# Edgar Filing: LINENS N THINGS INC - Form 10-K 

## LINENS N THINGS INC

## Form 10-K

March 29, 2001

SECURITIES AND EXCHANGE COMMISSION<br>Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or $15(\mathrm{~d})$ of the Securities
Exchange Act of 1934
For the Fiscal Year Ended December 30, 2000
(No Fee Required)
Commission File Number 1-12381


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.

$$
\text { Yes } \begin{gathered}
\text { X } \\
-----
\end{gathered}
$$

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.

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The aggregate market value of voting stock held by non-affiliates of the Registrant on March 15, 2001, based on the closing sale price on the New York Stock Exchange on such date, was approximately $\$ 1,371$ million. The number of outstanding shares of the Registrant's common stock, \$0.01 par value, as of March 15, 2001 was 40,496,624.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended December 30, 2000 are incorporated by reference into Part II, and portions of the Registrant's Proxy Statement for the 2001 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. 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 283 stores in 40 states and three Canadian provinces as of fiscal year end 2000. The Company's current store prototype ranges between 35,000 and 40,000 gross square feet in size and such stores are located in strip centers and, to a lesser extent, in malls and as stand-alone stores. The Company's business strategy is to offer a broad selection of high quality, brand name home furnishings merchandise at exceptional everyday values, provide superior guest service and maintain low operating costs.

Linens 'n Things' extensive selection of over 28,000 stock keeping units ("SKUs") in its superstores is driven by the Company's commitment to offering a broad and deep selection of high quality, brand name "linens" (e.g., bedding, towels and pillows) and "things" (e.g., housewares and home accessories) merchandise. Brand names sold by the Company include Wamsutta, Croscill, Waverly, Laura Ashley, Royal Velvet, Braun, Krups, All-Clad, Cuisinart, Calphalon and Henckels. The Company also sells an increasing amount of merchandise under its own private label, LNT Home (approximately 10\% of sales), which is designed to supplement the Company's offering of brand name products by offering high quality merchandise at value prices. The Company's merchandise offering is coupled with a "won't be undersold" everyday low pricing strategy.

From its founding in 1975 through the late 1980's, the Company operated a chain of traditional stores ranging between 7,500 and 10,000 gross square feet in size. Beginning in 1990, the Company introduced its superstore format, which has evolved from 20,000 gross square feet in size to its current size ranging from 30,000 to 60,000 gross square feet. This superstore format offers a broad merchandise selection in a more visually appealing, guest friendly format. The Company's introduction of superstores has resulted in the closing or relocation of most of the Company's traditional stores through fiscal year end 2000. As a result of superstore openings and traditional store closings, the Company's gross square footage has increased from 2.9 million to 9.8 million over the last six years. Meanwhile, the Company's store base increased 95\% from 145 to 283 during this period.

As part of this 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. In addition, 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 "linens" and "things." The Company estimates that the "things" side of its business has increased from less than $10 \%$ of net sales in fiscal 1991 to approximately 40\% in fiscal 2000.

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, having retained 6,267,758
shares, on a pre-split basis. During 1997, CVS sold 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. Unless otherwise indicated, all share information is adjusted to reflect the company's two-for-one common stock split effected in May 1998.

Executive Officers and Certain Key Personnel

The following table sets forth information regarding the executive officers of the Company:
Name Age Position

Norman Axelrod..................... 48
Steven B. Silverstein............. 41
William T. Giles.................. 41
Hugh J. Scullin.................... 52

Brian D. Silva .................... 44

Chairman and Chief Executive Officer President
Senior Vice President, Chief Financial Officer
Senior Vice President, Store Operations, Real Esta Construction
Senior Vice President, Human Resources and Corporate Secretary

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. Silverstein joined Linens 'n Things in 1992 as Vice President, General Merchandise Manager, was promoted to Senior Vice President, General Merchandise Manager in 1993, was promoted to Executive Vice President, Chief Merchandising Officer in 1998 and most recently, was promoted to President in 2001. Prior to joining Linens 'n Things, Mr. Silverstein held various management positions at Bloomingdale's from 1985 to 1992 including Merchandise Vice President of Home Textiles. He received his B.A. from Cornell University and his M.B.A. from Wharton Business School.

Mr. Giles joined Linens 'n Things in 1991 as Assistant Controller, was promoted to Vice President, Finance and Controller in 1994, was promoted to Vice President, Chief Financial Officer in 1997 and most recently, was promoted to Senior Vice President, Chief Financial Officer in 2000 . 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.

Mr. Scullin joined Linens 'n Things in 1989 as Vice President, Store Operations. Mr. Scullin has been Senior Vice President, Store Operations, Real

Estate and Construction since 1994. From 1978 to 1987, Mr. Scullin held various management positions with The Gap, Inc., including Zone Vice President at both The Gap and Banana Republic from 1984 to 1987. From 1987 to 1989, Mr. Scullin was Vice President of Stores with Alcott and Andrews. Mr. Scullin graduated from St. Joseph's University with a B.S. in Marketing Management.

Mr. Silva joined Linens 'n Things in 1995 as Vice President, Human Resources and was promoted to Senior Vice President, Human Resources and Corporate Secretary in 1997. 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.

The following table sets forth information regarding another key manager of the Company:
Name Age Position
Matthew J. Meaney.................... 54 Chief Information Officer
Mr. Meaney joined Linens 'n Things in 1991 as Vice President, Management
mation Systems and was promoted to Chief Information Officer in 2000. From
to 1991, Mr. Meaney was Vice President of Management Information Systems
aura Ashley, Inc. Mr. Meaney received a B.S. in Economics from St. Peter's
ge and an M.B.A. in Finance from Seton Hall University.

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 superior guest service and maintain low operating costs. Key elements of the Company's business strategy are:

Offer a Broad Selection of Quality Name Brands at Exceptional Everyday Values. Linens 'n Things' merchandising strategy is to offer the largest breadth of selection in high quality, brand name fashion home textiles, housewares and home accessories at exceptional everyday values. The Company offers over 28,000 SKUs across six departments, including bath, home accessories, housewares, storage, top of the bed and window treatments. The Company is one of the largest retailers of brand names, including Wamsutta, Laura Ashley, Royal Velvet, Croscill, Braun, Krups, All-Clad, Cuisinart, Calphalon and Henckels. The Company also sells an increasing amount of merchandise under its own private label, LNT Home, which is designed to supplement the Company's offering of brand name products by offering high quality merchandise at value prices.

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

|  | hampers, bathroom rugs and wall hardware |
| :---: | :---: |
| Home Accessories | ```Decorative pillows, napkins, tablecloths, placemats, lamps, gifts, picture frames and framed art``` |
| Housewares | Cookware, cutlery, kitchen gadgets, small electric appliances (such as blenders and coffee grinders), dinnerware, flatware, and glassware |
| Storage | Closet-related items (such as hangers, organizers and shoe racks) |
| Top of the Bed | Sheets, comforters, comforter covers, bedspreads, bed pillows, blankets and mattress pads |
| Window Treatment | Curtains, valances and window hardware |

Velvet and Spring placemats, lamps, gifts, picture frames and

Cookware, cutlery, kitchen gadgets, small electric appliances (such as blenders and coffee grinders), dinnerware, flatware, Closet-related items (such as hangers, organizers and shoe racks)

Sheets, comforters, comforter covers, bedspreads, bed pillows, blankets and Curtains, valances and window hardware

Waverly, Laura As

All-Clad, Braun, Cuisinart, Hencke Black \& Decker, K

Rubbermaid and Cl

Wamsutta, Laura A Croscill, Fieldcr and Beautyrest

Croscill, Wamsut

Provide Superior Guest Service and Shopping Convenience. To enhance guest satisfaction and loyalty, Linens 'n Things strives to provide prompt, knowledgeable sales assistance and enthusiastic guest service. Linens 'n Things emphasizes competitive wages, training and personnel development in order to attract and retain well-qualified, highly motivated employees committed to providing superior guest service. Linens 'n Things also endeavors to provide more knowledgeable sales associates by providing training through various programs which include management training, daily sales associate meetings and in-store product seminars.

