Chief Merchandising Officer. Prior to joining Linens 'n Things, Ms. Schlaepfer held various management positions at Warner Bros. from 1994 to 2001 including: Vice President of Home, Accessories and Gallery; Senior Vice President of Hard Goods and Executive Vice President of Merchandising. Prior to joining Warner Bros. in 1994, Ms. Schlaepfer held several positions at Macy's including Vice President of Merchandising in Private Label Home Furnishings. Ms. Schlaepfer earned her B.A. from Queens College C.U.N.Y. and her M.B.A. from New York University.

Mr. Silva joined Linens 'n Things in 1995 as Vice President, Human

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Resources, was promoted to Senior Vice President, Human Resources and Corporate Secretary in 1997 and assumed the role of Senior Vice President, Human Resources and Administration and Corporate Secretary in 2002. Mr. Silva was Assistant Vice President, Human Resources at The Guardian, an insurance and financial services company, from 1986 to 1995. He holds an M.A. in Organizational Development from Columbia University and an M.S. in Human Resources Management from New York Institute of Technology. Mr. Silva received his B.A. from St. John's University.

Mr. Coder joined Linens 'n Things 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, 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.

### BUSINESS STRATEGY

The Company's business strategy is to offer a broad and deep selection of high quality, brand name merchandise at exceptional everyday values, provide knowledgeable and guest-friendly service and maintain low operating costs. Key elements of the Company's business strategy are:

OFFER A BROAD SELECTION OF QUALITY HOME FURNISHINGS AT EXCEPTIONAL EVERYDAY VALUES. Linens 'n Things' merchandising strategy is to offer a breadth of selection in high quality, brand name fashion home textiles, housewares and home accessories at exceptional everyday values. The Company's store format enables it to offer broader product and brand selection than traditional

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retailers that sell home furnishings. The Company offers virtually all of the national home furnishings brand names carried by major department stores, as well as many other products and brands. Many national brands offered by the Company are not available at mass merchandisers or off-price retailers. The Company believes that these strategies enhance its reputation as a value leader and build guest loyalty, while providing a one-stop shopping destination for the guests' home furnishing needs.

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

DEPARTMENT -----	ITEMS SOLD -----	SAMPLE BRANDS -----
Bath	Towels, shower curtains, waste baskets, hampers, bathroom rugs and wall hardware	Nautica, Wamsutta and Waverly
Home Accessories	Decorative pillows, napkins, tablecloths, placemats, lamps, gifts, picture frames, candles and framed art	Colonial Candle, Umbro, Waverly and Yankee Candle
Housewares	Cookware, cutlery, kitchen gadgets, small electric appliances (such as blenders and coffee grinders), dinnerware, flatware and glassware	All-Clad, Black & Decker, Braun, Calphalon, Cuisinart, Farberware, Henckels, KitchenAid, and OXO

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Storage and Cleaning	Closet-related items (such as hangers, organizers and shoe racks), cleaning and laundry care products	Euro-Pro, Hoover, Row Rubbermaid
Top of the Bed	Sheets, comforters, comforter covers, bedspreads, bed pillows, blankets and mattress pads	Croscill, Fieldcrest, Liz Claiborne, Nautica Wamsutta and Waverly
Window Treatment	Curtains, valances and window hardware	Croscill, Nautica, Wa and Waverly

PROVIDE SUPERIOR GUEST SERVICE AND SHOPPING CONVENIENCE. The Company's mission is to exceed the guests' expectations in every store, every day. To enhance guest satisfaction and loyalty, Linens 'n Things strives to provide knowledgeable sales assistance and enthusiastic guest service. Linens 'n Things offers competitive wages and on-going training and personnel development in order to attract and retain qualified, motivated employees committed to providing superior guest service.

The Company's stores feature a racetrack layout, enabling the guest to visualize and purchase fully coordinated and accessorized ensembles. The Company's store format is designed to save the guest time by having merchandise visible and accessible on the selling floor.

The Company offers amenities that encourage guest loyalty, including its private label credit card, which gives cardholders advance notice of promotions, exclusive discounts, and the benefit of a purchase-based rewards program. The Company delivers shop-at-home convenience through its toll-free number and its WWW.LNT.COM e-commerce site. Upgraded and re-launched in September 2003, WWW.LNT.COM now provides more content, better navigation capabilities and improved bridal and gift registry tools.

MAINTAIN LOW OPERATING COSTS. A cornerstone of the Company's business strategy is its commitment to maintain low operating costs. In addition to savings realized through sales volume efficiencies, operational efficiencies are expected to be achieved through the use of integrated management information systems and the utilization of the Company's distribution centers.

### STRATEGY

The Company's strategy is to continue to expand its store base, while enhancing operating performance.

STORE BASE. The Company currently plans to seek to increase market share in existing geographic markets and to penetrate new geographic markets where the Company believes it can become a leading operator of specialty home furnishing stores. From the end of 1998 to the end of 2003, the Company increased its gross square footage to 15.1 million square feet by growing its store base from

196 to 440 stores. During 2004, the Company expects to open between 45 to 50 new stores. The Company selects markets for new stores based on demographic factors such as income levels, population and number of households. The Company generally seeks to operate stores in geographic trading areas with at least 200,000 people within a ten-mile radius and with demographic characteristics that match its target profile. Because of its flexible store size format, the Company is also able to enter into and operate in smaller markets where specialty home furnishing retailers are often under-represented.

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COMPARABLE NET SALES. The Company continues to seek to favorably impact comparable net sales by attracting more first-time guests to its stores, and by increasing the frequency of visits per guest and the dollar amount of each guest transaction. The Company believes that the best method to accomplish these goals is to improve upon and emphasize our reputation as a superior one-stop shopping destination for home furnishings. The Company continually introduces new merchandise categories to create a varied product portfolio that it believes will attract new guests and increase guest visits. For example, the Company introduced a number of stylish, high-quality brands, adding textiles from Liz Claiborne, branded electronics from the Sharper Image, and candles from Colonial Candle. The Company also continues to differentiate itself from competitors, launching two new lines of exclusive branded products. These include a new collection of high-fashion textiles that bear the Trading Spaces brand, and a selection of Waverly designs and fabrics developed specifically for Linens 'n Things. At the same time, the Company expanded its private label LNT Home product line, increasing its offering of existing items. The Company periodically re-styles its stores to incorporate new merchandise offerings and to emphasize its fastest growing product categories.

OPERATING MARGIN AND EFFICIENCY. The Company believes there continues to be opportunities to improve gross margin by continuing to use its purchasing power, increasing the penetration of its proprietary merchandise and using its centralized distribution network and management information systems. The Company anticipates that these improvements to gross margin will be partially offset by initiatives to increase comparable net sales. The Company's investments in its centralized distribution and in-store technology have resulted in more efficient inventory procedures at the store level, enabling its sales associates to better service its guests.

INCREASE PRODUCTIVITY OF EXISTING STORE BASE. The Company believes the following initiatives impact its net sales per square foot and inventory turnover ratios:

MERCHANDISE MIX AND PRESENTATION. The Company has developed a number of strategic initiatives to stimulate growth of textiles including offering new products, improving quality assortments and increasing the strength of value offerings. Further, the Company continues to increase sales in its "things" merchandise.

In addition, the Company intends to continue improving its merchandising presentation techniques, space planning and store layout in order to seek to further improve the productivity of its existing and future store locations. The Company periodically restyles its stores to incorporate new offerings and realigns its store space with its growth segments. The Company expects that the addition of in-store guest services, such as functionality improvements in bridal and gift registry, and web access, will position it further to improve its store productivity.

OPERATING EFFICIENCIES. As part of its strategy to increase operating efficiencies, the Company has invested significant capital in building a centralized infrastructure, including its three company-operated distribution centers and a management information system, which it believes will allow it to endeavor to maintain low operating costs as it pursues its store expansion strategy. The warehouse portion of the distribution centers provides the Company flexibility to manage safety stock and inventory flow. The Company's ability to effectively manage its inventory is also positively impacted by a centralized merchandising management team and its sophisticated management information systems, which allow the Company to monitor and balance inventory levels.

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### INDUSTRY

The market for home furnishings is highly fragmented and under-penetrated by the fast-growing specialty retail segment of which the Company is a part. The Company believes that this affords it the opportunity to grow market share by further penetrating those geographic markets in which the Company currently operates and by expanding into additional geographic markets where it has little or no presence.

The Company competes with many different types of retailers that sell many or most of the items sold by the Company, including department stores, mass merchandisers, specialty retail stores and other retailers. Linens 'n Things generally classifies its competition as follows:

**DEPARTMENT STORES:** This category includes national and regional department stores such as J.C. Penney Company Inc., Sears, Roebuck and Co., Dillard Department Stores, Inc., the department store chains operated by Federated Department Stores, Inc. and The May Department Store Company. 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, the department stores offer a more limited selection of merchandise than the Company. The prices offered by department stores during off-sale periods generally are significantly higher than those of the Company and during on-sale periods are comparable to or slightly higher than those of the Company.

**MASS MERCHANDISERS:** This category includes companies such as Wal-Mart Stores, Inc. and the Target Stores division of Target Corporation. Fashion home furnishings generally represent only a small portion of the total merchandise sales in these stores; however, this channel of distribution consumes the largest portion of home furnishings sales. The Company's competitive advantage is that 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 customer service staffing than the Company.

**SPECIALTY STORES/RETAILERS:** This category includes large format home furnishings retailers including Bed Bath & Beyond, Inc. and Home Goods, a division of TJX Companies, Inc. and smaller format retailers such as Crate & Barrel and Williams-Sonoma, Inc. The Company estimates that the large format stores range in size from approximately 25,000 to 70,000 gross square feet and offer a home furnishing merchandise selection of approximately 15,000 to 40,000 SKUs. These retailers attempt to develop loyal customers and increase customer traffic by providing a single outlet to satisfy the customer's household needs. The smaller format retailers offer a narrow assortment 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. and smaller local retail stores. Both mail order retailers and smaller local 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.

### PRODUCTS AND MERCHANDISING

The Company offers quality home textiles, housewares and home accessories at exceptional everyday values. The Company's extensive merchandise offering of over 25,000 SKUs in an average store enables its guests to select from a wide assortment of styles, brands, colors and designs within each of the Company's



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major product lines. The Company is committed to maintaining a consistent in-stock inventory position. This presentation of merchandise enhances the guest's impression of a dominant selection of merchandise in an easy-to-shop environment. The Company believes that the uniform application of its everyday low price policy is essential to maintaining the integrity of its pricing strategy. This is an important factor in establishing its reputation as a value leader and in helping to build guest loyalty.

### CUSTOMER SERVICE

Linens 'n Things treats every customer as a guest. The Company's philosophy is to enhance the guest's entire shopping experience in order to encourage guest loyalty. To facilitate the ease of shopping, the assisted self-service culture is complemented by trained department specialists, zoned

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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 ability to assist guests has been enhanced by the transfer of inventory receiving functions from the stores to the distribution centers, allowing sales associates to direct their focus to the selling floor. Sophisticated management systems that provide efficient guest service and fair return policies are geared toward making each guest's visit a convenient, efficient and pleasant experience.

### MARKETING AND ADVERTISING

The Company's advertising programs communicate, build and strengthen the Linens 'n Things brand and image. Because of the Company's commitment to exceptional everyday values, advertising vehicles are aggressively used to highlight value, breadth and depth of selection. The Company focuses its advertising programs during key selling seasons such as back-to-school and holidays.

To reach its guests, the Company primarily uses full color preprints to best represent the full range of offerings in the stores. These are supplemented by other on-going direct marketing initiatives. In addition, the Company utilizes its proprietary marketing database to track the buying habits of its guests. Grand opening promotional events are designed to support new stores, particularly those located in new markets.

### PURCHASING AND SUPPLIERS

The Company purchases its merchandise from approximately 1,000 suppliers. In fiscal 2003, the Company purchased a significant number of products from key suppliers of which none represents more than 10% of the Company's purchase volume. The Company believes that this buying power and its ability to make centralized purchases generally allow it to acquire products at favorable terms.

### COMPANY OPERATIONS

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

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

**MANAGEMENT INFORMATION SYSTEMS.** The Company continually evaluates and upgrades its management information systems to enhance the quantity, quality and timeliness of information available to management. The Company believes its management information systems have fully integrated the Company's stores, headquarters and distribution process. Over the last several years, the Company has made significant investments in technology to improve guest service such as Internet and online bridal and gift registry tools. Linens 'n Things operates an IBM AS/400 management information system which integrates all major aspects of the Company's business, including sales, distribution, purchasing, inventory control, merchandise planning and replenishment and financial systems. Information obtained from management information systems results in automatic inventory replenishment in response to specific requirements of each store, thereby improving in-stock positions and enhancing guest service. The Company also utilizes hand-held scanners with inventory status and price look-up capabilities, which allow the Company's sales associates to remain accessible to guests on the selling floor.

