

LINENS N THINGS INC  
Form 10-Q  
November 13, 2001

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 29, 2001**

**1-12381**

Commission File Number

**Linens n Things, Inc.**

(Exact Name of Registrant as Specified in Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation)

**22-3463939**

(I.R.S. Employer Identification Number)

**6 Brighton Road, Clifton, New Jersey**

(Address of Principal Executive Offices)

**07015**

(Zip Code)

Registrant's telephone number, including area code

**(973) 778-1300**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by 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  No

Number of shares outstanding of the issuer's Common Stock:

**Class**  
Common Stock, \$0.01 par value

**Outstanding at November 6, 2001**  
40,617,437

**INDEX**

**Part I. Financial Information**

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(unaudited) and September 30, 2000 (unaudited)

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## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

LINENS N THINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share amounts)  
(Unaudited)

	Thirteen Weeks Ended		Thirty-Nin
	September 29, 2001	September 30, 2000	September 29, 2001
Net sales	\$ 468,944	\$ 410,371	\$1,235,904
Cost of sales, including buying and warehousing costs	278,710	244,285	732,807
Gross profit	190,234	166,086	503,097
Selling, general and administrative expenses	165,398	135,576	461,495
Litigation provision	-	-	4,000
Operating profit	24,836	30,510	37,602
Interest income	-	-	(26)
Interest expense	1,045	663	2,828
Interest expense, net	1,045	663	2,802

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Income before provision for income taxes	23,791	29,847	34,800
Provision for income taxes	9,086	11,441	13,293
Net income	<u>\$ 14,705</u>	<u>\$ 18,406</u>	<u>\$ 21,507</u>
Per share of common stock:			
Basic			
-----			
Net income per share	\$0.36	\$0.46	\$0.53
Weighted average shares outstanding	40,555	39,965	40,471
Diluted			
-----			
Net income per share	\$0.36	\$0.45	\$0.52
Weighted average shares outstanding	41,099	40,811	41,232

See accompanying notes to consolidated financial statements.

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LINENS N THINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share amounts)

	September 29, 2001	December 20
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,633	\$
Accounts receivable, net	38,371	
Inventories	561,504	
Prepaid expenses and other current assets	34,103	
Total current assets	642,611	
Property and equipment, net	310,962	
Goodwill, net	18,339	
Deferred charges and other noncurrent assets, net	9,298	
Total assets	<u>\$ 981,210</u>	<u>\$</u>
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	\$ 227,626	\$
Accrued expenses and other current liabilities	120,501	
Short-term borrowings	76,611	
Total current liabilities	424,738	
Deferred income taxes and other long-term liabilities	66,782	

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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; 40,848,324 shares issued and 40,604,655 shares outstanding at September 29, 2001; 40,173,441 shares issued and 40,059,126 shares outstanding at December 30, 2000; 40,074,906 shares issued and 39,968,429 shares outstanding at September 30, 2000	408	
Additional paid-in capital	244,791	
Retained earnings	251,693	
Accumulated other comprehensive (loss) income	(335)	
Treasury stock, at cost, 243,669 shares at September 29, 2001; 114,315 shares at December 30, 2000; and 106,477 shares at September 30, 2000	(6,867)	
Total shareholders equity	489,690	
Total liabilities and shareholders equity	\$ 981,210	\$

See accompanying notes to consolidated financial statements.

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### LINENS N THINGS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

	Thirty-Nine Weeks Ended	
	September 29, 2001	Sept
	(Unaudited)	
Cash flows from operating activities:		
<hr style="border-top: 1px dashed black;"/>		
Net income	\$ 21,507	
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	29,233	
Deferred income taxes	4,561	
Loss on disposal of assets	841	
Federal tax benefit from common stock exercised under stock incentive plans	3,650	
Changes in assets and liabilities:		
Increase in accounts receivable, net	(6,888)	
Increase in inventories	(125,018)	
(Increase) decrease in prepaid expenses and other current assets	(7,663)	
Increase in deferred charges	(2,136)	
Increase in accounts payable	44,318	
Increase in accrued expenses and other liabilities	6,477	

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Net cash (used in) provided by operating activities	(31,118)
Cash flows from investing activities:	
-----	
Additions to property and equipment	(77,994)
Cash flows from financing activities:	
-----	
Proceeds from stock options exercised under stock incentive plans	9,600
Purchase of treasury stock	(3,437)
Increase in short-term borrowings	73,052
Net cash provided by financing activities	79,215
Effect of exchange rate changes on cash and cash equivalents	6
Net decrease in cash and cash equivalents	(29,891)
Cash and cash equivalents at beginning of year	38,524
Cash and cash equivalents at end of period	\$ 8,633
-----	=====

See accompanying notes to consolidated financial statements.