In addition, the Company has taken initiatives to enhance the speed of its guest service, including enhancing credit card authorization and upgrading its point-of-sale ("POS") system. The Company has also transferred the inventory and receiving responsibilities from the stores to the distribution centers thereby allowing associates to direct their focus to the selling floor, which has enhanced the guest's shopping experience. The Company provides gift registry services in its stores nationwide to further serve its guests. The Company also offers the convenience of an electronic gift card to its guests.

The Company's superstore format is designed to save the guest time by having merchandise visible and accessible on the selling floor for immediate purchase. The Company believes its knowledgeable sales staff and efficient guest service, together with the Company's liberal return policy, create a positive shopping experience that engenders guest loyalty.

In response to growing consumer use of the Internet, the Company greatly expanded its e-commerce capability located at its website, linensnthings.com in fiscal 2000. The website features on-line access to the company's gift registry and allows our guests to purchase many of the Company's most popular items from the convenience of their homes.

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 streamlining of the Company's centralized merchandising structure, the use of integrated management information systems and the utilization of the distribution centers.

Growth Strategy

Superstore Expansion. The Company operates in a large, highly-fragmented industry and has a market share of approximately two percent of the industry. The Company's expansion strategy is to increase market share in existing markets and to penetrate new markets in which the company believes it can become a leading operator of home furnishings superstores. Markets for new superstores are selected on the basis of demographic factors, such as income, population and number of households. The Company's stores are located predominantly in power strip centers and, to a lesser extent, in malls and as stand-alone stores. The Company generally seeks to operate stores in the United States and Canada in geographic trading areas of 200,000 persons within a ten-mile radius and with demographic characteristics that match the Company's target profile.

During 2000, the Company opened its first stores in Canada. By fiscal year end 2000, the Company operated six stores in three Canadian provinces.

The following table sets forth information concerning the Company's expansion program during the past five years:

| Fiscal |  |  | Square Footage (in 000 's) Store Co |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Year | Openings | Closings | Begin Year | End Year | Begin Year |
| 1996 | 36 | 22 | 3,691 | 4,727 | 155 |
| 1997 | 25 | 18 | 4,727 | 5,493 | 169 |
| 1998 | 32 | 12 | 5,493 | 6,487 | 176 |
| 1999 | 43 | 9 | 6,487 | 7,925 | 196 |
| 2000 | 57 | 4 | 7,925 | 9,836 | 230 |

Increase Productivity of Existing Store Base. The Company is committed to increasing its net sales per square foot, inventory turnover ratio and return on invested capital. The Company believes the following initiatives will best position it to achieve these goals:

Enhance Merchandise Mix and Presentation. The Company continues to explore opportunities to increase sales in its "things" merchandise without sacrificing market share or guest image in the "linens" side of the business. The Company expects these opportunities to positively impact net sales per square foot, the average net sale per guest and inventory turnover, since "things" merchandise tends to be more impulse driven merchandise as compared to the "linens" portion of the business. The Company is consistently introducing new products that it expects will increase sales and generate additional guest traffic.

In addition, the Company intends to continue improving its merchandising presentation techniques, space planning and store layout to further improve the productivity of its existing and future superstore 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 gift registry, will further improve its store productivity.

Increase Operating Efficiencies. As part of its strategy to increase operating efficiencies, the Company has invested significant capital in building a centralized infrastructure, including two distribution centers and a management information system, which it
believes will allow it to maintain low operating costs as it pursues its superstore expansion strategy. In 1995, the Company began full operation of its first distribution center in Greensboro, North Carolina. In June 1999, the Company began operation of its second distribution center in southern New Jersey. Management believes that the increased utilization of the distribution centers has resulted in lower average freight costs, more efficient scheduling of inventory shipments to the stores, better in-stock positions and improved information flow. The Company believes that the transfer of inventory receiving responsibilities from the stores to the distribution centers allows the store sales associates to direct their focus to the sales floor, thereby increasing the level of guest service. 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 enhanced by a centralized merchandising management team and its management information systems which allow the Company to more accurately monitor and better balance inventory levels and improve in-stock positions in its stores.

Industry

According to Industry Reports, total industry sales of products sold in the Company's stores, which primarily includes home textiles, housewares and decorative furnishings categories, were estimated to be over $\$ 75$ billion in 2000. The market for home furnishings is large, highly-fragmented and competitive. Specialty superstores are one of the fastest growing channels of distribution in this market. In fiscal 2000, the Company estimates that the three largest specialty superstore retailers of fashion home textiles (which includes the Company, Bed Bath \& Beyond, Inc. and Home Place of America, Inc.) had aggregate sales representing only approximately $6 \%$ of the industry's total unit sales.

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., and 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., the Target Stores division of Target Corporations and Kmart Corporation. Fashion home furnishings generally represent only a small portion of the total merchandise sales in these stores. 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., Home Place of America, Inc., Home Goods, a division of TJX Companies, Inc. and smaller format retailers

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such as Crate \& Barrel, Lechters, Inc. 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 furnishings merchandise selection of approximately 15,000 to $40,000 \mathrm{SKUs}$. 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 are typically smaller in size than the large format superstores and offer a narrow assortment within a specific niche. The smaller format retailers generally range in size from 2,000 to 20,000 gross square feet.

Other Retailers: This category includes mail order retailers, such as Spiegel Inc. and Domestications, off-price retailers, such as Kohl's Corporation, the T.J. Maxx and Marshall's divisions of the TJX Companies, Inc. and local "mom and pop" retail stores. Both mail order retailers and smaller local retailers generally offer a more limited selection of merchandise. Off-price retailers typically offer close-out or out of season name brand merchandise at competitive prices.

Merchandising

The Company offers quality home textiles, housewares and home accessories at exceptional everyday values. The Company's strategy consists of a commitment to offer a breadth and depth of selection and to create a merchandise presentation that makes it easy to shop in a visually pleasing environment. The stores feature a "racetrack" layout, enabling the guest to visualize and purchase fully coordinated and accessorized ensembles. Seasonal merchandise is featured at the front of every store to create variety and excitement and to capitalize on key selling seasons including spring, back-to-school and holiday events.

The Company's extensive merchandise offering of over 28,000 SKUs enables its guests to select from a wide assortment of styles, brands, colors and designs within each of the Company's 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's broad and deep merchandise offering is coupled with everyday low prices that are generally below regular department store prices and comparable with or slightly below department store sale prices. The Company believes that the uniform application of its everyday low price policy is essential to maintaining the integrity of its strategy. This is an important factor in establishing its reputation as a price leader and in helping to build guest loyalty. In addition, the company offers, on a regular basis, "special" merchandise which it obtains primarily through opportunistic purchasing to enhance its high value perception among its guests.

Customer Service

Linens 'n Things treats every customer as a guest. The Company's philosophy supports enhancing the guest's entire shopping experience and it believes that all elements of service differentiate it from the competition. To facilitate the ease of shopping, the assisted self-service culture is complemented by trained department specialists, zoned floor coverage, product information displays and videos, self-demonstrations and in-store product seminars. This philosophy is designed to encourage guest loyalty as well as to continually develop knowledgeable Company associates. The entire store team is hired and trained to be highly visible in order to assist guests with their selections. The ability to assist guests has been augmented by the transfer of inventory receiving responsibilities from the stores, allowing sales associates to focus on the sales floor. Sophisticated management systems that provide
efficient guest service and liberal return procedures are geared toward making each guest's visit a convenient, efficient and pleasant experience.

## Advertising

Advertising programs are focused on building and strengthening the Linens 'n Things brand and image. Because of the Company's commitment to exceptional everyday values, advertising vehicles are aggressively used in positioning the Company among new and existing guests by communicating 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 flyers to best represent the full range of offerings in the stores. These are supplemented by 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 used to support new stores, with more emphasis placed on those located in new markets.