**STORE MANAGEMENT AND OPERATIONS.** The Company places a strong emphasis on its people, their development and their opportunity for advancement, and is committed to maintaining a high internal

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promotion rate. The Company's practice is to open each new store with a seasoned management team, which usually includes managers who have significant experience with the Company. Additionally, the Company's structured management training program requires that each new manager learn all facets of the business within the framework of a fully operational store. This program includes, among other things, product knowledge, merchandise presentation, business and sales perspective, employee relations and manpower planning. This is complemented at the sales associate level with in-store product seminars and store systems training. The Company believes that its policy of promoting from within, as well as the opportunities for advancement from its store expansion program, serves as incentives to attract and retain quality individuals.

Linens 'n Things' stores are open seven days a week, generally from 9:30 a.m. to 9:30 p.m. Monday through Saturday and 11:00 a.m. to 6:00 p.m. on Sunday, unless affected by local laws.

**PRIVATE LABEL CHARGE CARD.** In April 2002, the Company launched its 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 the Company to provide consistent and effective communication with its guests, while increasing its information base of its guests' purchasing patterns. Subject to customary exceptions, credit risk is borne by GE Card Services, a top issuer of private label credit cards.

**INFLATION AND SEASONALITY**

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

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

### EMPLOYEES

As of January 3, 2004, the Company employed approximately 17,200 individuals, of whom approximately 8,000 were full-time employees and 9,200 were part-time employees. None of the Company's employees is represented by a union, and the Company believes that it has a good relationship with its employees.

### COMPETITION

The home furnishings market, in which the Company operates, is highly fragmented and intensely competitive. The Company competes with many different types of retailers, including department stores, mass merchandisers and discounters, specialty retail stores, mail order and other retailers. Some of the Company's competitors sell many of the same items and brands that the Company sells. The Company believes that its ability to compete successfully in its market is influenced by several factors, including price, breadth and quality of product selection, in-stock availability of merchandise, effective merchandise presentation, guest service and superior store locations. The Company believes that it is well positioned to compete on the basis of these factors. Nevertheless, there can be no assurance that any or all of the factors that enable the Company to compete favorably will not be adopted by companies having greater financial and other resources than the Company.

### TRADE NAMES AND SERVICE MARKS

The Company uses "Linens 'n Things" and "LNT" as trademarks and as service marks in connection with retail services. The Company has registered the "Linens 'n Things" and "LNT" marks with both the United States Patent and Trademark Office and the Canadian Intellectual Property Office. The Company believes that the name "Linens 'n Things" and its related marks are important elements of its business.

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### FOREIGN SALES

The Company's current international business is concentrated in Canada. Sales outside the United States accounted for approximately 4% of total sales in fiscal 2003 and approximately 3% of total sales in fiscal 2002 and fiscal 2001. During the last three years, less than 5% of the Company's long-lived assets have been located outside of the United States.

### AVAILABLE INFORMATION

The Company makes available free of charge through its website,

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WWW.LNT.COM, all materials that it files electronically with the SEC, including the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after electronically filing such materials with, or furnishing them to, the SEC. During the period covered by this Form 10-K, the Company made all such materials available through its website as soon as reasonably practicable after filing or furnishing such materials with the SEC.

You may also read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website, WWW.SEC.GOV, that contains reports, proxy and information statements and other information which the Company files electronically with the SEC.

A copy of the Company's Corporate Governance Guidelines, its Code of Business Conduct and Ethics, and the charters of the Audit Committee, Compensation Committee, and Corporate Governance and Nominating Committee are posted on the Company's website, WWW.LNT.COM, under "Investor Relations," and are available in print to any shareholder who requests copies by contacting Brian D. Silva, Senior Vice President, Human Resources, Administration and Corporate Secretary at the Company's principal executive offices set forth above.

### ITEM 2. PROPERTIES

The Company operates in one segment, the retail industry. The Company leases its corporate headquarters, which is located at 6 Brighton Road, Clifton, New Jersey. As of January 3, 2004 the Company operated 440 retail stores in 45 states and four Canadian provinces. The Company's stores generally range in size from 25,000 to 50,000 gross square feet. The Company's stores are predominately located in power strip centers containing other complementary broad-based retail chains. The Company currently leases all of its existing stores and expects that its policy of leasing rather than owning will continue as it expands. The Company's leases provide for original lease terms that generally range from 10 to 20 years and most of the leases provide for one or more renewal options ranging from 5 to 15 years at increased rents. Some of the leases provide for scheduled rent increases and some of the leases provide for contingent rent (based upon store sales exceeding stipulated amounts). CVS Corporation, formerly the Company's parent company, guarantees certain stores' leases that were entered into prior to the Company's 1996 initial public offering (IPO). Following the IPO, CVS no longer entered into commitments to guarantee future leases on behalf of the Company.

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

The table below sets forth the number and location of stores in the United States as of January 3, 2004:

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STATE -----	NUMBER OF STORES -----	STATE -----	NUMBER OF STORES -----
Alabama	5	Nebraska	2
Arizona	12	Nevada	3
Arkansas	3	New Hampshire	5
California	49	New Jersey	18
Colorado	11	New Mexico	3
Connecticut	13	New York	26
Delaware	1	North Carolina	14
Florida	28	North Dakota	1
Georgia	16	Ohio	13
Idaho	1	Oklahoma	2
Illinois	21	Oregon	7
Indiana	7	Pennsylvania	12
Kansas	3	Rhode Island	3
Kentucky	4	South Carolina	5
Louisiana	5	Tennessee	7
Maine	3	Texas	40
Maryland	4	Utah	1
Massachusetts	19	Vermont	1
Michigan	12	Virginia	12
Minnesota	5	Washington	11
Mississippi	1	West Virginia	1
Missouri	6	Wisconsin	5
Montana	2		

The table below sets forth the number and location of stores in Canada as of January 3, 2004:

PROVINCE -----	NUMBER OF STORES -----
Alberta	5
British Columbia	5
Ontario	6
Manitoba	1

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

FISCAL YEAR ----	STORE OPENINGS -----	STORE CLOSINGS -----	TOTAL SQUARE FOOTAGE (IN THOUSANDS)		STORE COUNT	
			BEGIN YEAR -----	END YEAR -----	BEGIN YEAR -----	END YEAR -----
1999	43	9	6,487	7,925	196	230
2000	57	4	7,925	9,836	230	283
2001	63	3	9,836	11,980	283	343
2002	55	7	11,980	13,607	343	391
2003	58	9	13,607	15,106	391	440

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## ITEM 3. LEGAL PROCEEDINGS

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

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of the security holders during the fourth quarter of the fiscal year ended January 3, 2004.

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## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Linens 'n Things' common stock is listed on the New York Stock Exchange. Its trading symbol is LIN. At January 3, 2004 there were approximately 12,203 beneficial shareholders. The high and low trading price of the Company's common stock for each quarter is as follows:

FOR FISCAL 2003	HIGH	LOW
-----	----	---
First Quarter.....	\$23.98	\$19.49
Second Quarter.....	\$24.93	\$19.27
Third Quarter.....	\$29.31	\$23.78
Fourth Quarter.....	\$30.45	\$24.64
FOR FISCAL 2002	HIGH	LOW
-----	----	---
First Quarter.....	\$32.55	\$24.17
Second Quarter.....	\$37.55	\$28.60
Third Quarter.....	\$32.70	\$18.09
Fourth Quarter.....	\$25.44	\$15.05

The Company paid no dividends on its common stock in fiscal 2003 and 2002. Management of the Company currently intends to retain its earnings to finance the growth and development of its business and does not currently anticipate paying cash dividends in the foreseeable future. The payment of any future dividends will be at the discretion of the Company's Board of Directors and will depend upon, among other things, the future earnings, operations, capital requirements and financial condition of the Company, satisfying all requirements under its bank financing agreement and such other factors as the Company's Board of Directors may consider relevant. In addition, the Company's revolving credit facility currently limits the amount of cash dividends. See "Management's Discussion and Analysis--Liquidity and Capital Resources" under Item 7.

## ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is incorporated by reference to the Five-Year Financial Summary appearing on page 12 of the Company's Annual Report to Shareholders for the fiscal year ended January 3, 2004.

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### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item is incorporated by reference to pages 13 through 23 of the Company's Annual Report to Shareholders for the fiscal year ended January 3, 2004.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item is incorporated by reference to page 19 of the Company's Annual Report to Shareholders for the fiscal year ended January 3, 2004 under the heading "Management's Discussion and Analysis - Market Risk Disclosure".

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### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and financial information required by this Item are incorporated by reference to pages 24 through 39 of the Company's Annual Report to Shareholders for the fiscal year ended January 3, 2004. These financial statements are indexed under Item 15(a)(1).

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable

### ITEM 9A. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer, with the assistance of other members of the Company's management, have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

The Company's Chief Executive Officer and Chief Financial Officer have also concluded that there have not been any changes in the Company's internal controls over financial reporting in the Company's 2003 fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information relating to directors and nominees of the Company is set forth under the caption "Election of Directors" in the Company's 2004 Proxy

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Statement and is incorporated by reference herein. The information under the heading "Section 16(a) Beneficial Ownership Reporting Compliance," in the Company's 2004 Proxy Statement is also incorporated by reference herein. See Part I, Item 1 of this Form 10-K for information regarding the Company's executive officers.

The Company has adopted a Code of Business Conduct and Ethics (the "Code of Ethics") that applies to the Company's chief executive officer, principal financial officer, principal accounting officer, and to all other Company directors, officers and employees. The Code of Ethics is available on the Company's website, WWW.LNT.COM, under "Investor Relations." A waiver from any provision of the Code of Ethics for executive officers and directors may only be granted by the Board of Directors and any such waiver in favor of a director or executive officer will be publicly disclosed. The Company will disclose any future substantive amendments to the Code of Ethics, and any such waiver from the Code of Ethics granted to the Company's chief executive officer, principal financial officer and principal accounting officer as well as any other executive officers or directors, on the Company's website, WWW.LNT.COM, under "Investor Relations."

The information regarding the Company's Audit Committee and its designated audit committee financial expert is set forth under the caption "Information Regarding Board Committees" in the Company's 2004 Proxy Statement and such information is incorporated by reference herein.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Company's Proxy Statement for the 2004 Annual Meeting of Shareholders, under the headings "Director Compensation; Attendance" and "Executive Compensation," other than information included therein under the subcaptions "Report on Compensation of Executive Officers" and "Performance Graph" which are not incorporated by reference herein.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to the Company's Proxy Statement for the 2004 Annual Meeting of Shareholders, under the heading "Beneficial Ownership of Common Stock" and "Equity Compensation Plan Information."

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item will, if applicable, be included in the Company's Proxy Statement for the 2004 Annual Meeting of Shareholders, and, if so included, is incorporated by reference in this Item.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information regarding principal accountant fees and services and the Company's pre-approval policies and procedures for audit and non-audit services provided by the Company's independent accountants is set forth under the caption "Independent Auditor" in the Company's 2004 Proxy Statement and such information is incorporated by reference herein.



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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this Report.

1. FINANCIAL STATEMENTS:

The following Financial Statements are incorporated by reference to the Company's Annual Report to Shareholders for the fiscal year ended January 3, 2004:

	PAGES IN ANNUAL REPORT TO SHAREHOLDERS
	-----
Consolidated Statements of Operations - for the fiscal years ended January 3, 2004, January 4, 2003 and December 29, 2001..	24
Consolidated Balance Sheets - as of January 3, 2004 and January 4, 2003.....	25
Consolidated Statements of Shareholders' Equity - for the fiscal years ended January 3, 2004, January 4, 2003 and December 29, 2001..	26
Consolidated Statements of Cash Flows - for the fiscal years ended January 3, 2004, January 4, 2003 and December 29, 2001..	27
Notes to Consolidated Financial Statements.....	28 t
Management's Responsibility for Financial Reporting.....	38
Independent Auditors' Report.....	39

2. SCHEDULES:

None

3. EXHIBITS:

The Exhibits on the accompanying Exhibit Index are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K.

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	Amended and Restated Certificate of Incorporation, as amended 1,3
3.2	By-Laws of the Registrant1

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4	Specimen Certificate of Common Stock <sup>1</sup>
10.1	Transitional Services Agreement between the Registrant and CVS Corporation <sup>1</sup>
10.2	Stockholder Agreement between the Registrant and CVS Corporation <sup>1</sup>
10.3	Tax Disaffiliation Agreement between the Registrant and CVS Corporation <sup>1</sup>
10.4	Employment Agreement with Norman Axelrod <sup>5</sup>
10.5	Employment Agreement with Brian Silva <sup>5</sup>
10.6	Employment Agreement with William T. Giles <sup>5</sup>
10.7	Employment Agreement with Audrey Schlaepfer <sup>8</sup>
10.8	Split Dollar Agreement and Collateral Assignment between the Registrant and Norman Axelrod <sup>4</sup>
10.9	1996 Incentive Compensation Plan <sup>1</sup>
10.10	1996 Non-Employee Director Stock Plan <sup>1</sup>
10.11	Supplemental Executive Retirement Plan <sup>4</sup>
10.12	2000 Stock Award and Incentive Plan <sup>7</sup>
10.13	Deferred Compensation Plan <sup>11</sup>
10.14	LNT Broad-Based Equity Plan <sup>10</sup>
10.15	Credit Agreement dated as of October 20, 2000, as amended on June 21, 2002 among the Registrant, Fleet Bank and the lenders signatory thereto <sup>6,9,12</sup>
10.16	Employment Agreement with F. David Coder <sup>13</sup>
13	Portions of the Annual Report to Shareholders for 2003 fiscal year <sup>**2</sup>
21	List of Subsidiaries <sup>2</sup>
23a	Consent of KPMG LLP <sup>2</sup>
31.1	Certification by Norman Axelrod, Chairman and Chief Executive Officer <sup>2</sup>
31.2	Certification by William T. Giles, Executive Vice President and Chief Financial Officer <sup>2</sup>
32	Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 <sup>2</sup>

- 
- 1 Incorporated by reference to the Exhibits filed with the Company's Registration Statement on Form S-1 (No. 333-12267), which Registration Statement became effective on November 26, 1996
- 2 Filed with this Form 10-K.
- 3 Incorporated by reference to Current Report on Form 8-K filed on May 6, 1999.
- 4 Incorporated by reference to Current Report on Form 8-K filed on March 27, 2000.
- 5 Incorporated by reference to Current Report on Form 8-K filed on March 29, 2001.
- 6 Incorporated by reference to Current Report on Form 8-K filed on November 6, 2000.
- 7 Incorporated by reference to Registration Statement on Form S-8 filed on August 2, 2000 (File No. 333-42874).
- 8 Incorporated by reference to Current Report on Form 8-K filed on March 26, 2002.
- 9 Incorporated by reference to Quarterly Report on Form 10-Q filed on November 13, 2001.