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

1. Basis of Presentation

The accompanying consolidated financial statements, except for the December 30, 2000 consolidated balance sheet, are unaudited. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of the Company as of September 29, 2001 and the results of operations for the respective thirteen and thirty-nine weeks then ended and cash flows for the thirty-nine weeks then ended. Because of the seasonality of the specialty retailing business, operating results of the Company on a quarterly basis may not be indicative of operating results for the full year.

These consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 30, 2000, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. All significant intercompany accounts and transactions have been eliminated.

The December 30, 2000 consolidated balance sheet amounts have been derived from the Company's audited consolidated balance sheet amounts.

2. Earnings Per Share

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

	Periods ended September 29, 2001 (in thousands, except (Unaudited))		
	Thirteen week period		
	-----	-----	-----
Income	Shares	EPS	Inc

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Basic	\$14,705	40,555	\$0.36	\$2
Effect of outstanding stock options and deferred stock grants	--	544		
Diluted	\$14,705	41,099	\$0.36	\$2

Periods ended September 30  
(in thousands, except  
(Unaudited))

Thirteen week period

	Income	Shares	EPS	Inc
Basic	\$18,406	39,965	\$0.46	\$3
Effect of outstanding stock options and deferred stock grants	--	846		
Diluted	\$18,406	40,811	\$0.45	\$3

Options for which the exercise price was greater than the average market price of common shares for the period ended September 29, 2001 and September 30, 2000 were not included in the computation of diluted earnings per share. These consisted of options totaling 1,592,000 shares and 1,479,000 shares for the thirteen weeks and 1,433,000 shares and 1,600,000 shares for the thirty-nine weeks ended September 29, 2001 and September 30, 2000, respectively. Deferred stock grants excluded in the computation of diluted earnings per share due to the application of the treasury stock method totaled 23,000 shares and 13,000 shares for the thirteen weeks and 17,000 shares and 20,000 shares for the thirty-nine weeks ended September 29, 2001 and September 30, 2000, respectively.

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### 3. Short-Term Borrowing Arrangements

The Company has available a three-year, \$150 million senior revolving credit facility agreement (the "Credit Agreement") with third party institutional lenders expiring October 20, 2003. The Credit Agreement also allows for up to \$40 million of borrowings from uncommitted lines of credit outside of the Credit Agreement. Interest on all borrowings is based upon several alternative rates as stipulated in the Credit Agreement, including a fixed rate plus LIBOR based rate. The Credit Agreement contains certain financial covenants, including those relating to the maintenance of a minimum tangible net worth, a minimum fixed charge coverage ratio, and a maximum leverage ratio. As of September 29, 2001, the Company was in compliance with its covenants under the Credit Agreement. In addition, the Credit Agreement contains a covenant that limits the amount of cash dividends. According to this covenant, the amount of dividends shall not exceed the sum of \$50 million plus on a cumulative basis an amount equal to 50% of the consolidated net income for each fiscal quarter, commencing with the fiscal quarter ending September 30, 2000. The Company has never made any dividend payments. As of September 29, 2001, the Company had \$58.5 million in borrowings under the Credit Agreement and \$18.1 million in borrowings against the uncommitted lines of credit at a weighted average interest rate of 4.2%. The Company also had \$23.9 million of letters of credit outstanding as of September 29, 2001, which were primarily used for merchandise purchases.

### 4. Comprehensive Income

Comprehensive income for the thirteen weeks and thirty-nine weeks ended September 29, 2001 and September 30, 2000 is as follows:

	Thirteen Weeks Ended	
	September 29, 2001	September 30, 2000
Comprehensive Income:		
Net Income	\$14,705	\$18,406
Other comprehensive loss--		

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Foreign currency translation adjustment	(243)	(142)
Comprehensive income	\$14,462	\$18,264

### 5. Recent Accounting Pronouncements

The Company has adopted Statement of Financial Standards ( SFAS ) No. 133 Accounting for Derivative Instruments and Hedging Activities ( SFAS No. 133 ). This statement was effective the first quarter of fiscal years beginning after June 15, 2000. For the Company, implementation was required for the first quarter of fiscal 2001. The Company has determined the implementation of SFAS No. 133 did not have a significant effect on its results of operations or financial position.