Purchasing and Suppliers

The merchandising mix for each store is generally selected by the central buying staff. The Company purchases its merchandise from approximately 1,000 suppliers. Springs Industries, Inc., through its various operating companies, supplied approximately $10 \%$ of the Company's total purchases in fiscal 2000. In fiscal 2000, the Company purchased a significant number of products from other key suppliers. Due to its breadth and depth of selection, the Company is often one of the largest customers for certain of its vendors. The Company believes that this buying power and its ability to make centralized purchases generally allow it to acquire products at favorable terms.

Distribution
-_-_------_--

The Company operates two distribution centers. The first is located in Greensboro, North Carolina and began operation in 1995 and the second is located in southern New Jersey and began operation in June 1999. 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, better in-stock positions and improved information flow. In addition, transferring inventory receiving responsibilities from the stores to the distribution centers allows the sales associates to direct their focus to the selling floor, thereby enhancing the guests' shopping experience. The Company believes strong distribution support for its stores is a critical element to its growth strategy and is central to its ability to maintain a low cost operating structure.

The Company manages the distribution process centrally from its corporate headquarters. Purchase orders issued by Linens 'n Things are electronically transmitted to 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 delivery services to ship its merchandise from the distribution centers to its stores.

Management Information Systems

Over the last several years, the Company has made significant investments in technology to improve guest service, gain efficiencies and reduce operating costs. Linens 'n Things has installed a customized 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. The Company utilizes POS terminals with price look-up capabilities for both inventory and sales transactions on a SKU basis, which the company continually upgrades. Information obtained daily by the system results in automatic inventory replenishment in response to specific requirements of each store.

The Company believes its management information systems have fully integrated the Company's stores, headquarters and distribution process. The Company continually evaluates and upgrades its management information systems to enhance the quantity, quality and timeliness of information available to management.

Store Management and Operations

The Company places a strong emphasis on its people, their development and their opportunity for advancement, particularly at the store level. The Company's commitment to maintaining a high internal promotion rate is best exemplified through the practice of opening each new store with a seasoned management team. As a result, the majority of General Managers opening a new store have significant experience with the Company. Additionally, the 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, complemented at the associate level through in-store product seminars and POS register training materials. The Company believes that its policy of promoting from within, as well as the opportunities for advancement generated by its ongoing store expansion program, serve 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 9:00 p.m. Monday through Saturday and 11:00 a.m. to 6:00 p.m. on Sunday, unless affected by local laws.

Inflation and Seasonality

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.

As of December 30, 2000, the Company employed approximately 12,200 individuals of whom approximately 5,600 were full-time employees and 6,600 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 Company believes that it will continue to face competition from retailers in all four of the categories referred to in "Business--Industry." The home textiles industry is becoming increasingly competitive and as the company expands into new markets, it faces new competitors. The visibility of the Company may encourage additional competitors or existing competitors to imitate the Company's format and methods.

The Company believes that the ability to compete successfully in its markets is determined 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 the "Linens 'n Things" and "LNT" names as trade names and as service marks in connection with retail services. The Company has registered the "Linens 'n Things" and "LNT" logos as trademarks and service marks with the United States Patent and Trademark Office. The Company has also filed for registration with the Canada Patent and Trademark Office. Management believes that the name "Linens 'n Things" is an important element of the Company's business.

Forward-Looking Statements

This Form 10-K (including the information incorporated herein by reference) 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," "target" or similar statements or variations of such terms. 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 and schedule of store expansion. 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 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

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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 2. PROPERTIES

As of December 30, 2000 the Company operated 283 retail stores in 40 states and three Canadian provinces. 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 certain of the leases provide for renewal options that range from 5 to 15 years at increased rents. Certain of the leases provide for scheduled rent increases and certain of the leases provide for contingent rent (based upon store sales exceeding stipulated amounts). CVS guarantees the leases of certain stores that were entered into prior to the Company's 1996 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. The Company leases its corporate headquarters in Clifton, New Jersey and its distribution center in southern New Jersey.

The table below sets forth the number of stores located in each state in the United States as of December 30, 2000:

| State | Number of Stores | State | Number of Stores |
| :---: | :---: | :---: | :---: |
| Alabama | 1 | Nebraska | 2 |
| Arizona | 7 | Nevada | 2 |
| Arkansas | 1 | New Hampshire | 4 |
| California | 33 | New Jersey | 11 |
| Colorado | 5 | New Mexico | 3 |
| Connecticut | 9 | New York | 17 |
| Florida | 22 | North Carolina | 9 |
| Georgia | 11 | Ohio | 7 |
| Idaho | 1 | Oklahoma | 2 |
| Illinois | 17 | Oregon | 4 |
| Indiana | 3 | Pennsylvania | 7 |
| Kansas | 3 | Rhode Island | 1 |
| Kentucky | 1 | South Carolina | 1 |
| Louisiana | 2 | Tennessee | 3 |
| Maine | 3 | Texas | 27 |
| Maryland | 4 | Utah | 3 |
| Massachusetts | 9 | Virginia | 11 |
| Michigan | 9 | Washington | 9 |
| Minnesota | 6 | West Virginia | 1 |
| Missouri | 5 | Wisconsin | 1 |

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in Canada as of December 30, 2000:

| Province | Number of Stores |
| :--- | :---: |
| ------- | ----------------1 |
| Alberta | 3 |
| British Columbia | 2 |
| Ontario | 1 |

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 will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

The Company is a defendant in a California state court litigation brought as a class action on behalf of certain managers of company stores located in California seeking overtime pay as well as a claim for accrued vacation pay on behalf of certain former employees. In the event such claims for vacation pay are determined adversely to the Company, management of the Company does not believe such claims, if so adversely determined, would have a material adverse effect on the Company's financial position, liquidity or results of operations. At the present time, there has been no determination of the number of any actual class. Nor has there been any determination of the extent to which overtime pay may or may not be owed. Accordingly, the Company is not presently in a position to estimate with any degree of certainty, the range of potential exposure represented by this litigation.

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

No matters were submitted to a vote of security holders during the fourth quarter ended December 30, 2000.

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 December 30,2000 there were approximately 7,300 beneficial shareholders. The high and low trading price of the Company's common stock for each quarter is as follows:

| For Fiscal 2000 | High | Low |
| :---: | :---: | :---: |
| First Quarter | \$34 3/8 | \$17 15/16 |
| Second Quarter | $3515 / 16$ | 23 3/16 |
| Third Quarter | $363 / 8$ | 23 7/8 |
| Fourth Quarter | $331 / 2$ | 20 |
| For Fiscal 1999 | High | Low |
| First Quarter | \$48 1/4 | \$34 3/16 |
| Second Quarter | $521 / 16$ | $375 / 8$ |
| Third Quarter. | 49 1/2 | $305 / 8$ |

Fourth Quarter................... 41 7/16 22 7/16

The Company paid no dividends on its common stock in fiscal 2000 and 1999. 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.

## ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is incorporated by reference to the Five-Year Financial Summary appearing on page 18 of the Company's Annual Report to Shareholders for the fiscal year ended December 30, 2000.

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 19 through 22 of the Company's Annual Report to Shareholders for the fiscal year ended December 30, 2000.

ITEM 7A. 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.

In the normal course of operations, the Company is exposed to market risk arising from adverse changes in interest rates. The Company is exposed to interest rate risks primarily through borrowings under the $\$ 140$ million senior revolving credit facility agreement (the "Credit Agreement"). The Company does not hedge these interest rate risks. As of December 30, 2000, the Company had no borrowings under the Credit Agreement and had $\$ 3.9$ million in borrowings against the uncommitted lines of credit at a variable rate.

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and financial information required by this Item are incorporated by reference to pages 23 through 34 of the Company's Annual Report to Shareholders for the fiscal year ended December 30, 2000. These financial statements are indexed under Item 14 (a)(1). See also the financial statement schedule that is included herein and is indexed under Item 14(a)(2).