- 10 Incorporated by reference to Registration Statement on Form S-8 filed on June 14, 2001 (File No. 333-62984).
- 11 Incorporated by reference to Registration Statement on Form S-8 filed on June 2, 1998 (File No. 333-55803).

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12 Incorporated by reference to Current Report on Form 8-K filed on September 18, 2002.

13 Incorporated by reference to Current Report on Form 8-K filed on February 27, 2004.

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\* Management contract or compensatory plan or arrangement.

\*\* With the exception of the information incorporated by reference to the Annual Report to Shareholders in Items 6, 7, 7A, and 8 of Part II and Item 15 of Part IV of this Form 10-K, the Annual Report to Shareholders is not deemed filed as part of this Form 10-K.

(b) Reports on Form 8-K:

The Company furnished a Current Report on Form 8-K dated October 22, 2003 in reference to a release dated October 22, 2003 reporting the Company's sales and earnings results for its third quarter ended October 4, 2003.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Linens 'n Things, Inc.  
(Registrant)

By: /s/ Norman Axelrod

-----  
Norman Axelrod  
Chairman and Chief Executive  
Officer

Dated: March 18, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
-----	-----	----
/s/ Norman Axelrod ----- Norman Axelrod	Chairman and Chief Executive Officer	March 18, 2004

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/s/ Philip E. Beekman ----- Philip E. Beekman	Director	March 18, 2004
/s/ Harold F. Compton ----- Harold F. Compton	Director	March 18, 2004
/s/ Stanley P. Goldstein ----- Stanley P. Goldstein	Director	March 18, 2004
/s/ Morton E. Handel ----- Morton E. Handel	Director	March 18, 2004
/s/ Robert Kamerschem ----- Robert Kamerschem	Director	March 18, 2004
/s/ William T. Giles ----- William T. Giles	Executive Vice President, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 18, 2004

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FIVE-YEAR FINANCIAL SUMMARY (IN THOUSANDS, EXCEPT PER SHARE AND SELECTED OPERATING DATA)

FISCAL YEAR ENDED (1)	JANUARY 3, 2004	JANUARY 4, 2003	DECEMBER 29, 2001 (2)
-----			
Income statement data:			
Net sales.....	\$2,395,272	\$2,184,716	\$1,823,803
Operating profit.....	121,953	114,269	52,480
Net income .....	74,825	69,246	29,749
Net income per share - basic.....	\$ 1.69	\$ 1.63	\$ 0.73
Basic weighted-average shares outstanding.....	44,247	42,428	40,508
Net income per share - diluted.....	\$ 1.67	\$ 1.60	\$ 0.72
Diluted weighted-average shares outstanding.....	44,869	43,314	41,193
Balance sheet data:			
Total assets.....	\$1,335,273	\$1,150,481	\$ 927,439
Working capital(3).....	462,962	373,488	228,078
Shareholders' equity.....	\$ 761,719	\$ 668,721	\$ 498,215
Selected operating data:			
Number of stores.....	440	391	343
Total gross square footage (000's).....	15,106	13,607	11,980
Increase (decrease) in comparable net sales.....	1.3%	3.1%	(2.4%)

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- 1 Fiscal year 2003 was a 52-week period. Fiscal year 2002 was a 53-week period. Fiscal years 1 periods.
- 2 Fiscal 2001 operating results include non-comparable restructuring and asset impairment and pre-tax (\$26.2 million after-tax), or \$0.64 per share on a fully diluted basis. See "Management Financial Condition and Results of Operations - Fiscal Year Ended January 4, 2003 Compared With 2001 - 2001 Restructuring and Asset Impairment Charge and 2001 Litigation Charge."
- 3 Working capital represents current assets less current liabilities.

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

#### INTRODUCTION

Linens 'n Things, Inc. (the "Company") is one of the leading national format specialty retailers. We emphasize a broad assortment of home textiles, housewares and home accessories, carrying both national and private label goods. During fiscal 2003, the Company opened 58 new stores and closed nine stores, increasing its store base to approximately 15.1 million. As of January 3, 2004, the Company operated 440 stores in 45 states and Canada.

The following discussion and analysis of financial condition, results of operations, liquidity and capital resources should be read in conjunction with the accompanying audited Consolidated Financial Statements and notes thereto. Certain items, primarily inventory shrinkage, have been reclassified between both cost of sales and selling, general and administrative expenses for all periods presented. These reclassifications increased cost of sales and decreased selling, general and administrative expenses by equal amounts with no impact on operating profit for any of the periods presented. Net sales are reported net of returns, discounts and incentives. Provisions for estimated future sales returns are recorded when the related sales are recorded. The Company determines the amount of provision based on historical experience. Sales coupons and other similar incentives are recorded as a reduction of sales revenue in the period when the related sales occur.

#### OVERVIEW OF BUSINESS

Net sales increased 9.6% to \$2.4 billion in fiscal 2003 compared to \$2.2 billion in fiscal 2002. The Company experienced steady improvement in its quarterly comparable net sales performance throughout the year, representing the best comparable net sales performance in two years at 4.7%. For fiscal year 2003, comparable net sales increased 1.3%. For the year 2003, the Company's fiscal earnings per share on a fully diluted basis increased 1.3% over fiscal 2002. On the balance sheet side, the Company improved its financial position, increasing working capital by \$100 million. In addition, throughout the year, the Company continued to place an emphasis on maintaining its core categories, particularly in its core categories, which demonstrated continued strength.

In reviewing the Company's sales performance by category, the Company's "things" business (excluding home textiles and accessories) had strong sales growth throughout the year. Strength in the "things" business during the year was primarily in the functional housewares business, which benefited from new product introductions. Although the Company faces the same challenges experienced throughout the industry, the Company made improvements in its sales performance in 2003 with the introduction of new brands and upgraded assortments.

The Company uses a number of key indicators of financial condition and operating performance to evaluate its business, including the following:

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KEY PERFORMANCE INDICATOR	FISCAL YEAR ENDED (1)		
	2003	2002	2001
Net sales growth	9.6%	19.8%	16.0%
Comparable net sales growth	1.3%	3.1%	(2.4%)
Net sales per average square foot	\$167	\$171	\$168
Average net sales per store (in millions)	\$5.7	\$5.9	\$5.8
Gross profit as a % of net sales	40.3%	40.0%	39.6%
SG&A as a % of net sales	35.2%	34.8%	34.6%
SG&A per average square foot	\$58.60	\$59.40	\$58.30
Operating profit as a % of net sales	5.1%	5.2%	2.9%
Net income as a % of net sales	3.1%	3.2%	1.6%
Diluted earnings per share	\$1.67	\$1.60	\$0.72
Inventory turnover	2.1	2.2	2.2
Inventory per square foot	\$46.47	\$45.22	\$41.09
Square footage growth	11%	14%	22%

1 Fiscal years 2003 and 2001 were 52-week periods. Fiscal year 2002 was a 53-week period.

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During fiscal 2003, the Company continued to focus on several strategic initiatives that have improved productivity and enhancing the guest shopping experience. These initiatives are at various stages of implementation and will continue to be a focus for the Company in fiscal 2004. These initiatives are:

**IMPROVING THE GUEST EXPERIENCE** - The Company continued its commitment to providing an improved guest experience by focusing on providing knowledgeable sales assistance in its stores, complemented with training programs designed to attract and retain qualified employees, the Company is well positioned to continue to improve. As a means to determine the effectiveness of these efforts, the Company utilizes a performance measurement tool, the guest to provide direct feedback at every one of its store locations. This measurement tool, implemented in 2002, provides rapid and specific feedback that has enabled the Company's sales team to improve the guest experience. The Company believes it is providing a better store shopping experience for its guests as they have improved over the prior year. The Company's guest service initiative also extended to its website, which was upgraded in fiscal 2003. The site now provides better navigation capabilities, an expanded gift registry tools. The Company also offers its private-label credit card, which gives cardholders access to promotions, exclusive discounts and a purchase-based rewards program.

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**MAINTAIN INVENTORY IN-STOCK POSITION** - The Company maintained a strong in-stock position through its core merchandise items as well as advertised merchandise. These improvements for fiscal 2003 were achieved by implementing more dynamic inventory metrics that enable the Company to evaluate specific stock levels on a regular basis, as opposed to merely measuring total levels across the entire chain. In addition, the Company enhanced and upgraded its replenishment and supply chain systems to optimize inventory flow. During 2003, inventory per square foot increased approximately 2.8% to \$46.47 as of January 3, 2004, while the Company's comparable net sales increased 4.7% for the fourth quarter of fiscal 2003.

**EXPANDING THE STORE INVENTORY OWNERSHIP PROGRAM** - In fiscal 2003, the Company expanded its store inventory ownership program to approximately half of the chain. This program provides store managers more authority over their store's merchandise assortment. During 2003, the Company added additional field level support to train and develop store managers on this program. Based on results achieved, the Company will further expand this program with additional stores under this program by the end of fiscal 2004.

**ENHANCING THE MERCHANDISE ASSORTMENT PROCESS** - During fiscal 2003, the Company continued to enhance its productivity by refining its overall merchandise assortment in favor of carrying a more clear assortment of products. As a result of implementing this process, the Company has been successful in eliminating certain product categories, while expanding the breadth of its overall product assortment. Additionally, the Company is varying its product assortment based on the preferences and needs of its guests in particular markets. In an early phase of development, the Company believes the enhancements being made to the merchandise assortment will improve productivity.

### CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth the percentage of net sales for certain items included in the

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Company's Consolidated Statements of Operations for the 52 weeks ended January 3, 2004 ("fiscal 2004"), 52 weeks ended January 4, 2003 ("fiscal 2003") and 52 weeks ended December 29, 2001 ("fiscal 2001"):

FISCAL YEAR ENDED	JAN. 3, 2004	JAN. 4, 2003	DEC. 29, 2001
-----			
PERCENTAGE OF NET SALES			
Net sales.....	100.0%	100.0%	100.0%
Cost of sales, including buying and distribution costs.....	59.7	60.0	60.4
-----			
Gross profit.....	40.3	40.0	39.6
Selling, general and administrative expenses....	35.2	34.8	34.6
Restructuring and asset impairment charge.....	--	--	1.9
Litigation charge.....	--	--	0.2
-----			
Operating profit.....	5.1	5.2	2.9
Interest expense, net.....	--	0.1	0.2
-----			
Income before income taxes.....	5.1	5.1	2.7
Provision for income taxes.....	2.0	1.9	1.1
-----			
Net income.....	3.1%	3.2%	1.6%

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FISCAL YEAR ENDED JANUARY 3, 2004 COMPARED WITH FISCAL YEAR ENDED JANUARY 4, 2003

### NET SALES

The Company's core business strategy is to offer a broad and deep selection of high quality towels and table linens) and "things" (e.g., housewares and home accessories) merchandise. For fiscal 2003, net sales of "things" merchandise increased approximately 6% over the prior year, while net sales of "things" increased 17% over the prior year. The increase in net sales for "things" merchandise primarily resulted from the continued expansion within the "things" business and its continued strength in its functional housewares business. Due to improvements to its textile business by introducing new brands and upgraded assortments.

The Company continued to leverage its supply chain costs as well as increase the penetration of national brand names which now accounts for approximately 17% of fiscal 2003 sales. The Company's proprietary product differentiation from its competitors, providing its guest with high value merchandise in categories underserved by national brand names.

Net sales for fiscal 2003 (52 weeks) were \$2,395.3 million, an increase of 9.6% over fiscal 2002 (\$2,184.7 million), primarily as a result of new store openings as well as comparable net sales in comparable stores and closed nine stores in fiscal 2003, compared with opening 55 stores and closing seven stores. Footage increased 11.0% to 15.1 million at January 3, 2004 compared with 13.6 million at January 4, 2003.