At a recent FASB Emerging Issues Task Force ( EITF ) meeting, a consensus was reached with respect to the issue of Accounting for Certain Sales Incentives, including point of sale coupons, rebates and free merchandise. The consensus included a conclusion that the value of such sales incentives that result in a reduction of the price paid by the customer should be netted against sales and not classified as a sales or marketing expense. In April 2001, the EITF delayed the effective date for this consensus to 2002. The Company already includes such sales incentives against sales and records free merchandise in cost of goods sold as required by the new EITF consensus.

In July 2001, the FASB issued SFAS No. 141, Business Combinations ( SFAS No. 141 ), which supercedes Accounting Principles Board (APB) Opinion No. 16, Business Combinations . SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase method. The provisions of this statement apply to all business combinations initiated after June 30, 2001. The Company has determined that the implementation of SFAS No. 141 will impact only future acquisitions, if any.

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In July 2001, the FASB issued SFAS No. 142, Goodwill and Intangible Assets ( SFAS No. 142 ), which supercedes APB Opinion No. 17, Intangible Assets . SFAS No. 142 eliminated the current requirement to amortize goodwill and intangible assets with indefinite useful lives, addresses the amortization of intangible assets with finite useful lives and addresses the impairment testing and recognition for goodwill and intangible assets. SFAS No. 142 is required for fiscal years beginning after December 15, 2001. The Company is currently assessing SFAS No.142 and has not yet determined its impact to the Company s consolidated financial statements.

### 6. Litigation

The Company was named as a defendant in California litigation in which the court certified the case as a class action on behalf of certain managers of Company stores located in California seeking overtime pay and former employees seeking accrued vacation pay. On October 24, 2001, the court gave preliminary approval to the settlement that had been reached in the case. The Company has admitted no liability in connection with this settlement. In the second quarter of fiscal 2001, the Company had recorded a charge of \$4.0 million related to the payments, attorneys fees, and expenses of implementing the settlement.

### 7. Reclassification

Certain reclassifications were made to the fiscal 2000 consolidated financial statements in order to conform to the fiscal year 2001 presentation.

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### Independent Auditors' Review Report

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

We have reviewed the consolidated balance sheets of Linens n Things, Inc. and subsidiaries as of September 29, 2001 and September 30, 2000, and the related consolidated statements of operations for the thirteen and thirty-nine week periods then ended and the related consolidated statements of cash flows for the thirty-nine week periods ended September 29, 2001 and September 30, 2000. These consolidated financial statements are the responsibility of the Company s management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical review procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards

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generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Linens n Things, Inc. and subsidiaries as of December 30, 2000 and the related consolidated statements of operations, shareholders equity, and cash flows for the year then ended (not presented herein); and in our report dated January 31, 2001 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 30, 2000, is fairly presented, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

KPMG LLP

New York, New York  
October 17, 2001

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

#### **LINENS N THINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the consolidated financial statements of the Company and the notes thereto appearing elsewhere in this document.

#### Results of Operations

#### Thirteen Weeks Ended September 29, 2001 Compared with Thirteen Weeks Ended September 30, 2000

Net sales increased 14.3% to \$468.9 million for the thirteen weeks ended September 29, 2001, up from \$410.4 million for the same period in 2000, primarily as a result of new store openings since September 30, 2000. Comparable store net sales for the thirteen weeks ended September 29, 2001 declined 4.8% as compared with an increase of 4.0% for the same period last year. The decline in comparable store net sales in the third quarter of fiscal 2001 can be primarily attributed to a decline in consumer traffic due to the slowing economy and the impact from the terrorist attacks of September 11, 2001 through the end of the quarter.

During the thirteen weeks ended September 29, 2001, the Company opened 25 stores, compared with opening 23 stores during the same period last year. At September 29, 2001, the Company operated 329 stores, compared with 267 stores, at September 30, 2000. Store square footage increased 24.1% to 11,485,000 at September 29, 2001 compared with 9,255,000 at September 30, 2000.

In addition to the cost of inventory sold, the Company includes its buying and distribution expenses in its cost of sales. Buying expenses include all direct and indirect costs to procure merchandise. Distribution expenses include the cost of operating the Company's distribution centers and freight expense related to transporting merchandise. Gross profit for the thirteen weeks ended September 29, 2001 was \$190.2 million or 40.6% of net sales, compared with \$166.1 million or 40.5% of net sales, for the same period last year. The increase in gross profit as a percent of net sales was primarily due to improved mark-on as a result of product mix and the increased penetration of the Company's proprietary product. In addition, freight expense as a percentage of net sales declined from the prior year as a result of a reduction in the volume of inventory receipts in response to sales trends.