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

There were no disagreements between the Company and its independent public accountants on matters of accounting principles or practices for fiscal 2000.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item concerning the Company's directors is incorporated by reference to the Company's Proxy Statement to be mailed to shareholders for the Company's 2001 Annual Meeting of Shareholders.

The information required by this Item concerning the Company's executive officers is contained in Part I, Item 1, "Business - Executive Officers and Certain Key Personnel."

The information required by this Item with respect to Section 16 reporting is incorporated by reference to the Company's Proxy Statement for the Company's 2001 Annual Meeting of Shareholders, under the heading "Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Company's Proxy Statement for the 2001 Annual Meeting of Shareholders, under the headings "Director Compensation - Attendance; Committees" and "Executive Compensation", other than information included therein under the subcaptions "Report on Compensation of Executive Officers" and "Performance Graph" which are not incorporated herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the Company's Proxy Statement for the 2001 Annual Meeting of Shareholders, under the heading "Beneficial Ownership of Common Stock."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not applicable.

PART IV

ITEM 14. 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 December 30, 2000:

```
Consolidated Balance Sheets -
as of December 30, 2000 and January 1, 2000
Consolidated Statements of Shareholders' Equity -
for the fiscal years ended December 30, 2000, January 1, 2000 and December 31, 1998......
Consolidated Statements of Cash Flows -
for the fiscal years ended December 30, 2000, January 1, 2000 and December 31, 1998.....
```



```
Management's Responsibility for Financial Reporting....................................
Independent Auditors' Report
```

2. Schedules:
The supplementary income statement schedule is included in this Report.
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

|  |  |
| :---: | :---: |
| Number | Description |
| 3.1 | Amended and Restated Certificate of Incorporation, as amended 1,3 |
| 3.2 | By-Laws of the Registrant 1 |
| 4 | Specimen Certificate of Common Stock 1 |
| 10.1 | Transitional Services Agreement between the Registrant and CVS Corporation 1 |
| 10.2 | Stockholder Agreement between the Registrant and CVS Corporation 1 |
| 10.3 | Tax Disaffiliation Agreement between the Registrant and CVS Corporation 1 |
| 10.4 | Credit Agreement dated as of March 31, 1998 among the Registrant Bank of New York and the lenders signatory thereto, as amended 1, 4 |
| 10.5 | Employment Agreement with Norman Axelrod *6 |
| 10.6 | Employment Agreement with Steven B. Silverstein *6 |
| 10.7 | Employment Agreement with Hugh J. Scullin *6 |
| 10.8 | Employment Agreement with Brian Silva *6 |
| 10.9 | Employment Agreement with William Giles *6 |
| 10.10 | 1996 Incentive Compensation Plan *1 |
| 10.11 | 1996 Non-Employee Director Stock Plan *1 |
| 10.12 | Supplemental Executive Retirement Plan *5 |
| 10.13 | Split - Dollar Agreement between the Registrant and Norman Axelrod *5 |
| 10.14 | Split - Dollar Collateral Assignment between the Registrant and Norman Axelrod *5 |
| 10.15 | 2000 Stock Award \& Incentive Plan 8 |
| 10.16 | Credit Agreement dated as of October 20, 2000 among the Registrant, Fleet Bank and the lenders signatory thereto 7 |

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## SIGNATURES

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

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```
                    Linens 'n Things, Inc.
                    (Registrant)
By: /s/NORMAN AXELROD
    Norman Axelrod
    Chairman and Chief Executive Officer
Dated: March 29, 2001
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

/s/ Norman Axelrod
Norman Axelrod
/s/ Philip E. Beekman
Philip E. Beekman
/s/ Harold F. Compton

Harold F. Compton
/s/ Stanley P. Goldstein
Stanley P. Goldstein
/s/ Morton E. Handel

Morton E. Handel
/s/ William T. Giles Senior Vice President, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer

```
Five-Year Financial Summary (in thousands, except per share and selected operating data)
Fiscal Year Ended December January Decemb
```

```
Income statement data:
    Net sales............................................ $1,572,576
    Operating profit
```



```
    Net income per share - basic1.
    Net income per share - basicl
        outstanding1
        107,092
    $ 1.63
        39,785
        $ 1.60
    Net income per share - dilutedl
    Diluted weighted average shares
        outstanding1
Balance sheet data:
    Total assets
    Working capital......................................
    Total long-term debt
    Shareholders' equity
        . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 
Selected operating data:
    Number of stores
        283
```

Total gross square footage (000's).................. ..... 9,836
7,925

```Increase in comparable store net sales.3.7\%
1 Unless otherwise stated, all references to common shares outstanding and income per share in the consolidated financial statements, notes to consolidated financial statements, and management's discussion and analysis of financial condition and results of operations are adjusted to reflect the Company's two-for-one common stock split effected in May 1998.
```230\(5.4 \%\)

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table sets forth the percentage of net sales for certain items included in the Company's consolidated statements of operations for the periods indicated:
\begin{tabular}{|c|c|c|c|}
\hline Fiscal Year Ended & \[
\begin{gathered}
\text { Dec. } 30, \\
2000
\end{gathered}
\] & \[
\begin{aligned}
& \text { Jan. 1, } \\
& 2000
\end{aligned}
\] & \[
\begin{gathered}
\text { Dec. 31, } \\
1998
\end{gathered}
\] \\
\hline Percentage of net sales & & & \\
\hline Net sales & 100.0\% & 100.0\% & 100.0\% \\
\hline Cost of sales, including buying and distribution costs & 59.1 & 59.4 & 60.0 \\
\hline Gross profit & 40.9 & 40.6 & 40.0 \\
\hline Selling, general and administrative expenses.... & 34.1 & 34.1 & 34.2 \\
\hline Operating profit & 6.8 & 6.5 & 5.8 \\
\hline Interest expense, net. & 0.1 & 0.0 & 0.0 \\
\hline Income before income taxes. & 6.7 & 6.5 & 5.8 \\
\hline Provision for income taxes.... & 2.6 & 2.5 & 2.2 \\
\hline
\end{tabular}


Fiscal Year Ended December 30, 2000 Compared With Fiscal Year Ended January 1, 2000

Net Sales

Net sales for fiscal 2000 were \(\$ 1,572.6\) million, an increase of \(20.9 \%\) over fiscal 1999 sales of \(\$ 1,300.6\) million, primarily as a result of new store openings as well as comparable store net sales increases. The Company opened 57 superstores and closed four stores in fiscal 2000, as compared with opening 43 superstores and closing nine stores in fiscal 1999. At fiscal year end 2000, the Company operated 283 stores as compared with 230 stores at fiscal year end 1999. Store square footage increased \(24.1 \%\) to 9,836,000 at December 30, 2000 compared with 7,925,000 at January 1, 2000. Comparable store net sales increased \(3.7 \%\) in fiscal 2000 compared with \(5.4 \%\) in fiscal 1999. Comparable store net sales were driven predominately by higher consumer traffic.

The Company's average net sales per store was \(\$ 6.2\) million in fiscal 2000 and fiscal 1999. For the fiscal year ended 2000, net sales of "linens" merchandise increased approximately \(18 \%\) over the prior year, while net sales of "things" merchandise increased approximately \(25 \%\) over the prior year. The greater increase in net sales for "things" merchandise primarily resulted from the continued expansion in this product category.

\section*{Gross Profit}

Gross profit for fiscal 2000 was \(\$ 643.3\) million, or \(40.9 \%\) of net sales, as compared with \(\$ 528.2\) million, or \(40.6 \%\) of net sales, in fiscal 1999. This increase as a percentage of net sales resulted from overall improved selling mix, increased penetration of seasonal and proprietary product and improvements in buying. In addition, the Company had lower freight and related distribution costs, as a percentage of sales, from the leveraging of the Company's centralized distribution network.