Comparable net sales, which include sales over the Internet, increased 1.3% for fiscal 2003 over fiscal 2002, an increase of 3.1% in fiscal 2002. Comparable net sales percentages are based on total net sales beginning with the first day of the month following the 13th full month of sales.

The Company's average net sales per store was \$5.7 million in fiscal 2003 (52 weeks) and \$5.8 million in fiscal 2002 (52 weeks). Week 53 in fiscal 2002 represented approximately \$43.6 million in net sales, so on a comparable basis, sales per store was \$5.8 million in fiscal 2002. The new stores opened in fiscal 2003 are performing at \$150 to \$175 in sales per square foot; however, the Company believes there remains opportunity to improve performance. In the first half of the fiscal year, sales were additionally impacted by inclement weather conditions, especially during key holiday selling seasons, weak consumer confidence, and uncertainty over the economy. The Company believes its sales results continue to reflect the steady progress being made on its strategy to include improvements of in-stock inventory positions, particularly on key items and advertised merchandise, and improvements to its inventory ownership program, and improvements to its merchandise assortment planning process and

Information concerning average net sales per store on a 52 week basis for fiscal 2002 is

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included to provide comparative sales information on a 52-week/52-week basis, permitting management to analyze period-to-period store operating performance. It supplements, but is not intended to replace

### GROSS PROFIT

Gross profit for fiscal 2003 was \$964.9 million, or 40.3% of net sales, compared with \$873.3 million in fiscal 2002. The increase in gross profit as a percentage of net sales is primarily due to increased sales volume, product and improved markdown management.

### EXPENSES

The Company's selling, general and administrative ("SG&A") expenses consist of store selling expenses, advertising expenses and corporate office expenses. SG&A expenses for fiscal 2003 were \$842.9 million, compared with \$759.1 million, or 34.8% of net sales, for fiscal 2002. The increase is primarily due to comparable net sales performance, offset in part by the leverage of corporate office expenses



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SG&A per square foot was \$58.60 in fiscal 2003 compared to \$59.40 in fiscal 2002, a decline. Company continued to reduce and leverage select operating expenses that were not associated with sales growth.

Operating profit for fiscal 2003 increased to \$122.0 million, or 5.1% of net sales, from \$111.0 million during fiscal 2002.

Net interest expense in fiscal 2003 was \$0.9 million compared to \$2.2 million in fiscal 2002. Net interest expense is mainly due to lower average borrowings, as well as lower interest rates.

The Company's income tax expense for fiscal 2003 was \$46.3 million, compared with \$42.8 million in fiscal 2002. The Company's effective tax rate was 38.2% in fiscal years 2003 and 2002.

### NET INCOME

As a result of the factors described above, net income for fiscal 2003 was \$74.8 million, or \$1.60 per share on a fully diluted basis compared with \$69.2 million, or \$1.60 per share on a fully diluted basis for fiscal 2002.

### FISCAL YEAR ENDED JANUARY 4, 2003 COMPARED WITH FISCAL YEAR ENDED DECEMBER 29, 2001

The Company's 2001 results were impacted by non-comparable items totaling \$41.8 million, primarily related to 2001 RESTRUCTURING AND ASSET IMPAIRMENT CHARGE.

In fiscal 2001, the Company developed and committed to a strategic initiative designed to improve profitability. This initiative called for the closing of certain under-performing stores which did not meet our objectives. In connection with this initiative, the Company recorded a pre-tax restructuring and impairment charge of \$23.7 million (\$23.7 million after-tax) in the fourth quarter of fiscal 2001. A pre-tax reserve of \$20.5 million was established for estimated lease commitments for stores to be closed. This reserve was included in accrued expense and sublease income. Because all of the stores were leased the Company was not responsible for the depreciation of fixtures. A pre-tax writedown of \$9.5 million was recorded as a reduction in property and equipment for these stores. The fixed asset impairments represent fixtures and leasehold improvements. A pre-tax charge of \$4.0 million was established for other estimated miscellaneous store closing costs. Additionally, a pre-tax charge of \$2.8 million was recorded as a cost of sales for estimated inventory markdowns below cost for the stores to be closed. Certain charges were based on estimates and may be subject to change in the future. The Company has closed

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store closures other than one store, whose reserve was reversed, and one store, which is expected to close in 2004. As of January 3, 2004, the Company has \$15.6 million remaining in the 2001 restructuring and impairment charge. The following table displays a roll forward of the activity for fiscal years 2003 and 2002, and the balance as of January 3, 2004 (\$ in millions):

	REMAINING AT 12/29/01	FISCAL 2002 USAGE	REMAINING AT 1/04/03	FISCAL 2003 USAGE
Lease commitments	\$20.5	\$(1.1)	\$19.4	\$(3.8)
Other	4.0	(1.2)	2.8	(2.8)
Total	\$24.5	\$(2.3)	\$22.2	\$(6.6)

The 2003 activity primarily consists of payments for lease commitments and miscellaneous store closing costs.



2002, compared with opening 63 stores and closing three stores in fiscal 2001. Store square footage at January 4, 2003 compared with 12.0 million at December 29, 2001.

The Company's average net sales per store was \$5.9 million in fiscal 2002 (53 weeks) and \$5.8 million in fiscal 2001 (53 weeks). Week 53 in fiscal 2002 represented approximately \$43.6 million in net sales, so on a comparable basis, sales per store was \$5.8 million in fiscal 2002. After excluding the effect of week 53 sales in fiscal 2002, sales per store was flat compared to the prior year.

Comparable net sales for fiscal 2002 (53 weeks/53 weeks) increased 3.1% compared with a decline in fiscal 2001. The increase in comparable net sales was driven primarily by higher consumer traffic. The Company believes the increase reflected the progress made on its strategic operating initiatives, which included during fiscal 2002 improvements in inventory positions and improvements in the Company's textile business and in the guest shopping experience from good overall performance of the Company's functional housewares business.

For fiscal 2002, net sales of "linens" merchandise increased approximately 17% over the prior year and net sales of "things" merchandise increased approximately 24% over the prior year. The greater increase in net sales for "things" merchandise was due to the continued expansion of product categories within the "things" business.

#### GROSS PROFIT

Gross profit for fiscal 2002 was \$873.3 million, or 40.0% of net sales, compared with \$722.4 million in fiscal 2001. Excluding the effect of the non-comparable items in fiscal 2001, gross profit was \$775.0 million in fiscal 2001. This increase as a percentage of net sales resulted from overall improved selling prices, the introduction of a proprietary product and leveraging of the Company's buying power.

#### EXPENSES

SG&A expenses for fiscal 2002 were \$759.1 million, or 34.8% of net sales, compared with \$632.0 million in fiscal 2001. Corporate office and occupancy expenses were leveraged, which were offset by the result of the Company's initiative to improve overall guest service levels.

SG&A per square foot was \$59.40 in fiscal 2002 compared to \$58.30 in fiscal 2001, an increase of 1.9%. The increase was due to the Company's increased investment in areas that improved sales productivity, such as new store openings.

Operating profit for fiscal 2002 increased to \$114.3 million, or 5.2% of net sales, up from \$100.0 million during fiscal 2001. Excluding the effect of non-comparable items in fiscal 2001, operating profit was \$100.0 million during fiscal 2001.

Net interest expense in fiscal 2002 was \$2.2 million compared to \$3.9 million during fiscal 2001. Net interest expense is mainly due to lower average borrowings, as well as lower interest rates.

The Company's income tax expense for fiscal 2002 was \$42.8 million, compared with \$18.9 million in fiscal 2001. The Company's effective tax rate was 38.2% in fiscal 2002 and 38.8% in fiscal 2001. Excluding the impact of non-comparable items in fiscal 2001, the Company's income tax expense for fiscal 2001 was \$34.5 million and the effective tax rate was 38.8%.

#### NET INCOME

As a result of the factors described above, net income for fiscal 2002 was \$69.2 million, or \$0.72 per share on a fully diluted basis compared with \$29.7 million, or \$0.72 per share on a fully diluted basis for fiscal 2001. Excluding the impact of non-comparable items discussed above, net income for fiscal 2001 was \$29.7 million, or \$0.72 per share on a fully diluted basis.

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### LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements are primarily for new store expenditures, new store inventory and working capital. These requirements have been funded through a combination of internally generated cash flow, capital raised through debt and equity offerings, and extended by suppliers and short-term borrowings.

The following table summarizes existing contractual obligations requiring the use of cash, as of January 31, 2004:

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD (IN MILLION)			
	Total	Less Than 1 Year	2 - 3 Years	4 - 5 Years
Operating leases (1)....	\$2,328.1	\$221.5	\$428.1	\$417.9
Inventory purchases.....	130.8	130.8	--	--
New store capital additions.....	9.9	9.9	--	--
Total	\$2,468.8	\$362.2	\$428.1	\$417.9

(1) Operating leases consists of future minimum rental payments required under non-cancelable operating leases and does not consider future minimum rentals, and excludes lease obligations for closed stores and stores to be closed.

In addition, as of January 31, 2004, the Company had fully executed 154 stores planned to open in fiscal years 2004 and 2005, for which aggregate minimum rental payments over the term of the leases is approximately \$1.1 million.

The Company also has assigned property at a retail location in which the Company guarantees the payment of rent over the specified lease term in the event of non-performance. As of January 3, 2004, the maximum potential amount of future minimum payments the Company could be required to make under such guarantee is approximately \$1.1 million.

In June 2002, the Company amended and extended its \$150 million senior revolving credit facility ("Credit Agreement") with third party institutional lenders to expire April 20, 2005. The Credit Agreement also includes borrowings from additional lines of credit outside of the Credit Agreement. As of January 3, 2004, the Company had \$26 million of committed facilities that expire on June 16, 2004 and are seasonal working capital arrangements. Interest on all borrowings is determined based upon several alternative rates, including the prime rate. The Credit Agreement contains certain financial covenants, including those relating to the maintenance of working capital, a minimum fixed charge coverage ratio, and a maximum leverage ratio. At the end of fiscal year 2003, the Company was in compliance with its covenants under the Credit Agreement. Under the Credit Agreement, the amount of dividends paid to common shareholders may not exceed the sum of \$25 million plus, on a cumulative basis, an amount equal to 50% of the consolidated net income for the quarter, commencing with the fiscal quarter ending March 30, 2002. The Company has never paid cash dividends and does not anticipate paying cash dividends in the future. The Company is required under the Credit Agreement to reduce its outstanding domestic borrowings to zero for 30 consecutive days during each period beginning on December 1, 2003 and December 1, 2002. At various times during the year, the Company borrowed against its credit facilities for seasonal working capital needs. At the end of fiscal year 2003, the Company had no borrowings under the Credit Agreement and no borrowings under the additional lines of credit. At January 3, 2004 and January 4, 2003, the Company had \$47.2 million and \$26.0 million, respectively, of borrowings under the Credit Agreement and additional lines of credit.

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outstanding, which included standby letters of credit issued primarily under the Credit Agreement for merchandise purchases. The Company is not obligated under any formal or informal compensating to the Consolidated Financial Statements).

The Company maintains a trade payables arrangement with General Electric Capital Corporation purchases the Company's payables at a discount directly from the Company's suppliers prior to the permitting a supplier to receive payment prior to the due date of the

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payable, with the Company sharing in part of the GECC discount. See Note 7 to the Consolidated Financial Statements for 2004 and January 4, 2003, the Company owed approximately \$66.2 million and \$48.7 million, respectively, which was included in accounts payable. Either party may terminate the program for any reason after 90 days notice. The Company does not anticipate that discontinuance of the availability of the GECC program will result in a disruption to the supply of merchandise to the Company, nor would it have a material adverse effect on the Company's position, results of operations or cash flows. The maximum amount permitted under the program was \$100 million.

Net cash provided by operating activities for the fiscal year ended 2003 was \$118.8 million compared to \$107.1 million for the fiscal year ended 2002. The change was primarily attributed to a slower growth in inventory net of changes in deferred taxes due to the difference in the timing of recognizing depreciation expense and certain other items for purposes, offset in part by the timing of accrued expense payments.

Net cash used in investing activities for the fiscal year ended 2003 was \$81.5 million compared to \$75.1 million for the fiscal year ended 2002. The Company opened 58 new stores during the fiscal year ended 2003 compared to 52 in 2002. Fiscal 2002 also included costs associated with the opening of the Company's third distribution center. Management estimates capital expenditures will be approximately \$80 million in fiscal 2004, primarily for the purchase and maintenance of existing stores, and system enhancements.

Net cash provided by financing activities for the fiscal year ended 2003 was \$11.7 million compared to \$11.7 million for the fiscal year ended 2002. For the fiscal year ended 2003, proceeds from common stock issued under the Company's stock repurchase program of \$2.1 million offset by a decrease in short-term borrowings of \$2.1 million. The Company had a common stock offering in the second quarter of fiscal 2002 that raised a net \$95.8 million, which principally accounts for the increase in cash and cash equivalents.

Management regularly reviews and evaluates its liquidity and capital needs. The Company expects to meet its capital needs generally during the second quarter and fourth quarter of the fiscal year.

As the Company's business continues to grow and its current store expansion plan is implemented, the Company may increase in the amounts available under its credit facilities from those currently existing and/or available.