The Company's selling, general and administrative (SG&A) expenses consist of store selling expenses, occupancy costs, advertising expenses and corporate office expenses. SG&A expenses for the thirteen weeks ended September 29, 2001 were \$165.4 million, or 35.3% of net sales, compared with \$135.6 million, or 33.0% of net sales, for the same period last year. The Company experienced de-leveraging in its operating expenses, primarily occupancy costs, reflecting decreased sales volume. However, this increase was partially offset by the leverage of corporate office expenses.



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Operating profit for the thirteen weeks ended September 29, 2001 was \$24.8 million, or 5.3% of net sales, compared with \$30.5 million, or 7.4% of net sales, for the same period last year.

The Company incurred net interest expense of \$1.0 million (including amortization of commitment fees in connection with the Company's \$150 million credit agreement) for the thirteen weeks ended September 29, 2001, compared with \$0.7 million for the same period in fiscal 2000. The higher interest expense is primarily due to an increase in short-term borrowings to fund the Company's operations.

The Company's income tax expense for the thirteen weeks ended September 29, 2001 was \$9.1 million as compared with \$11.4 million for the same period last year. The Company's effective tax rate was 38.2% for the thirteen weeks ending September 29, 2001 as compared with 38.3% for the same period in fiscal 2000.

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### **LINENS N THINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

As a result of the factors described above, net income for the thirteen weeks ended September 29, 2001 was \$14.7 million, or \$0.36 per share on a fully diluted basis, compared with \$18.4 million, or \$0.45 per share on a fully diluted basis, for the same period last year.

#### **Thirty-Nine Weeks Ended September 29, 2001 Compared with Thirty-Nine Weeks Ended September 30, 2000**

Net sales increased 14.8% to \$1,235.9 million for the thirty-nine weeks ended September 29, 2001, up from \$1,077.0 million for the same period in 2000, primarily as a result of new store openings since September 30, 2000. Comparable store net sales for the thirty-nine weeks ended September 29, 2001 declined 3.5% as compared with an increase of 4.3% for the same period last year. The decline in comparable store net sales can be primarily attributed to a decline in consumer traffic as a result of the slowing economy.

During the thirty-nine weeks ended September 29, 2001, the Company opened 48 stores and closed two stores, compared with opening 40 stores and closing three stores during the same period last year.

Gross profit for the thirty-nine weeks ended September 29, 2001 was \$503.1 million, or 40.7% of net sales, compared with \$434.1 million, or 40.3% of net sales, for the same period last year. The increase in gross profit as a percentage of net sales was principally due to improved mark-on as a result of product mix and the increased penetration of the Company's proprietary product. In addition, freight expense as a percentage of net sales declined from the prior year as a result of a reduction in the volume of inventory receipts in response to sales trends.

SG&A expenses for the thirty-nine weeks ended September 29, 2001 were \$461.5 million, or 37.3% of net sales, compared with \$383.5 million, or 35.6% of net sales, for the same period last year. This increase as a percentage of net sales is attributable to the de-leveraging in the Company's operating expenses primarily occupancy costs, reflecting decreased sales volume. However, the increase was partially offset by the leverage of corporate office expenses.

The Company recorded a charge of \$4.0 million in the second quarter of fiscal 2001 in connection with the claims arising in a class action lawsuit in California regarding overtime pay for certain managers, as well as for accrued vacation pay on behalf of certain former employees. On October 24, 2001, the court gave preliminary approval to the settlement that had been reached in the case.

Operating profit for the thirty-nine weeks ended September 29, 2001 was \$37.6 million, or 3.0% of net sales, compared with \$50.5 million, or 4.7% of net sales, for the same period last year.

The Company had net interest expense of \$2.8 million (including the amortization of commitment fees in connection with the Company's \$150 million credit agreement) for the thirty-nine weeks ended September 29, 2001, compared with \$1.2 million of net interest expense for the same period in 2000. The higher interest expense is primarily due to an increase in short-term borrowings to fund the Company's operations.

The Company's income tax expense for the thirty-nine weeks ended September 29, 2001 was \$13.3 million as compared with \$18.9 million for the same period last year. The Company's effective tax rate was 38.2% for the thirty-nine weeks ending September 29, 2001 compared to 38.3% for the same period last year.

As a result of the factors described above, net income for the thirty-nine weeks ended September 29, 2001 was \$21.5 million, or \$0.52 per share on a fully diluted basis, compared with \$30.4 million, or \$0.75 per share on a fully diluted basis, for the same period last year.

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**LINENS N THINGS, INC. AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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Liquidity and Capital Resources

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

The Company has available a \$150 million senior revolving credit facility expiring October 20, 2003. This agreement allows for up to \$40 million in borrowings from uncommitted lines of credit.