\section*{Expenses}

Selling, general and administrative expenses ("S,G\&A") for fiscal 2000 were \(\$ 536.2\) million, or \(34.1 \%\) of net sales, as compared with \(\$ 443.6\) million, or \(34.1 \%\) of net sales, in fiscal 1999. Corporate office and promotional expenses were leveraged, which were offset by investments in store payroll in order to continue to improve our guest service levels.

Operating profit for fiscal 2000 increased to \(\$ 107.1\) million, or \(6.8 \%\) of net sales, up from \(\$ 84.6\) million, or \(6.5 \%\) of net sales, during fiscal 1999.

Net interest expense in fiscal 2000 increased to \(\$ 1.9\) million, up from \(\$ 43,000\) during fiscal 1999. This increase was due to higher net average loan balances and higher interest rates during fiscal 2000.

The Company's income tax expense for fiscal 2000 was \(\$ 40.2\) million, as compared with \(\$ 32.5\) million during fiscal 1999. The Company's effective tax rate was \(38.2 \%\) in fiscal 2000 as compared with \(38.4 \%\) in fiscal 1999.

Net Income
Net income for fiscal 2000 was \(\$ 64.9\) million, or \(4.1 \%\) of net sales as compared with \(\$ 52.1\) million, or \(4.0 \%\) of net sales in fiscal 1999.

Fiscal Year Ended January 1, 2000 Compared With Fiscal Year Ended December 31, 1998

Net Sales

Net sales for fiscal 1999 were \(\$ 1,300.6\) million, an increase of \(22.0 \%\) over fiscal 1998 sales of \(\$ 1,066.2\) million, primarily as a result of new store openings as well as comparable store net sales increases. The Company opened 43 superstores and closed nine stores in fiscal 1999, as compared with opening 32 superstores and closing 12 stores in fiscal 1998. At fiscal year end 1999, the Company operated 230 stores as compared with 196 stores at fiscal year end 1998. Comparable store net sales increased 5.4\% in fiscal 1999 compared with \(8.3 \%\) in fiscal 1998. Comparable store net sales were driven predominately by higher consumer traffic.

The Company's average net sales per store increased to \(\$ 6.2\) million in fiscal 1999 up from \(\$ 5.9\) million in fiscal 1998. This increase was due to strong comparable store net sales increases. For the fiscal year ended 1999, net sales of "linens" merchandise increased approximately \(20 \%\) over the prior year, while net sales of "things" merchandise increased approximately \(30 \%\) over the prior year. The greater increase in net sales for "things" merchandise primarily resulted from the continued expansion of product categories within the "things" business.

Gross Profit

Gross profit for fiscal 1999 was \(\$ 528.2\) million, or \(40.6 \%\) of net sales, as compared with \(\$ 427.1\) million, or \(40.0 \%\) of net sales, in fiscal 1998. This increase as a percentage of net sales resulted from improved selling mix, improvements in buying, and lower freight and related distribution costs from the leveraging of the Company's distribution network.

\section*{Expenses}

S,G\&A expenses for fiscal 1999 were \(\$ 443.6\) million, or \(34.1 \%\) of net sales, as compared with \(\$ 365.1\) million, or \(34.2 \%\) of net sales, in fiscal 1998. Occupancy expenses continued to leverage as a result of a \(5.4 \%\) comparable store net sales increase, which was offset in part due to investments in store payroll in order to provide better guest service.

Operating profit for fiscal 1999 increased to \(\$ 84.6\) million, or \(6.5 \%\) of net sales, up from \(\$ 62.0\) million, or \(5.8 \%\) of net sales, during fiscal 1998.

Net interest expense in fiscal 1999 decreased to \(\$ 43,000\) from \(\$ 83,000\) during fiscal 1998. This decrease was due to improved earnings as well as improved working capital management.

The Company's income tax expense for fiscal 1999 was \(\$ 32.5\) million, as compared with \(\$ 23.8\) million during fiscal 1998. The Company's effective tax rate was 38.4\% in fiscal 1999 as compared with \(38.5 \%\) in fiscal 1998.

Net Income

Net income for fiscal 1999 was \(\$ 52.1\) million, or \(4.0 \%\) of net sales as compared with \(\$ 38.1\) million, or \(3.6 \%\) of net sales in fiscal 1998.

\section*{Liquidity and Capital Resources}

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

On October 20, 2000, the Company entered into a \(\$ 140\) 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 in borrowings from uncommitted lines of credit outside of the Credit Agreement. The Credit Agreement replaced the \(1998 \$ 90\) million revolving line of credit, which allowed for up to \(\$ 25\) million in borrowings from uncommitted lines of credit (the "1998 Credit Agreement"). Under the Credit Agreement, the amount of borrowings can be increased up to \(\$ 150\) million provided certain terms and conditions contained in the Credit Agreement are met. Interest on all borrowings is determined based upon several alternative rates as stipulated in the Credit Agreement, including a fixed rate plus LIBOR 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. At the end of fiscal 2000 , the Company was in compliance with the terms of the Credit Agreement. At various times throughout fiscal 2000 and 1999, the Company borrowed against the Credit Agreement and the 1998 Credit Agreement for seasonal working capital needs. At the end of fiscal 2000, the Company had no borrowings under the Credit Agreement and had \(\$ 3.9\) million of borrowings against the uncommitted lines of credit. In addition, as of December 30, 2000 and January 1,2000 , the Company had \(\$ 10.7\) million and \(\$ 1.7\) million, respectively, of letters of credit outstanding. The letters of credit were used to guarantee payment of certain insurance obligations and to secure a foreign line of credit. The Company is not obligated under any formal or informal compensating balance requirements.

Net cash provided by operating activities for the fiscal year ended 2000 was \(\$ 27.5\) million as compared with \(\$ 41.4\) million for the same period in fiscal 1999 . This change was primarily a result of an increase in inventory. The increase in inventory levels over the prior year is a result of new store openings, as well as the Company's decision to maintain and improve its in-stock position, which is consistent with the Company's focus on continuing to improve guest service. The increase in inventory was partially offset by an increase in accrued expenses due to the timing and settlement of vendor payments. In addition, the Company reported a smaller change in accounts payable than the prior year due to the timing and settlement of vendor payments.

Net cash used in investing activities for the fiscal year ended 2000 was \(\$ 70.5\) million, as compared with \(\$ 70.1\) million for the same period in fiscal 1999. Fiscal year 2000 included an increase in capital expenditures associated with the opening of 14 more stores this year versus last year, which was offset by capital expenditures incurred for the second distribution center in 1999.

Net cash provided by financing activities for the fiscal year ended 2000 was \(\$ 35.7\) million compared with \(\$ 31.9\) million for the same period in fiscal 1999. The increase was primarily attributable to an increase in short-term borrowings.

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

Market Risk Disclosure

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.

In the normal course of operations, the Company is exposed to market risk
arising from adverse changes in interest rates. The Company is exposed to interest rate risks primarily through borrowings under the Credit Agreement. The Company does not hedge these interest rate risks. As of December 30, 2000, the Company had no borrowings under the Credit Agreement and had \$3.9 million in borrowings against the uncommitted lines of credit at a variable rate.

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.

Inflation and Seasonality

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.

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.

Recent Accounting Pronouncements

The Company is required to adopt Statement of Financial Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). This statement is effective with the first quarter of fiscal years beginning after June 15, 2000. For the Company, implementation is required for the first quarter of fiscal 2001. The Company has determined that the implementation of SFAS No. 133 is not expected to have a significant effect on its results of operations or financial position. This statement is not required to be applied retroactively to financial statements of prior periods.

Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN No. 44") provides guidance for applying Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees". With certain exceptions, FIN No. 44 applies prospectively to new awards, exchanges of awards in a business combination, modifications to outstanding awards and changes in grantee status on or after July 1, 2000. The Company has determined that the implementation of FIN No. 44 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. The adoption of the EITF is required in the second quarter of fiscal 2001 . The Company already includes such sales incentives against sales and records free merchandise in cost of goods

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}
sold as required by the new EITF consensus.