Management currently believes that the Company's cash flows from operations, credit extended under its credit facilities and its uncommitted lines of credit will be sufficient to fund its expected capital expenditures and non-acquisition business expansion requirements for at least the next 12 to 18 months.

### MARKET RISK DISCLOSURE

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

### INTEREST RATE RISK

The Company's financial instruments include cash and cash equivalents and short-term borrowings. The Company's short-term borrowings are short-term in nature and generally have less than a 30-day commitment. The Company is exposed to interest rate risk through borrowings under the Credit Agreement. Interest on all borrowings is based upon several a

the Credit Agreement, including a

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fixed margin above LIBOR. As of January 3, 2004, the Company had no borrowings under the Credit Agreement and the additional lines of credit (see Note 8 to the Consolidated Financial Statements). The Company believes that the risk is minimal as a hypothetical 10% increase or decrease in interest rates in the associated debt would not materially affect the Company's results from operations or cash flows. The Company does not use derivatives in its investment portfolio.

#### FOREIGN CURRENCY RISK

The Company enters into some purchase obligations outside of the United States, which are denominated in U.S. dollars, and therefore, the Company has only minimal exposure to foreign currency exchange risks. The Company does not hedge foreign currency risks and believes that foreign currency exchange risk is immaterial.

The Company operated 17 stores in Canada as of January 3, 2004. The Company believes its foreign currency risk is minimal, as a hypothetical 10% strengthening or weakening of the U.S. dollar relative to the Canadian dollar would not affect the Company's results from operations or cash flow.

#### INFLATION

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

#### SEASONALITY

The Company's business is subject to substantial seasonal variations. Historically, the Company's net sales and net income for the year during the third and fourth quarters. The Company's operations may also fluctuate significantly as a result of a variety of other factors, including changes in consumer spending patterns.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the Emerging Issues Task Force ("EITF") issued EITF 02-16, "Accounting by a Seller for Certain Consideration Received from a Vendor," which states that cash consideration received from a vendor that results in a reduction of the prices of the vendor's products or services and should, therefore, be characterized as a reduction of cost of merchandise sold when recognized in the Company's Consolidated Statement of Operations. That present method of accounting for consideration is either a reimbursement of specific, incremental and identifiable costs incurred by the Company or payment for assets or services delivered to the vendor. EITF 02-16 is effective for contracts entered into on or after December 31, 2002. Since the Company entered into substantially all of its current vendor contracts on or after December 31, 2002, the issue did not have a material impact on the Company's fiscal 2003 Consolidated Financial Statements. For contracts initiated or modified in fiscal 2004 and thereafter, the Company will apply the method of accounting prescribed by EITF 02-16. In connection with the implementation of EITF 02-16, the Company expects to treat the cash consideration received as a reduction in the cost of inventory and, as a result, these funds will be recognized as a reduction of cost of inventory when the inventory is sold. Accordingly, certain funds received from vendors, which were historically recognized as advertising expense in SG&A, will be treated as a reduction of cost of inventory. Based on the Company's estimate, the estimated impact from the implementation of EITF 02-16 is expected to reduce diluted earnings per share by approximately \$0.25 for fiscal 2004, as a result of delaying the recognition of vendor allowances on merchandise sold. The majority of this non-cash reduction in earnings per share is expected to occur in the first quarter of 2004. The Company currently expects SG&A on an annualized basis to increase by approximately 1.1% as a result of this accounting change. This accounting change will have no impact on the Company's cash flows.

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or the expected amount of funds to be received from vendors. In addition, following the initial i in fiscal 2004, subsequent fiscal years will reflect vendor allowances on a consistent basis other such vendor allowances.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Liabilities and Equity" ("SFAS No. 150"). SFAS No. 150 clarifies the accounting for certain financial characteristics of both liabilities and equity and requires that those instruments be classified effective for financial instruments entered into or modified after May 31, 2003 and otherwise is first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not impact the Statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest 46 explains how to identify variable interest entities and how an enterprise assesses its interest decide whether to consolidate that entity. The Company has evaluated FIN No. 46 and determined the any impact on the Company's Consolidated Financial Statements as the Company has no variable interest

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition amendment of SFAS No. 123" ("SFAS No. 148"). This statement amends SFAS Statement No. 123 ("SFAS Stock-Based Compensation," and provides alternative methods of transition for a voluntary change accounting for stock-based employee compensation. In addition, the statement amends the disclosures require prominent disclosures in both annual and interim financial statements about the method of compensation and the effect of the method used. For fiscal years 2003 and 2002, the Company accounted intrinsic value method prescribed under APB Opinion 25, and accordingly, the Company did not recognize stock options. The Company continues to account for stock-based compensation using APB Opinion No. recognition provisions of SFAS No. 123, as amended by SFAS No. 148. However, the Company has adopted has included this information in Note 11 to the Company's Consolidated Financial Statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal 146"). This statement requires companies to recognize costs associated with exit or disposal activities rather than at the date of a commitment to an exit or disposal plan. The Company was required to SFAS 146 for exit or disposal activities, if any, initiated after December 31, 2002. The adoption of SFAS 2003 consolidated financial position or results of operations, although it can be expected to impact recognition associated with future exit activities, if any.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting Obligations" ("SFAS No. 143"). SFAS No. 143 addresses financial accounting and reporting for obligations retirement of tangible long-lived assets and the associated asset retirement costs. This statement requires liability for an asset retirement obligation be recognized in the period in which it is incurred value can be made. This statement was effective for the Company in fiscal 2003. The adoption of SFAS Company's Consolidated Financial Statements.

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### CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in America requires management to make estimates and assumptions that affect the reported amounts of assets and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and of expenses during the reporting periods. The Company's management believes the following involve significant estimates and judgments inherent in the preparation of the Consolidated Financial Company has discussed the development and selection of these critical accounting estimates with the Board of Directors.

**VALUATION OF INVENTORY:** Merchandise inventory is a significant portion of the Company's balance approximately 53% of total assets at January 3, 2004. Inventories are valued using the lower of cost

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the retail inventory method ("RIM"). Under RIM, the valuation of inventories at cost and the result by applying a calculated cost-to-retail ratio to the retail value of inventories. RIM is an average retail industry due to its practicality. Inherent in the RIM calculation are certain significant including, among others, merchandise mark-on, mark-up, markdowns and shrinkage based on historical physical inventories, all of which significantly impact the ending inventory valuation at cost. A reductions in gross margin and inventory are recorded for estimated future markdowns necessary to inventory and represents the Company's best estimate of fair market value of that inventory. These related to markdown inventory levels, historical markdown trends and forecasted sales and markdowns regularly by comparing actual markdowns taken against previous estimates. Changes in customer preferences conditions may cause the Company's inventory markdown estimates to be significantly revised favor methodologies utilized by the Company in its application of RIM are consistent for all periods prior the development of the cost-to-retail ratios, the development of shrinkage reserves and the accounting

**SALES RETURNS:** The Company estimates future sales returns and records a provision in the period recorded based on historical return rates. Should actual returns differ from the Company's estimates, it will revise estimated sales returns. Although these estimates have not varied materially from historical sales returns requires management judgment as to changes in preferences and quality of products being sold, these estimates may vary materially in the future. The sales returns calculations are regularly compared to actual experience. In preparing its financial statements for the years ended January 3, 2004 and January 4, 2003, the sales returns reserve was approximately \$6.2 million and \$5.5 million, respectively.

**IMPAIRMENT OF ASSETS:** With the adoption of SFAS No. 142, the Company reviews goodwill for impairment annually. Impairment losses are recognized when the implied fair value of goodwill is less than its carrying amount, also required to follow the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144"), which superceded an earlier pronouncement on the same topic but retained many of its fundamental principles. The scope of discontinued operations to include more disposal transactions and impacted the present operations, if any, by the Company. Under SFAS No. 144 the Company periodically evaluates long-lived assets for indicators of impairment. The Company's judgments regarding the existence of impairment indicators are based on historical operational performance. Future events could cause the Company to conclude that impairment

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indicators exist and that the value of long-lived assets and goodwill is impaired. At the end of 2003, the Company's net value for property and equipment was approximately \$377.2 million and \$348.4 million, respectively, and \$18.1 million for fiscal years ended 2003 and 2002.

**STORE CLOSURE COSTS:** For periods prior to the adoption of SFAS No. 146, the Company recorded costs such as fixed asset write-offs, estimated lease commitment costs net of estimated sublease income from stores that would be sold below cost, and other miscellaneous store closing costs, in the period in which management decided to close a store. Such estimates may be subject to change should actual costs differ. In fiscal 2001, the Company recorded a restructuring and asset impairment charge of \$37.8 million (\$23.7 million after-tax) related to the closing of under-performing stores. As of January 3, 2004 and January 4, 2003, the Company had \$15.6 million and \$18.1 million remaining related to this reserve. The Company has closed all of the initially identified stores that management decided to keep open and whose reserve was reversed, and one other store, which is expected to be closed in 2004. The Company has continued to negotiate lease buyouts or sublease agreements for these stores. The reversal of estimated lease commitment and other store closing costs of \$2.3 million as these reserves are reversed. Changes in estimates to lease commitment costs based on current negotiations has resulted in the reversal of \$2.5 million during fiscal 2003. Final settlement of these reserves is predominantly a function of negotiations with the lease parties, and, as such, these estimates may be subject to change in the future.

The Company is required to adopt the provisions of SFAS No. 146 for exit or disposal activities as of December 31, 2002. Although the Company believes the adoption of SFAS No. 146 does not materially impact the Company's financial position or results of operations, it can be expected to impact the timing of liability recognition for certain activities, if any.

**SELF-INSURANCE:** The Company purchases third party insurance for worker's compensation, medical and dental costs that exceed certain levels for each type of insurance program. However, the Company is responsible for



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under these insured excess limits. The Company establishes accruals for its insurance programs based on historical trend and experience, as well as loss development factors prepared by third party actuaries. General liabilities are then recorded at their net present value. In preparing the estimates, the Company considers the nature and severity of the claims, analysis provided by third party claims administrators, as well as current regulatory factors.

The Company evaluates the accrual and the underlying assumptions periodically and makes adjustments. The cost of these claims may be greater than or less than the established accrual. While the Company's assumptions are adequate, there can be no assurances that changes to management's estimates will not occur during the estimate process. In the event the Company determines the accruals should be increased or reduced, it will make adjustments in the period in which such determination is made.

The accrued obligation for these self-insurance programs was approximately \$13.5 million as of January 4, 2003. The increase in this obligation relates to new claims incurred in fiscal 2003 based on the factors referred to above.

**LITIGATION:** The Company records an estimated liability related to various claims and legal actions in the course of business, which is based on available information and advice from outside counsel where such information becomes available, the Company assesses the potential liability related to

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its pending claims and may adjust its estimates accordingly.

### FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. The statements are made a number of times and may be identified by such forward-looking terms as "may," "intend," "plan," "target," "outlook," "comfortable with" and similar terms or variations thereof. Information and statements regarding our outlook for the future including future revenues, comparisons and other future financial condition, impact, results and performance, constitutes forward-looking information. Forward-looking statements are based on our current expectations, assumptions, estimates and projections, which involve certain significant risks and uncertainties, including levels of sales, store traffic, acquisitions, fashion trends and our ability to anticipate and successfully respond to changing consumer tastes and preferences, business concepts, seasonal concepts and new brands, the performance of our new stores, substantial competition from home furnishings retailers, the success of the Canadian expansion, availability of suitable future store expansion and of planned closings, the impact of the bankruptcies and consolidations in our industry, patterns, the impact on consumer spending as a result of the slower consumer economy, a highly competitive market, significant variations between actual amounts and the amounts estimated for those matters identified in this report, as well as other significant accounting estimates made in the preparation of our financial statements in fiscal 2004 of EITF 02-16 as discussed in this report, and our ability to successfully implement our strategy if these or other risks or uncertainties materialize, or if our estimates or underlying assumptions prove to be incorrect. These risk factors are included in the "Risk Factors" section of the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on June 18, 2002 and may be contained in subsequent reports filed with the Securities and Exchange Commission, including our Quarterly Reports on Form 10-Q. You are urged to consider all such risks and uncertainties inherent in such forward-looking statements, you should not consider their inclusion in this report as a guarantee that forward-looking matters will be achieved. The Company assumes no obligation for updating any such forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

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CONSOLIDATED STATEMENTS OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

FISCAL YEAR ENDED	JANUARY 3, 2004	JANUARY 2003
NET SALES.....	\$2,395,272	\$2,
Cost of sales, including buying and distribution costs.....	1,430,422	1,
GROSS PROFIT.....	964,850	
Selling, general and administrative expenses.....	842,897	
Restructuring and asset impairment charge.....	--	
Litigation charge.....	--	
OPERATING PROFIT.....	121,953	
Interest income.....	(169)	
Interest expense.....	1,045	
Interest expense, net.....	876	
Income before income taxes.....	121,077	
Provision for income taxes.....	46,252	
NET INCOME.....	\$ 74,825	\$
Per share of common stock:		
Basic		
-----		
Net income.....	\$ 1.69	
Weighted-average shares outstanding.....	44,247	
Diluted		
-----		
Net income.....	\$ 1.67	
Weighted-average shares outstanding.....	44,869	

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	January 2004

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Assets

Current assets:

Cash and cash equivalents.....	\$ 1
Accounts receivable.....	7
Inventories.....	
Prepaid expenses and other current assets.....	
Current deferred taxes.....	