Net cash used in operating activities for the thirty-nine weeks ended September 29, 2001 was \$31.1 million compared with net cash provided by operating activities of \$0.8 million for the same period last year. The net cash used in operating activities in fiscal 2001 was primarily attributed to the timing of vendor payments impacted by a slight decline in inventory turn.

Net cash used in investing activities during the thirty-nine weeks ended September 29, 2001 was \$78.0 million compared with \$61.0 million for the same period last year. The increase in net cash used in investing activities was due to capital expenditures related to incremental new stores opened and scheduled to open in fiscal 2001 compared with the same period last year.

Net cash provided by financing activities during the thirty-nine weeks ended September 29, 2001 was \$79.2 million compared with \$20.5 million for the same period last year. The increase in net cash provided by financing activities was primarily the result of an increase in short-term borrowings to fund the Company's operations.

Management currently believes that the Company's cash flows from operations, credit extended by suppliers, the revolving credit facility and the uncommitted lines of credit will be sufficient to fund currently anticipated capital expenditures and working capital requirements in the foreseeable future.

**LINENS N THINGS, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

Inflation

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

Seasonality

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

Forward-Looking Statements

The foregoing contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. The statements were made a number of times and have been identified by such forward-looking terminology as expect, believe, may, will, intend, plan, and similar statements or variations of such terms. All of our outlook information constitutes forward-looking information. All such forward-looking statements are based on our current expectations, assumptions, estimates and projections about our Company and involve certain significant risks and uncertainties including levels of sales, store traffic, acceptance of product offerings and fashions, the success of our new business concepts and seasonal concepts, the success of our new store openings, competitive pressures from other home furnishings retailers, the success of the Canadian expansion, availability of suitable future store locations, schedule of store expansion, the impact of the bankruptcies and consolidations in our industry, the impact on consumer confidence and consumer spending as a result of acts of terrorism and war, and the impact of a slowing consumer economy. These and other important factors that may cause actual results to differ materially from such forward-looking statements are included in the Risk Factors section of the Company's Registration Statement on Form S-1 as filed with the

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Securities and Exchange Commission on May 29, 1997, and may be contained in subsequent reports filed with the Securities and Exchange Commission. You are urged to consider all such factors. In light of the uncertainty inherent in such forward-looking statements, you should not consider their inclusion to be a representation that such forward-looking matters will be achieved. The Company assumes no obligation for updating any such forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

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

Market risks relating to the Company's operations result primarily from changes in interest rates and foreign exchange rates. The Company does not engage in financial transactions for trading or speculative purposes.

#### Interest Rate Risk

The Company's financial instruments include cash and cash equivalents and short-term borrowings. The Company's obligations are short-term in nature and generally have less than a 30-day commitment. The Company is exposed to interest rate risks primarily through borrowings under the Credit Agreement. Interest on all borrowings is based upon several alternative rates as stipulated in the Credit Agreement, including a fixed rate plus LIBOR based rate. The Company believes that its interest rate risk is minimal as a hypothetical 10 percent increase or decrease in interest rates in the associated debt's variable rate would not materially affect the Company's results from operations and cash flows. The Company does not use derivative financial instruments in its investment portfolio.

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#### Foreign Currency Risk

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

In addition, the Company operated nine stores in Canada as of September 29, 2001. The Company believes its foreign currency translation risk is minimal, as a hypothetical 10% strengthening or weakening of the U.S. dollar relative to the Canadian dollar would not materially affect the Company's results from operations and cash flow.

Since fiscal year end 2000, there have been no material changes in market risk exposures.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings -

The Company was named as a defendant in California litigation in which the court certified the case as a class action on behalf of certain managers of Company stores located in California seeking overtime pay as well as certain former employees seeking accrued vacation pay. On October 24, 2001, the court gave preliminary approval to the settlement that had been reached in the case. The Company has admitted no liability in connection with this settlement. In the second quarter of fiscal 2001, the Company had recorded a charge of \$4.0 million related to the payments, attorneys' fees, and expenses of implementing the settlement.

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

#### (a) **EXHIBIT INDEX**

<u>Exhibit Number</u>	<u>Description</u>
10.17	Increase Supplement
15	Letter re unaudited interim financial information

#### (b) **Reports on Form 8-K:**

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The Company filed a Current Report on Form 8-K dated August 10, 2001, concerning an employment agreement with a certain executive officer of the Company.

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**SIGNATURE**

Pursuant to the requirements 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)

WILLIAM T. GILES

By: \_\_\_\_\_

William T. Giles  
Senior Vice President,  
Chief Financial Officer  
(Duly authorized officer and  
principal financial officer)

Date: November 13, 2001

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