Forward-Looking Statements

This Annual Report to Shareholders contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995 . The statements are made a number of times throughout the document and may be identified by such forward-looking terminology as "expect," "believe," "may," "will," "intend," "plan," "target" or similar statements or variations of such terms. 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, competitive pressures from other home furnishings retailers, the success of the Canadian expansion, availability of suitable future store locations and schedule of store expansion plans. 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 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.

Consolidated Statements of Operations (in thousands, except per share amounts)
\begin{tabular}{|c|c|c|}
\hline Fiscal Year Ended & \[
\begin{gathered}
\text { December } 30, \\
2000
\end{gathered}
\] & \[
\begin{array}{r}
\text { January } 1 \\
2000
\end{array}
\] \\
\hline Net sales & \$1,572,576 & \$1,300, \\
\hline Cost of sales, including buying and distribution costs...................... & 929,305 & 772 , \\
\hline Gross profit & 643,271 & 528 , \\
\hline Selling, general and administrative expenses. & 536,179 & 443 , \\
\hline Operating profit. & 107,092 & 84, \\
\hline Interest expense, net of interest income and capitalized interest. & \[
1,941
\] & \\
\hline Income before income taxes & 105,151 & 84, \\
\hline Provision for income taxes. & 40,214 & 32, \\
\hline Net income. & \$ 64,937 & \$ 52, \\
\hline
\end{tabular}

Per share of common stock:


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}

Treasury stock, at cost, 114,315 shares at December 30,2000 and 76,477


Total shareholders' equity.
Total liabilities and shareholders' equity

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity
\begin{tabular}{|c|c|c|c|c|}
\hline \multirow[t]{2}{*}{} & \multicolumn{2}{|l|}{Common Stock} & \multicolumn{2}{|l|}{Additional} \\
\hline & Shares & Amount & Paid-in Capital & Retained Earnings \\
\hline (in thousands, except number of shares) & & & & \\
\hline Balance at December 31, 1997. & 38,633,840 & \$386 & \$204,514 & \$75,135 \\
\hline Net income. & -- & -- & -- & 38,062 \\
\hline Common stock issued under stock incentive plans. & 457,441 & 5 & 6,864 & -- \\
\hline Purchase of treasury stock. & \((53,333)\) & -- & -- & -- \\
\hline Balance at December 31, 1998. & 39,037,948 & 391 & 211,378 & 113,197 \\
\hline Net income. & -- & -- & -- & 52,052 \\
\hline Common stock issued under stock incentive plans. & 463,978 & 5 & 9,373 & -- \\
\hline Purchase of treasury stock. & \((23,144)\) & -- & -- & -- \\
\hline Balance at January 1, 2000. & 39,478,782 & 396 & 220,751 & 165,249 \\
\hline Net income. & -- & -- & -- & 64,937 \\
\hline Currency translation adjustment.. & - & -- & -- & -- \\
\hline Comprehensive earnings.. & & & & \\
\hline Common stock issued under stock incentive plans............. & 618,182 & 6 & 10,796 & -- \\
\hline Purchase of treasury stock. & \((37,838)\) & -- & -- & -- \\
\hline Balance at December 30, 2000. & 40,059,126 & \$ 402 & \$231,547 & \$230,186 \\
\hline
\end{tabular}

See accompanying notes to consolidated financial statements.
\begin{tabular}{|c|c|c|}
\hline Fiscal Year Ended & \[
\begin{gathered}
\text { December } 30, \\
2000
\end{gathered}
\] & \[
\begin{gathered}
\text { January } 1 \\
2000
\end{gathered}
\] \\
\hline \multicolumn{3}{|l|}{Cash flows from operating activities:} \\
\hline Net income. & \$ 64,937 & \\
\hline Adjustments to reconcile net income to net cash provided by operating activities: & & \\
\hline Depreciation and amortization. & 32,422 & 26 \\
\hline Deferred income taxes. & 5,074 & 3 \\
\hline Loss on disposal of assets. & 807 & \\
\hline Federal tax benefit from common stock & & \\
\hline issued under stock incentive plans. & 4,480 & 4 \\
\hline Changes in assets and liabilities: & & \\
\hline (Increase) decrease in accounts receivable...... & \((10,672)\) & 1 \\
\hline Increase in inventories.... & \((94,577)\) & (71 \\
\hline Increase in prepaid expenses and other current assets................................... & \((2,468)\) & (1) \\
\hline (Increase) decrease in deferred charges and other noncurrent assets................... & \((2,425)\) & (1) \\
\hline Increase in accounts payable. & 2,929 & 31 \\
\hline Increase (decrease) in accrued expenses and other liabilities........................ & 27,027 & ( 5 \\
\hline Net cash provided by operating activities. & 27,534 & 41 \\
\hline \multicolumn{3}{|l|}{Cash flows from investing activities:} \\
\hline Additions to property and equipment & \((70,473)\) & (70 \\
\hline \multicolumn{3}{|l|}{Cash flows from financing activities:} \\
\hline Proceeds from common stock issued under stock incentive plans. \(\qquad\) & 6,322 & \\
\hline Purchase of treasury stock. & (996) & (1) \\
\hline Increase in short-term borrowings..................... & 3,903 & \\
\hline Increase in book overdrafts. & 26,483 & 28 \\
\hline Net cash provided by financing activities. & 35,712 & 31 \\
\hline Net (decrease) increase in cash and cash equivalents & & \\
\hline & \((7,227)\) & \\
\hline Cash and cash equivalents at beginning of year. & 45,751 & 42 \\
\hline Cash and cash equivalents at end of year.............. & \$ 38,524 & \\
\hline \multicolumn{3}{|l|}{Supplemental disclosure of cash flow information} \\
\hline \multicolumn{3}{|l|}{Cash paid during the year for:} \\
\hline Interest (net of amounts capitalized) & \$ 2,500 & \$ \\
\hline Income taxes.. & \$ 25,102 & \$ 20 \\
\hline
\end{tabular}

See accompanying notes to consolidated financial statements.

Linens 'n Things, Inc. and subsidiaries (collectively the "Company") operates in one segment, the retail industry, and had 283 stores in 40 states across the United States and three Provinces in Canada as of the fiscal year ended 2000. The Company's stores emphasize a broad assortment of home textiles, housewares and home accessories, carrying both national brand and private label goods.

\section*{2. Summary of Significant Accounting Policies}

\section*{Basis of Presentation}

The consolidated financial statements include those of Linens 'n Things, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Fiscal Periods

On December 15, 1999, the Board of Directors approved a change in the Company's fiscal year from a calendar year to a 52/53-week calendar year. Therefore, fiscal 2000 ended December 30, 2000 and fiscal 1999 ended January 1, 2000. Both fiscal 2000 and 1999 were 52 week periods. Fiscal 1998 was based on a calendar year which ended December 31, 1998.

Earnings Per Share

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

The weighted average number of shares outstanding for basic earnings per share were approximately \(39,785,000\) in fiscal \(2000,39,339,000\) in fiscal 1999 and \(38,895,000\) in fiscal 1998. The weighted average number of shares outstanding for diluted earnings per share including the dilutive effects of stock options and deferred stock grants were approximately 40,712,000 in fiscal 2000, 40,907,000 in fiscal 1999 and 40,407,000 in fiscal 1998.

Stock Based Compensation

The Company grants stock options and restricted stock for a fixed number of shares to employees with stock option exercise prices equal to the fair market value of the shares at the date of grant. The Company has adopted the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation". In accordance with the provisions of SFAS No. 123, the Company accounts for stock option grants and restricted stock grants in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, the Company does not recognize compensation expense for stock option grants but amortizes restricted stock grants at fair market value, over specified vesting periods.

Financial Instruments
Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are reflected in the consolidated financial statements at carrying value which approximates fair value due to the short-term nature of these instruments. The carrying value of the Company's borrowings approximates the fair value based on the current rates available to the Company for similar instruments.