Total current assets.....	9
Property and equipment, net.....	3
Goodwill, net of accumulated amortization of \$9,064 at January 3, 2004 and January 4, 2003.....	
Deferred charges and other non-current assets, net.....	

Total assets.....	\$1,3
-------------------	-------

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable.....	\$2
Accrued expenses and other current liabilities.....	1
Current deferred taxes.....	
Short-term borrowings .....	

Total current liabilities.....	4
Deferred income taxes and other long-term liabilities.....	1

Shareholders' equity:

Preferred stock, \$0.01 par value; 1,000,000 shares authorized; none issued and outstanding.....	
Common stock, \$0.01 par value; 135,000,000 shares authorized; 45,052,255 shares issued and 44,818,916 shares outstanding at January 3, 2004; 44,322,351 shares issued and 44,085,470 shares outstanding at January 4, 2003.....	
Additional paid-in capital.....	3
Retained earnings.....	4
Accumulated other comprehensive gain (loss) .....	
Treasury stock, at cost; 233,339 shares at January 3, 2004 and 236,881 shares at January 4, 2003.....	(

Total shareholders' equity.....	7
---------------------------------	---

Total liabilities and shareholders' equity.....	\$1,3
---	-------

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

COMMON STOCK		ADDITIONAL	RETAINED	FO
SHARES	AMOUNT	PAID-IN	EARNINGS	CU
		CAPITAL		TRA
				AD

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(IN THOUSANDS, EXCEPT NUMBER OF SHARES)

BALANCE AT DECEMBER 30, 2000.....	40,059,126	\$402	\$231,547	\$230,186
Net income.....	--	--	--	29,749
Currency translation adjustment.....	--	--	--	--
Comprehensive earnings.....				
Common stock issued under stock incentive plans and related tax benefits.....	698,567	7	13,687	--
Purchase of treasury stock.....	(133,319)	--	--	--
BALANCE AT DECEMBER 29, 2001.....	40,624,374	409	245,234	259,935
Net income.....	--	--	--	69,246
Currency translation adjustment.....	--	--	--	--
Comprehensive earnings.....				
Common stock issued under stock incentive plans and related tax benefits.....	190,499	2	5,217	--
Proceeds from issuance of common stock, net of underwriting discounts and offering expenses.....	3,300,000	33	95,800	--
Purchase of treasury stock.....	(29,403)	--	--	--
BALANCE AT JANUARY 4, 2003.....	44,085,470	444	346,251	329,181
Net income.....	--	--	--	74,825
Currency translation adjustment.....	--	--	--	--
Comprehensive earnings.....				
Common stock issued under stock incentive plans and related tax benefits.....	729,904	6	16,232	--
Issuance of treasury stock.....	3,542	--	--	--
BALANCE AT JANUARY 3, 2004.....	44,818,916	\$450	\$362,483	\$404,006

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)

FISCAL YEAR ENDED	JANUARY 3, 2004	JAN
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 74,825	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	54,404	
Deferred income taxes.....	38,628	
Loss on disposal of assets.....	2,025	

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Federal tax benefit from common stock issued under stock incentive plans.....	2,614	
Restructuring and asset impairment charge.....	--	
Changes in assets and liabilities:		
Increase in accounts receivable.....	(14,499)	
Increase in inventories.....	(81,680)	(1
Increase in prepaid expenses and other current assets.....	(8,717)	(
Increase in deferred charges and other non-current assets.....	(623)	
Increase (decrease) in accounts payable.....	40,779	
Increase in accrued expenses and other liabilities.....	11,046	
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	118,802	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment.....	(81,494)	(
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from common stock issuance.....	--	
Proceeds from common stock issued under stock incentive plans.....	13,624	
Issuance (purchase) of treasury stock.....	158	
(Decrease) increase in short-term borrowings.....	(2,119)	(
NET CASH PROVIDED BY FINANCING ACTIVITIES.....	11,663	
Effect of exchange rate changes on cash and cash equivalents.....	553	
Net increase (decrease) in cash and cash equivalents.....	49,524	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	86,605	
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$136,129	\$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
CASH PAID DURING THE YEAR FOR:		
Interest (net of amounts capitalized).....	\$ 932	\$
Income taxes.....	\$ 11,545	\$

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS

Linens 'n Things, Inc. and its subsidiaries (collectively the "Company") operate in one segment, stores in 45 states across the United States and four Provinces in Canada as of the fiscal year e

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stores offer a broad assortment of home textiles, housewares and home accessories, carrying both goods.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### BASIS OF PRESENTATION

The Consolidated Financial Statements include those of Linens 'n Things, Inc. and its wholly owned inter-company balances and transactions have been eliminated.

Certain expense items, which include inventory shrinkage, have been reclassified between cost of administrative expenses for all periods presented. These reclassifications increased cost of sales and administrative expenses by equal amounts with no impact on operating profit for any of the periods presented.

#### FISCAL PERIODS

The Company utilizes a 52/53-week period ending on the Saturday nearest the last day of December. The 52-week period, which ended January 3, 2004, fiscal 2002 was a 53-week period, which ended January 3, 2001, and the 52-week period, which ended December 29, 2001.

#### REVENUE RECOGNITION

The Company recognizes revenue at the time the merchandise is delivered or shipped to its customers. Revenue from sales billed to customers in a sale transaction are included in sales. Revenue from gift cards, gift certificates and other incentives are recognized when redeemed. Provisions for estimated future sales returns are recorded in the period when the sales are recorded. The Company determines the amount of provision based on historical information. Sales discounts and incentives are recorded as a reduction of sales revenue in the period when the related sales are recorded.

#### INVENTORIES

Inventories consist of finished goods merchandise purchased from domestic and foreign vendors and manufacturers or market; cost is determined by the retail inventory method of accounting. Amounts are removed from inventory when sold or otherwise disposed of.

#### DEFERRED RENT

The Company accrues for scheduled rent increases contained in its leases on a straight-line basis over the lease term.

#### STORE OPENING AND CLOSING COSTS

New store opening costs are charged to expense as incurred. Store opening costs primarily include leasehold improvements, operating costs incurred prior to the store opening. Prior to the adoption of Statement of Financial Accounting Standards ("SFAS No. 146"), "Accounting for Costs Associated with Exit or Disposal Activities," in the event a store opening lease has expired, the remaining lease obligation, less anticipated sublease rental income, and a provision for leasehold improvements and fixtures, inventory writedowns, and other miscellaneous closing costs, was provided for. Management determined to close a store.

In fiscal 2001, the Company recorded a pre-tax restructuring and asset impairment charge of \$37.8 million for certain under-performing stores (see Note 3).

The Company has adopted the provisions of SFAS No. 146 for exit or disposal activities, if any, in fiscal 2001. SFAS No. 146 requires the Company to recognize costs associated with exit or disposal activities at the date of a commitment to an exit or disposal plan. Although the Company believes the adoption of SFAS No. 146 will not materially impact the consolidated financial position or results of operations, it can be expected to impact the timing of the recognition of costs associated with future exit activities, if any.

#### FINANCIAL INSTRUMENTS

Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are reflected in the Consolidated Financial Statements at carrying values which approximate fair value due to the short-term nature of these assets and liabilities. The Company's borrowings approximates the fair value based on the current rates available to the Company.

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### CASH AND CASH EQUIVALENTS

Cash equivalents are considered, in general, to be those securities with maturities of three months or less.

### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets (40 years for buildings and 5 to 15 years for furniture, fixtures and equipment). Capitalized leasehold improvements are depreciated on a straight-line basis over their estimated useful lives of 3 to 5 years, beginning in the year

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placed in service. Leasehold improvements are amortized over the shorter of the related lease term or the useful life of the related assets.

Maintenance and repairs are charged directly to expense as incurred. Major renewals or replacements are capitalized and necessary adjustments to the asset and accumulated depreciation accounts of the items renewed or replaced.

### IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including fixed assets and goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, the Company estimates the undiscounted future cash flows expected to be received from the asset and its ultimate disposition. If the sum of the undiscounted cash flows is less than the carrying amount, the Company recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value. Fair value would generally be determined by market value. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

### DEFERRED CHARGES

Deferred charges, principally lease acquisition costs, are amortized on a straight-line basis, generally over the term of the leasehold acquired.

### GOODWILL

Prior to fiscal 2002, the excess of acquisition costs over the fair value of net assets acquired was amortized on a straight-line basis over 32 years. In fiscal 2002, the Company adopted SFAS No. 142, "Goodwill and Intangible Assets," which requires the amortization of goodwill (see Note 6).

### COSTS OF SALES

In addition to the cost of inventory sold, the Company includes its buying and distribution expenses in cost of sales. Distribution expenses include all direct and indirect costs to procure merchandise. Distribution expenses include the Company's distribution centers and freight expense related to transporting merchandise.

### ADVERTISING COSTS

The Company expenses the production costs of advertising at the commencement date of the advertising campaign. Advertising vendor credits, are recorded as a component of selling, general and administrative expenses and amounted to \$49.7 million for fiscal years 2003, 2002 and 2001, respectively.

### INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to estimated taxable income to be realized in the future.

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temporary differences are expected to be recovered or settled. The effect on deferred tax assets statutory tax rates is recognized in income in the period that includes the enactment date.

STOCK-BASED COMPENSATION

The Company grants stock options and restricted stock units for a fixed number of shares to employees. The prices of the stock options are equal to the fair market value of the underlying shares at the date of grant. When the Company adopted the disclosure provisions of Statement No. 123 "Accounting for Stock-Based Compensation" with the provisions of SFAS No. 123, the Company accounts for stock option grants and restricted stock units in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The Company does not recognize compensation expense for stock option grants and amortizes restricted stock unit grants over the specified vesting periods. In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123R "Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123" ("SFAS No. 123R") which amended SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123R and requires disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company continues to account for stock-based compensation in accordance with APB No. 25 and has not adopted the recognition provisions of SFAS No. 123, as amended by SFAS No. 148.

For the fiscal years ended 2003, 2002 and 2001, the Company accounted for stock options using the fair value method under APB No. 25, and accordingly, no compensation cost has been recognized in connection with stock options in the accompanying Consolidated Financial Statements.

The compensation cost that was charged against income for its restricted stock unit grants is \$0.1 million for fiscal years 2003, 2002 and 2001, respectively.

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Set forth below are the Company's net income and net income per share presented "as reported" and "pro forma" and recognized in accordance with the provisions of SFAS No. 123:

(IN MILLIONS, EXCEPT PER SHARE DATA)	FISCAL YEAR ENDED		
	2003	2002	2001
<b>NET INCOME:</b>			
As reported.....	\$74.8	\$69.2	\$29.6
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects.....	10.8	6.8	6.6
Pro forma.....	\$64.0	\$62.4	\$23.0
<b>NET INCOME PER SHARE OF COMMON STOCK:</b>			
<b>Basic:</b>			
As reported.....	\$1.69	\$1.63	\$0.90
Pro forma.....	\$1.45	\$1.47	\$0.80
<b>Diluted:</b>			
As reported.....	\$1.67	\$1.60	\$0.88
Pro forma.....	\$1.43	\$1.44	\$0.78

The effects of applying SFAS No. 123 in this disclosure are not necessarily indicative of future



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The fair value of each stock option grant and restricted stock unit grant is estimated on the date of grant using an option-pricing model using the following assumptions for grants:

FISCAL YEAR ENDED	2003	2002	2001
Expected life (years).....	5.7	6.9	8.0
Expected volatility.....	40.7%	47.4%	49.9%
Risk-free interest rate.....	1.5%	2.2%	3.5%
Expected dividend yield.....	0.0%	0.0%	0.0%

The weighted-average fair value of options granted as of January 3, 2004, January 4, 2003 and December 29, 2001 was \$13.85, \$13.53 and \$15.04, respectively. The weighted-average fair value of restricted stock units granted as of January 3, 2004, January 4, 2003 and December 29, 2001 was \$13.48, \$13.53 and \$15.04, respectively.

### EARNINGS PER SHARE

The Company presents earnings per share on a "basic" and "diluted" basis. Basic earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding adjusted for dilutive common stock equivalents.

The calculation of basic and diluted earnings per share ("EPS") for fiscal 2003, 2002 and 2001 is as follows (in dollars per share amounts):

	Fiscal Year Ended	
	2003	2002
Net income.....	\$ 74,825	\$ 69,246
Average shares outstanding:		
Basic	44,247	42,428
Effect of outstanding stock options and restricted stock unit grants.....	622	886
Diluted.....	44,869	43,314
Earnings per share		
Basic.....	\$ 1.69	\$ 1.63
Diluted.....	\$ 1.67	\$ 1.60

Options for which the exercise price was greater than the average market price of common shares as of December 29, 2002 and 2001 were not included in the computation of diluted earnings per share as the effect would have been antidilutive. The effect would have consisted of options totaling 2,430,000 shares, 1,560,000 shares and 1,495,000 shares, respectively.

### USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. The Company's management believes the following critical accounting estimates and judgments inherent in the preparation of the Consolidated Financial Statements:

**VALUATION OF INVENTORY:** Inventories are valued using the lower of cost or market value, determined using the Retail Inventory Method ("RIM"). Under RIM, the valuation of inventories at cost and the resulting gross margins are calculated using a cost-to-retail ratio to the retail value of inventories. RIM is an averaging method that is used for its practicality. Inherent in RIM calculation are certain significant management judgments and estimates, including merchandise mark-on, mark-up, markdowns and shrinkage based on historical experience between the cost and retail value of which significantly impact the ending inventory valuation at cost. The methodologies utilized

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of RIM are consistent for all periods presented. Such methodologies include the development of the development of shrinkage reserves and the accounting for price changes.

**SALES RETURNS:** The Company estimates future sales returns and records a provision in the period based on historical return rates. Should actual returns differ from the Company's estimates, the

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may be required to revise estimated sales returns. As such, estimating sales returns requires management preferences and quality of products being sold, among other things; therefore, these estimates may vary. The sales returns calculations are regularly compared with actual return experience. In preparing years ended January 3, 2004 and January 4, 2003, the Company's sales returns reserve was approximately \$10.5 million, respectively.

**IMPAIRMENT OF ASSETS:** With the adoption of SFAS No. 142, the Company reviews goodwill for possible impairment. Impairment losses are recognized when the implied fair value of goodwill is less than its carrying amount. The Company evaluates long-lived assets other than goodwill for indicators of impairment. The Company's judgment impairment indicators are based on market conditions and operational performance. Future events could indicate that impairment indicators exist and that the value of long-lived assets and goodwill is impaired. In fiscal 2002, the Company's net value for property and equipment was approximately \$377.2 million and goodwill was \$18.1 million for fiscal years ended 2003 and 2002.

**STORE CLOSURE COSTS:** Prior to the adoption of SFAS No. 146, the Company recorded estimated store closing write-offs, estimated lease commitment costs net of estimated sublease income, markdowns for inventory and other miscellaneous store closing costs, in the period in which management determined to close stores, subject to change should actual costs differ. In fiscal 2001, the Company recorded a pre-tax restructuring charge of \$37.8 million (\$23.7 million after-tax) related to the closing of certain under-performing stores. In fiscal 2002 and January 4, 2003, the Company had \$15.6 million and \$22.2 million, respectively, remaining related to store closures. The Company continues to negotiate the lease buyouts or sublease agreements for these stores and based upon future negotiations, such estimates may be subject to change.

The Company has adopted the provisions of SFAS No. 146 for exit or disposal activities, if any, in fiscal 2002. Although the Company believes the adoption of SFAS No. 146 does not impact the consolidated financial statements, it can be expected to impact the timing of liability recognition associated with future store closures.

**SELF-INSURANCE:** The Company purchases third party insurance for worker's compensation, medical, and disability that exceed certain levels for each type of insurance program. However, the Company is responsible for claims in excess of these insured excess limits. The Company establishes accruals for its insurance programs based on historical trend and experience, as well as loss development factors prepared by third party actuaries. In addition, the Company also considers the nature and severity of the claims, analysis provided by third party actuaries, current legal, economic and regulatory factors.

The Company evaluates the accrual and the underlying assumptions periodically and makes adjustments as necessary. If these claims may be greater than or less than the established accrual. While the Company believes the accruals are adequate, there can be no assurance that changes to management's estimates will not occur due to the estimate process. In the event the Company determines the accruals should be increased or reduced, the Company will make adjustments in the period in which such determination is made.

The accrued obligation for these self-insurance programs was approximately \$13.5 million for fiscal 2002 and \$13.5 million for fiscal year 2002.

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

### 3. RESTRUCTURING AND ASSET IMPAIRMENT CHARGE

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In fiscal 2001, the Company developed and committed to a strategic initiative designed to improve profitability. This initiative called for the closing of certain under-performing stores, which had certain objectives. In connection with this initiative, the Company recorded a pre-tax restructuring and asset impairment charge of \$23.7 million (\$23.7 million after-tax) in the fourth quarter of fiscal 2001. A pre-tax reserve of \$20.5 million was established for estimated lease commitments for stores to be closed. This reserve is included in accrued expenses and other liabilities. Because all of the stores were leased the Company is not responsible for the disposal of fixtures. A pre-tax writedown of \$9.5 million was recorded as a reduction in property and equipment for these stores. The fixed asset impairments represent fixtures and leasehold improvements. A pre-tax reserve of \$2.3 million was established for other estimated miscellaneous store closing costs. Additionally, a pre-tax charge of \$2.5 million was recorded as a cost of sales for estimated inventory markdowns below cost for the stores to be closed. Certain charges were based on estimates and may be subject to change in the future. The Company has closed stores other than one store, whose reserve was

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reversed, and one store, which is expected to be closed during fiscal year 2004.

As of January 3, 2004 the Company has \$15.6 million remaining in the 2001 restructuring and asset impairment reserve. The following table displays a roll forward of the activity for fiscal years 2003 and 2002, and the significant activity for 2004 (\$ in millions):

	REMAINING AT 12/29/01	FISCAL 2002 USAGE	REMAINING AT 1/04/03	FISCAL 2003 USAGE
Lease commitments	\$20.5	\$(1.1)	\$19.4	\$(3.8)
Other	4.0	(1.2)	2.8	(2.8)
<b>Total</b>	<b>\$24.5</b>	<b>\$(2.3)</b>	<b>\$22.2</b>	<b>\$(6.6)</b>

The 2003 activity primarily consists of payments for lease commitments and miscellaneous store closing costs. The 2002 activity includes the reversal of estimated lease commitment and other store closing costs of \$2.3 million. In addition, changes in estimates to lease commitment costs based on current negotiations has resulted in a reversal of lease commitment costs of \$2.5 million during fiscal 2003. The 2002 usage primarily consisted of the reversal of lease commitment costs and other miscellaneous closing costs. The deductions to the reserve balance during 2001 included fixed asset impairments of \$9.5 million and store inventory markdowns taken totaling \$3.8 million.

4. ACCOUNTS RECEIVABLE

ACCOUNTS RECEIVABLE CONSISTED OF THE FOLLOWING (IN THOUSANDS):	FISCAL YEAR ENDED	
	2003	2002
Credit card settlements due.....	\$24,070	\$19,010
Due from landlords and vendors.....	28,765	18,460
Other.....	2,951	3,680
	<b>\$55,786</b>	<b>\$41,160</b>

The Company has typically not provided an allowance for doubtful accounts for these receivables, which is insignificant.

5. PROPERTY AND EQUIPMENT

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PROPERTY AND EQUIPMENT CONSISTED OF THE FOLLOWING (IN THOUSANDS):	FISCAL YEAR ENDED	
	2003	2002
Land	\$ 400	\$ 43
Building.....	4,760	4,76
Furniture, fixtures and equipment..	457,403	404,83
Leasehold improvements.....	130,334	113,46
Computer software.....	21,487	14,88
	-----	-----
	614,384	538,37
Less:		
Accumulated depreciation and amortization .....	237,140	189,93
	-----	-----
	\$377,244	\$348,44
	-----	-----

6. GOODWILL AND OTHER INTANGIBLE ASSETS - ADOPTION OF SFAS NO. 142

In fiscal 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") which requires the Company no longer amortizes its goodwill. SFAS No. 142 requires an initial goodwill impairment assessment and subsequent annual impairment tests thereafter. The Company completed the impairment test of goodwill for 2003 and 2002 and there was no impairment of goodwill.

Set forth below are the Company's net income and net income per share "as reported" and as if amortization of goodwill had not been expensed in accordance with the provisions of SFAS No. 142 (\$ in thousands,

	FISCAL YEAR ENDED		
	2003	2002	2001
Reported net income.....	\$74,825	\$69,246	\$29,7
Add back: goodwill amortization.....	--	--	5
	-----	-----	-----
Adjusted net income....	\$74,825	\$69,246	\$30,2
	=====	=====	=====
Basic earnings per share:			
Reported net income....	\$ 1.69	\$ 1.63	\$ 0.
Goodwill amortization .....	--	--	0.
	-----	-----	-----
Adjusted net income....	\$ 1.69	\$ 1.63	\$ 0.
	=====	=====	=====
Diluted earnings per share:			
Reported net income....	\$ 1.67	\$ 1.60	\$ 0.
Goodwill amortization....	--	--	0.
	-----	-----	-----
Adjusted net income....	\$ 1.67	\$ 1.60	\$ 0.
	=====	=====	=====

7. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

ACCOUNTS PAYABLE

The Company maintains a trade payables program with General Electric Capital Corporation ("GECC")

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participating Company suppliers the amount due from the Company in advance of the original due date of the payment, these suppliers accept a discounted payment. On the original due date of the payables, the amount. Pursuant to the agreement any favorable economics realized by GECC for transactions under the Company. At January 3, 2004 and January 4, 2003, the Company owed approximately \$66.2 million and

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million, respectively, to GECC under this program. These balances are included in the Company's accounts payable. If the Company terminate the program for any reason after giving 30 days of prior written notice. The maximum amount of cash available was \$95 million as of January 3, 2004.

In addition, included in accounts payable are amounts for gift card liabilities of \$27.5 million as of January 3, 2004 and January 4, 2003, respectively.

ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES CONSISTED OF THE FOLLOWING (IN THOUSANDS):	FISCAL YEAR ENDED	
	2003	2002
Other taxes payable.....	\$27,513	\$31,359
Income taxes payable.....	15,828	22,894
Restructuring reserve.....	15,625	22,208
Salaries and employee benefits...	21,547	19,474
Other.....	93,489	67,848
	<u>\$174,002</u>	<u>\$163,783</u>

Included in "other" are miscellaneous store operating and corporate office accrued expenses.

8. SHORT-TERM BORROWING ARRANGEMENTS

In June 2002, the Company amended and extended its \$150 million senior revolving credit facility with third party institutional lenders to expire April 20, 2005. The Credit Agreement allows for the addition of up to \$26 million of additional lines of credit outside of the Credit Agreement. As of January 3, 2004, the Company has committed facilities of approximately \$26 million that expire on June 16, 2004 and are subject to a floating interest rate. Interest on all borrowings is determined based upon several alternative rates, including a fixed rate. The Credit Agreement contains certain financial covenants, including those relating to the maintenance of a minimum fixed charge coverage ratio, and a maximum leverage ratio. As of January 3, 2004, the Company is in compliance with the terms of the Credit Agreement. The Credit Agreement limits, among other things, the amount of cash dividends that the Company may pay. Under the Credit Agreement, the amount of dividends that the Company may pay may not exceed the amount of cash on hand on a cumulative basis an amount equal to 50% of the consolidated net income for each fiscal quarter, ending March 30, 2002. The Company has never paid cash dividends and does not currently anticipate paying dividends in the future. The Company is required under the Credit Agreement to reduce the balance of outstanding debt to a certain percentage of consecutive days during each period beginning on December 1st of any fiscal year and ending on March 31st of the following year. At various times throughout 2003 and 2002, the Company borrowed against its credit facility to meet its working capital needs. As of January 3, 2004, the Company had no borrowings under the Credit Agreement and no borrowings outstanding. The Company also had \$47.2 million of letters of credit outstanding as of January 3, 2004. The letters of credit issued primarily under the Credit Agreement and import letters of credit used for merchandise are not obligated under any formal or informal compensating balance requirements.

9. DEFERRED INCOME TAXES AND OTHER LONG-TERM LIABILITIES

DEFERRED INCOME TAXES AND OTHER LONG-TERM LIABILITIES CONSISTED	FISCAL YEAR ENDED
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OF THE FOLLOWING (IN THOUSANDS):	2003	2002
Deferred income taxes.....	\$68,711	\$47,218
Deferred rent.....	30,712	28,111
Other.....	7,973	6,940
	\$107,396	\$82,269

10. LEASES

The Company has non-cancelable operating leases, primarily for retail stores, which expire through 2008 and contain renewal options for periods ranging from 5 to 15 years and require the Company to pay costs for common area maintenance. Contingent rentals are paid based on a percentage of net sales as defined in the lease agreements. The expense for all operating leases was as follows (in thousands):

	FISCAL YEAR ENDED		
	2003	2002	2001
Minimum rentals.....	\$217,155	\$193,363	\$158,614
Contingent rentals.....	34	128	184
	217,189	193,491	158,798
Less: sublease rentals...	2,903	3,128	2,032
	\$214,286	\$190,363	\$156,766

At fiscal year end 2003, the future minimum rental payments required under operating leases and excluding lease obligations for closed stores and the one remaining store planned to be closed and asset impairment charge were as follows (in thousands):

Fiscal Year	
2004 .....	\$ 221,460
2005 .....	217,649
2006 .....	210,470
2007 .....	209,160
2008 .....	208,771
Thereafter .....	1,260,639
	\$2,328,149
Total future minimum sublease rentals....	\$ 31,207

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In addition, as of January 31, 2004, the Company had fully executed leases for 54 stores planned to open in 2005, for which aggregate minimum rental payments over the term of the leases is approximately \$3

The Company also has assigned property at a retail location in which the Company guarantees the p

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lease term in the event of non-performance. As of January 3, 2004, the maximum potential amount to be required to make under such guarantee is approximately \$1.1 million.