\section*{Cash and Cash Equivalents}

The Company's cash management program utilizes controlled disbursement accounts. Under this system, book overdrafts represent checks outstanding, which have been issued and have not cleared the company's bank accounts at fiscal year end. Accordingly, all book overdraft balances have been reclassified to current liabilities. Cash equivalents are considered, in general, to be those securities with maturities of three months or less when purchased.

\section*{Inventories}

Inventories consist of finished goods merchandise purchased from domestic and foreign vendors and are carried at the lower of cost or market, cost being determined by the retail inventory method of accounting.

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 building and 5 to 15 years for furniture, fixtures and equipment). Capitalized software costs are amortized on a straight-line basis over their estimated useful lives of 3 to 5 years, beginning in the year placed in service. Leasehold improvements are amortized over the shorter of the related lease term or the economic lives of the related assets.

Maintenance and repairs are charged directly to expense as incurred. Major renewals or replacements are capitalized after making the 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 to result from the use of the asset and its ultimate disposition. If the sum of the undiscounted cash flows is less than the carrying value, the company recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset. Fair value would generally be determined by market value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Deferred Charges

Deferred charges, principally beneficial leasehold costs, are amortized on a straight-line basis, generally over the remaining life of the leasehold acquired.

Goodwill

The excess of acquisition costs over the fair value of net assets acquired is amortized on a straight-line basis not to exceed 40 years.

Deferred Rent

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

Shareholders' Equity

In April of 1999, the Company's Certificate of Incorporation was amended to increase the number of authorized shares of common stock (par value \(\$ 0.01\) per share) from 60,000,000 shares to \(135,000,000\) shares.

On April 14, 1998, the Board of Directors of the Company approved a two-for-one split of its common stock to be effected in the form of a stock dividend. The stock dividend was one additional share of common stock for each outstanding share of common stock and was distributed on May 7, 1998 to shareholders of record on April 24, 1998. Unless otherwise stated, all references to common shares outstanding and income per share in the consolidated financial statements, notes to consolidated financial statements, and management's discussion and analysis of financial condition and results of operations are on a post-split basis.

Revenue Recognition

The Company recognizes revenue at the time of sale of merchandise to its customers.

Store Opening and Closing Costs

New store opening costs are charged to expense as incurred. In the event a store is closed before its lease has expired, the total lease obligation, less anticipated sublease rental income and related improvements and fixtures, is provided for in the year of closing.

\section*{Advertising Costs}

The Company expenses the production costs of advertising at the commencement date of the advertisement. Advertising costs were \$39.6 million, \(\$ 35.6\) million and \(\$ 28.9\) million for fiscal years 2000 , 1999 and 1998, 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 taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in statutory tax rates is recognized in income in the period that includes the enactment date.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Certain reclassifications were made to the fiscal 1999 and 1998 consolidated financial statements in order to conform to the fiscal 2000 presentation.
3. Accounts Receivable, Net
\begin{tabular}{|c|c|c|}
\hline \multirow[b]{2}{*}{Accounts receivable, net, consisted of the following (in thousands):} & \multicolumn{2}{|l|}{Fiscal Year Ended} \\
\hline & 2000 & 1999 \\
\hline Credit and charge card receivables. & \$9,489 & \$6,457 \\
\hline Due from landlords and vendors & 20,934 & 13,172 \\
\hline Other, net of allowance & 1,085 & 1,207 \\
\hline & \$ 31,508 & 20,836 \\
\hline
\end{tabular}
4. Property and Equipment

5. Accrued Expenses and Other Current Liabilities


\section*{6. Short-Term Borrowing Arrangements}

On October 20, 2000, the Company entered into a \(\$ 140\) 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 in borrowings from uncommitted lines of credit outside of the Credit Agreement. The Credit Agreement replaced the 1998 \$90 million revolving line of credit which allowed for up to \(\$ 25\) million in borrowings from uncommitted lines of credit (the "1998 Credit Agreement"). Under the Credit Agreement, the amount of borrowings can be increased up to \$150 million provided certain terms and conditions contained in the Credit Agreement

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are met. Interest on all borrowings is determined based upon several alternative rates as stipulated in the Credit Agreement including a fixed rate plus LIBOR 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. At the end of fiscal 2000 , the Company was in compliance with the terms of the Credit Agreement. At various times throughout fiscal 2000 and 1999, the Company borrowed against the Credit Agreement and the 1998 Credit Agreement for seasonal working capital needs. At the end of fiscal 2000, the Company had no borrowings under the Credit Agreement and \(\$ 3.9\) million of borrowings against the uncommitted lines of credit. In addition, as of December 30, 2000 and January 1, 2000, the Company had \(\$ 10.7\) million and \(\$ 1.7\) million, respectively, of letters of credit outstanding. The letters of credit were used to guarantee payment of certain insurance obligations and to secure a foreign line of credit. The Company is not obligated under any formal or informal compensating balance requirements.

\section*{7. Deferred Income Taxes and Other Long-Term Liabilities}

Deferred income taxes and other long-term liabilities consisted of the following (in thousands):
\begin{tabular}{|c|c|c|}
\hline \multirow[t]{2}{*}{} & \multicolumn{2}{|l|}{Fiscal Year Ended} \\
\hline & 2000 & 1999 \\
\hline Deferred income taxes & \$30,198 & \$23,642 \\
\hline Deferred rent & 18,988 & 15,097 \\
\hline Other. & 7,421 & 7,917 \\
\hline & \$56,607 & \$46,656 \\
\hline
\end{tabular}

\section*{8. Leases}

The Company has non-cancelable operating leases, primarily for retail stores, which expire through 2022. The leases generally contain renewal options for periods ranging from 5 to 15 years and require the Company to pay costs such as real estate taxes and common area maintenance. Contingent rentals are paid based on a percentage of gross sales. Net rental expense for all operating leases was as follows (in thousands):
\begin{tabular}{|c|c|c|c|}
\hline & 2000 & 1999 & 1998 \\
\hline Minimum rentals & \$125,172 & \$101,575 & \$83,881 \\
\hline Contingent rentals & 151 & 212 & 139 \\
\hline & 125,323 & 101,787 & 84,020 \\
\hline Less sublease rentals & 503 & 577 & 563 \\
\hline & \$124, 820 & \$101, 210 & \$83,457 \\
\hline
\end{tabular}

At fiscal year end 2000 , the future minimum rental payments required under operating leases and the future minimum sublease rentals excluding lease obligations for closed stores were as follows (in thousands):

Fiscal Year
\begin{tabular}{|c|c|}
\hline 2001 & \$ 132,267 \\
\hline 2002 & 132,898 \\
\hline 2003 & 131,240 \\
\hline 2004 & 128,572 \\
\hline 2005 & 126,423 \\
\hline Thereafter. & 1,065,730 \\
\hline & \$1,717,130 \\
\hline Total future minimum sublease rentals & \$ 8,257 \\
\hline
\end{tabular}

In addition, as of January 31, 2001, the Company had fully executed leases for 47 stores planned to open in fiscal 2001.

\section*{9. Stock Incentive Plans}

The Company has adopted the 2000 Stock Award and Incentive Plan (the "2000 Plan") and the Broad-Based Equity Plan (collectively, the "Plans"). The 2000 Plan provides for the granting of options, deferred stock grants and other stock-based awards (collectively, "awards") to key employees and non-officer directors. The 2000 Plan replaces both the Company's 1996 Incentive Compensation Plan (the "1996 Plan") and the 1996 Non-Employee Directors' Stock Plan (the "Directors' Plan"). Therefore, no future awards will be made under the 1996 Plan and the Directors' Plan, although outstanding awards under the 1996 Plan and the Directors' Plan will continue to be in effect. Under the 2000 Plan, an aggregate of \(2,000,000\) shares (plus any shares under outstanding awards under the 1996 Plan and the Directors' Plan which become available for further grants) is available for issuance of awards. Under the Broad-Based Equity Plan a total of 4,000,000 shares are available for issuance of awards to regular full time employees (excluding any executive officers).