### 11. STOCK INCENTIVE PLANS

The Company has in effect the 2000 Stock Award and Incentive Plan (the "2000 Plan") and the Broad-Based Equity Plan (the "Plans"). The 2000 Plan provides for the granting of options, restricted stock unit grants and awards (collectively, "awards") to key employees and non-officer directors. The 2000 Plan replaced both the 1996 Compensation Plan (the "1996 Plan") and the 1996 Non-Employee Directors' Stock Plan (the "Directors' Plan"). Awards are made under the 1996 Plan and the Directors' Plan, although outstanding awards under the 1996 Plan will continue to be in effect. Under the 2000 Plan, an aggregate of 2,000,000 shares (plus any shares granted under the 1996 Plan and the Directors' Plan which become available for further grants) was authorized for issuance. Under the Broad-Based Equity Plan, a total of 4,000,000 shares was authorized for issuance of awards to regular and senior executive officers).

Stock options under the Plans are granted with exercise prices at the fair market value of the underlying stock at the grant date. The right to exercise options generally commences one to five years after the grant date, seven to ten years after the grant date. Restrictions on restricted stock unit grants lapse over a period of one to five years. Restricted stock unit grants are considered outstanding as of the grant date for purposes of computing basic EPS. Restricted stock unit grants are considered outstanding upon vesting for purposes of computing basic EPS.

At fiscal year end 2003, no restricted stock unit grants were outstanding under the 1996 Plan and the Directors' Plan. In 2003, 3,995 restricted stock unit grants were released, no restricted stock unit grants were awarded and no restricted stock unit grants were canceled under the 1996 Plan and the Directors' Plan.

At fiscal year end 2003, 18,000 restricted stock unit grants were outstanding under the 2000 Plan. In 2003, 21,000 restricted stock unit grants were released, 21,000 restricted stock unit grants were awarded and 21,000 restricted stock unit grants were canceled.

At fiscal year end 2003, 31,825 restricted stock unit grants were outstanding under the Broad-Based Equity Plan. In 2003, 31,825 restricted stock unit grants were released, no restricted stock unit grants were awarded and no restricted stock unit grants were canceled.

At fiscal year end 2003, 1,513,120 stock options were outstanding under the 1996 Plan. During 2003, 390,917 stock options were exercised, 76,185 stock options were canceled, and 1,374,424 stock options were granted under the 1996 Plan.

At fiscal year end 2003, 48,800 stock options were outstanding under the Directors' Plan. During 2003, no stock options were exercised, no stock options were canceled, and 48,800 stock options were granted under the Directors' Plan.

At fiscal year end 2003, 1,559,771 stock options were outstanding under the 2000 Plan. During 2003, 125,490 stock options were exercised, 146,935 stock options were canceled, and 802,000 stock options were granted under the 2000 Plan.

At fiscal year end 2003, 2,194,133 stock options were outstanding under the Broad-Based Equity Plan. During 2003, 201,245 stock options were exercised, 147,277 stock options were canceled, and 2,194,133 stock options were granted under the Broad-Based Equity Plan.

The following tables summarize information about stock option transactions for the Plans, the 1996 Plan, the 2000 Plan, and the Broad-Based Equity Plan.

	NUMBER OF SHARES	WEIGHTED -AVERAGE EXERCISE PRICE
=====		
Balance at December 29, 2001	4,422,633	\$22.91
Options granted	1,291,395	\$24.03
Options exercised	129,472	\$18.89
Options canceled	237,308	\$24.57
-----		

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Balance at January 4, 2003	5,347,248	\$23.21
Options granted	1,056,625	\$27.13
Options exercised	717,652	\$17.70
Options canceled	370,397	\$23.19
Balance at January 3, 2004	5,315,824	\$24.72
=====		
Options Exercisable as of:		
December 29, 2001	1,480,783	\$21.08
January 4, 2003	2,273,230	\$22.62
January 3, 2004	3,102,033	\$25.06
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OPTIONS OUTSTANDING			
RANGE OF EXERCISE PRICE	OUTSTANDING AS OF JANUARY 3, 2004	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	
		WEIGHTED-AVERAGE EXERCISE PRICE	
\$7.75 - \$19.50	1,053,060	6.7	\$17.20
\$19.51 - \$24.37	1,802,124	6.3	\$22.64
\$24.38 - \$29.25	1,073,570	6.9	\$27.42
\$29.26 - \$48.75	1,387,070	5.5	\$31.06
Total	5,315,824	6.3	\$24.72

OPTIONS EXERCISABLE		
RANGE OF EXERCISE PRICE	OUTSTANDING AS OF JANUARY 3, 2004	WEIGHTED-AVERAGE EXERCISE PRICE
\$7.75 - \$19.50	676,996	\$16.30
\$19.51 - \$24.37	757,352	\$22.04
\$24.38 - \$29.25	478,807	\$27.51
\$29.26 - \$48.75	1,188,878	\$30.98
Total	3,102,033	\$25.06

12. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) savings plan. Company contributions to the plan amounted to approximately \$2.4 million for fiscal years 2003, 2002 and 2001, respectively.

Effective July 1, 1999, the Company established a defined benefit Supplemental Executive Retirement Plan in part is funded with the cash surrender values of certain life insurance policies, provides eli



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pension benefits, in addition to amounts received under the Company's other retirement plan. Upon termination of employment with the Company, eligible participants will be entitled to the benefit beginning at or after age 55. The Company recorded expenses related to the SERP of approximately fiscal years 2003, 2002 and 2001, respectively. Included in fiscal 2003 SERP expense is \$784,000 for a former executive.

### 13. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of assets and liabilities were as follows (in thousands):

Fiscal Year Ended	2003	2002
-----		
DEFERRED TAX ASSETS:		
Employee benefits.....	\$5,020	\$3,596
Lease termination costs.	5,905	7,012
Other.....	4,916	5,382
	-----	-----
TOTAL DEFERRED TAX ASSETS.....	15,841	15,990
DEFERRED TAX LIABILITIES:		
Inventories.....	\$26,260	\$11,727
Property and equipment.....	72,756	48,810
	-----	-----
Total deferred tax liabilities.....	99,016	60,537
	-----	-----
NET DEFERRED TAX LIABILITY.....	\$83,175	\$44,547
	=====	=====

At January 3, 2004 and January 4, 2003, the net deferred tax liability was included in the Company's balance sheet as follows (in thousands):

	2003	2002
-----		
Current deferred taxes.....	\$(14,464)	\$ 2,671
Deferred income taxes.....	(68,711)	(47,218)
	-----	-----
NET DEFERRED TAX LIABILITY.....	\$ 83,175	\$ 44,547
	=====	=====

Based on the anticipated reversal of deferred tax liabilities and the Company's historical and current experience, the Company believes it is more likely than not that the Company will realize the deferred tax assets. Accordingly, the provision against deferred tax assets is considered necessary.

The provision for income taxes comprised the following for:

	FISCAL YEAR ENDED		
(IN THOUSANDS):	2003	2002	2001
-----			
CURRENT:			
U.S. Federal.....	\$ 5,636	\$ 9,140	\$21,726
U.S. State.....	586	1,117	2,728
Non-U.S. ....	1,402	--	432
	-----	-----	-----
	7,624	10,257	24,886
	-----	-----	-----
DEFERRED:			
U.S. Federal.....	33,933	29,524	(5,917)
U.S. State.....	4,433	3,790	(759)

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Non-U.S. ....	262	(798)	651
	-----	-----	-----
	38,628	32,516	(6,025)
	-----	-----	-----
TOTAL	\$46,252	\$42,773	\$18,861
	=====	=====	=====

The Company has not provided for Federal income tax on the undistributed income of its foreign subsidiaries and it intends to permanently reinvest such income.

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The following is a reconciliation between the statutory Federal income tax rate and the effective tax rate:

	FISCAL YEAR ENDED		
	2003	2002	2001
Effective tax rate.....	38.2%	38.2%	38.8%
State income taxes, net of Federal benefit.....	(2.7)	(2.8)	(2.6)
Goodwill.....	--	--	(0.6)
Other.....	(0.5)	(0.4)	(0.6)
	-----	-----	-----
Statutory Federal income tax rate.....	35.0%	35.0%	35.0%

14. COMMITMENTS AND CONTINGENCIES

The Company is involved in various claims and legal actions arising in the ordinary course of business management, with the exception of the matter discussed in the next paragraph which was settled in the disposition of these matters is not expected to have a material adverse effect on the Company's results of operations or liquidity.

In fiscal 2001, the Company recorded a pre-tax charge of \$4.0 million (\$2.5 million after-tax) re California litigation in which the court certified the case as a class action on behalf of certain employees located in California seeking overtime pay, together with class action claims on behalf of certain employees for vacation pay. The Company admitted no liability in connection with this settlement. Payment of this charge was completed in fiscal 2002.

15. SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

	(IN THOUSANDS, EXCEPT PER SHARE DATA)	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FISCA YEAR
NET SALES						
2003 .....	\$480,471	\$523,672	\$602,816	\$788,313	\$2,395,000	
2002 .....	\$456,911	\$461,918	\$542,565	\$723,322	\$2,184,000	
GROSS PROFIT						
2003 .....	192,841	213,698	241,948	316,363	964,000	
2002 .....	176,850	188,998	217,139	290,359	873,000	

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NET INCOME					
2003 .....	2,078	5,704	20,980	46,063	74,
2002 .....	5,140	5,586	18,280	40,240	69,

NET INCOME PER SHARE					
Basic(1)					
-----					
2003 .....	\$ 0.05	\$ 0.13	\$ 0.47	\$ 1.03	\$ 1
2002 .....	\$ 0.13	\$ 0.14	\$ 0.42	\$ 0.91	\$ 1
Diluted(1)					
-----					
2003 .....	\$ 0.05	\$ 0.13	\$ 0.47	\$ 1.02	\$ 1
2002 .....	\$ 0.12	\$ 0.13	\$ 0.41	\$ 0.90	\$ 1

1 Net income per share amounts for each quarter are required to be computed independently and may not equal the amount computed for the fiscal year.

16. MARKET INFORMATION (UNAUDITED)

The Company's common stock is listed on the New York Stock Exchange. Its trading symbol is LIN. A 12,203 beneficial shareholders. The high and low trading price of the Company's common stock for

For Fiscal 2003		
-----		
	High	Low
	-----	-----
First Quarter.....	\$23.98	\$19.49
Second Quarter.....	\$24.93	\$19.27
Third Quarter.....	\$29.31	\$23.78
Fourth Quarter.....	\$30.45	\$24.64
For Fiscal 2002		
-----		
	High	Low
	-----	-----
First Quarter.....	\$32.55	\$24.17
Second Quarter.....	\$37.35	\$28.60
Third Quarter.....	\$32.70	\$18.09
Fourth Quarter.....	\$25.44	\$15.05

The Company paid no dividends on its common stock in fiscal 2003 and 2002. Management of the Company uses its earnings to finance the growth and development of its business and does not currently anticipate paying dividends in the foreseeable future. The payment of any future dividends will be at the discretion of the Company and will depend upon, among other things, the future earnings, operations, capital requirements and financial condition of the Company, satisfying all requirements under its bank financing agreement and such other factors as the Company's management consider relevant. In addition, the Company's credit facility currently limits the amount of cash

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The integrity and objectivity of the financial statements and related financial information in the

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the management of the Company. The financial statements have been prepared in conformity with generally accepted accounting principles and include, when necessary, the best estimates and judgments of management.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization, and the financial statements are prepared on a reasonable basis for the preparation of the financial statements. The system of internal accounting controls is reviewed with management and improved and modified as necessary in response to changing business conditions. The Company's independent auditors.

The Audit Committee of the Board of Directors, consisting solely of independent directors, meets regularly with the independent auditors to review matters relating to the Company's financial reporting, the adequacy of internal controls and the scope and results of audit work. Deloitte & Touche LLP, which assists the Company, and KPMG LLP, the Company's independent auditors, have free access to the Audit Committee.

KPMG LLP, certified public accountants, is engaged to audit the consolidated financial statements and prepare the Auditors' Report, which is based on an audit made in accordance with auditing standards generally accepted in the United States of America, expresses an opinion as to the fair presentation of these financial statements.

/s/ Norman Axelrod

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Norman Axelrod  
Chairman and Chief Executive Officer

/s/ William T. Giles

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William T. Giles  
Executive Vice President, Chief Financial Officer

February 4, 2004

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### INDEPENDENT AUDITORS' REPORT

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To the Board of Directors and Shareholders  
Linens 'n Things, Inc.

We have audited the accompanying consolidated balance sheets of Linens 'n Things, Inc. and Subsidiaries as of January 4, 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for the three-year period ended January 3, 2004. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material aspects, the financial position of Linens 'n Things, Inc. and Subsidiaries as of January 3, 2004 and January 4, 2003, and their cash flows for each of the years in the three-year period ended January 3, 2004 in conformity with the accounting principles generally accepted in the United States of America.

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As discussed in Note 6 to the consolidated financial statements, in fiscal 2002, the Company adopted Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

/s/ KPMG LLP

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KPMG LLP

New York, New York

February 4, 2004

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