Stock options and grants under the Plans are awarded at the fair market value of the shares at the date of grant. The right to exercise options generally commences one to five years after, and generally expires ten years after, the grant date, provided the optionee or eligible director continues to be employed by, or remains in service as director to, the Company.

At fiscal year end 2000, 135,559 deferred stock grants were outstanding under the 1996 Plan and the Directors' Plan. During fiscal 2000, 67, 608 grants were released, 15,601 grants were awarded and 400 grants were canceled under the 1996 Plan and the Directors' Plan.

At fiscal year end 2000, 97,127 deferred stock grants were outstanding under the 2000 Plan. During fiscal 2000, 11,860 grants were released, 108,987 grants were awarded and no grants were canceled under the 2000 Plan.

At fiscal year end 2000 , 2,661,907 stock options were outstanding under the 1996 Plan. During fiscal 2000, 9,850 stock options were granted, 525,899 stock options were exercised, 62,676 stock options were canceled and 1,175,808 stock options were exercisable at fiscal year end 2000 under the 1996 Plan. At fiscal year end 2000, 54,800 stock options were outstanding under the Directors' Plan. During fiscal 2000, 8,000 stock options were granted, 11,550 stock options were exercised, 9,850 stock options were canceled and 36,600 stock options were exercisable at fiscal year end 2000 under the Directors' Plan.

At fiscal year end 2000, 472,500 stock options were outstanding under the 2000 Plan. During fiscal 2000, 472,500 stock options were granted, no stock options were exercised, no stock options were canceled and no stock options were exercisable at fiscal year end 2000 under the 2000 Plan.

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At fiscal year end 2000, 603,835 stock options were outstanding under the Broad-Based Equity Plan. During fiscal \(2000,606,710\) stock options were granted, no stock options were exercised, 2,875 stock options were canceled and no stock options were exercisable at fiscal year end 2000 under the Broad- Based Equity Plan.

The following tables summarize information about stock option transactions for the Plans, the 1996 Plan and the Directors' Plan:
\begin{tabular}{|c|c|c|}
\hline & \begin{tabular}{l}
Number \\
of Shares
\end{tabular} & WeightedAverage Exercise Price \\
\hline Balance at December 31, 1997 & 2,598,618 & \$10.47 \\
\hline Options granted & 853,708 & \$30.31 \\
\hline Options exercised & 378,611 & \$7.86 \\
\hline Options canceled & 91,882 & \$12.56 \\
\hline Balance at December 31, 1998 & 2,981,833 & \$16.39 \\
\hline Options granted & 785,450 & \$31.52 \\
\hline Options exercised & 390,038 & \$10.10 \\
\hline Options canceled & 68,413 & \$18.48 \\
\hline Balance at January 1, 2000 & 3,308,832 & \$20.71 \\
\hline Options granted & 1,097,060 & \$21.77 \\
\hline Options exercised & 537,449 & \$10.13 \\
\hline Options canceled & 75,401 & \$27.18 \\
\hline Balance at December 30, 2000 & 3,793,042 & \$22.43 \\
\hline \multicolumn{3}{|l|}{Options Exercisable as of:} \\
\hline December 31, 1998 & 720,616 & \$10.03 \\
\hline January 1, 2000 & 1,055,448 & \$12.25 \\
\hline December 30, 2000 & 1,212,408 & \$14.35 \\
\hline
\end{tabular}
\begin{tabular}{|c|c|c|c|}
\hline \multicolumn{4}{|c|}{Options Outstanding} \\
\hline & \multicolumn{3}{|c|}{Weighted-Average} \\
\hline Range of Exercise Price & ```
    Outstanding
        as of
December 30, 2000
``` & Remaining Contractual Life & Weighted-Average Exercise Price \\
\hline \$7.75-\$9.75 & 660,329 & 5.9 years & \$ 7.78 \\
\hline \$9.76-\$14.62 & 14,000 & 6.4 years & \$12.45 \\
\hline \$14.63-\$19.50 & 501,174 & 6.9 years & \$17.44 \\
\hline \$19.51-\$24.37 & 1,045,685 & 9.8 years & \$21.44 \\
\hline \$24.38-\$29.25 & 64,309 & 6.4 years & \$26.89 \\
\hline \$29.26-\$34.12 & 1,475,145 & 8.4 years & \$30.82 \\
\hline \$34.13-\$39.00 & 7,850 & 8.5 years & \$36.68 \\
\hline \$39.01-\$43.87 & 17,350 & 8.3 years & \$40.21 \\
\hline \$43.88-\$48.75 & 7,200 & 8.3 years & \$ 45.02 \\
\hline
\end{tabular}
Total 3,793,042 8.1 years \(\$ 22.43\)

Options Exercisable
\begin{tabular}{|c|c|c|}
\hline \begin{tabular}{l}
Range of \\
Exercise Price
\end{tabular} & utstanding as Of December 30, 2000 & Weighted-Average Exercise Price \\
\hline \$7.75 -\$9.75 & 658,379 & \$ 7.77 \\
\hline \$9.76-\$14.62 & 9,650 & \$12.54 \\
\hline \$14.63-\$19.50 & 346,341 & \$17.44 \\
\hline \$19.51-\$24.37 & 100 & \$20.23 \\
\hline \$24.38-\$29.25 & 31,909 & \$26.13 \\
\hline \$29.26-\$34.12 & 156,328 & \$30.84 \\
\hline \$34.13-\$39.00 & 2,575 & \$36.65 \\
\hline \$39.01-\$43.87 & 4,750 & \$40.16 \\
\hline \$43.88-\$48.75 & 2,376 & \$45.05 \\
\hline Total & 1,212,408 & \$14.35 \\
\hline
\end{tabular}

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model using the following assumptions for grants:
\begin{tabular}{|c|c|c|c|}
\hline Fiscal Year Ended & 2000 & 1999 & 1998 \\
\hline Expected life (years) & 6.0 & 4.5 & 4.5 \\
\hline Expected volatility. & 55.0\% & 45.0\% & 45.0\% \\
\hline Risk-free interest rate. & 5.1\% & 6.2\% & 4.7\% \\
\hline Expected dividend yield & 0.0\% & 0.0\% & 0.0\% \\
\hline
\end{tabular}

The Company applies APB No. 25 and related interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation cost has been recognized in connection with these plans in the accompanying consolidated financial statements. Set forth below are the Company's net income and net income per share presented "as reported" and as if compensation cost had been recognized in accordance with the provisions of SFAS No. 123:
\begin{tabular}{|c|c|c|c|}
\hline (in millions, except per share data) & 2000 & 1999 & 1998 \\
\hline \multicolumn{4}{|l|}{Net income:} \\
\hline As reported. & \$64.9 & \$52.1 & \$38.1 \\
\hline Pro forma. & \$59.8 & \$49.3 & \$36.2 \\
\hline \multicolumn{4}{|l|}{Net income per share of common stock: Basic:} \\
\hline As reported. & \$1.63 & \$1.32 & \$0.98 \\
\hline Pro forma & \$1.50 & \$1.25 & \$0.93 \\
\hline Diluted: & & & \\
\hline As reported. & \$1.60 & \$1.27 & \$0.94 \\
\hline Pro forma... & \$1.47 & \$1.20 & \$0.89 \\
\hline
\end{tabular}

The effects of applying SFAS No. 123 in this pro forma disclosure are not necessarily indicative of future amounts.
10. Employee Benefit Plans

On December 1, 1996, the Company adopted a \(401(k)\) savings plan. Company contributions to the plan amounted to approximately \(\$ 2.2\) million, \(\$ 1.9\) million and \(\$ 1.7\) million for fiscal years 2000,1999 and 1998 , respectively.

Effective July 1, 1999, the Company adopted a defined benefit Supplemental Executive Retirement Plan ("SERP"). The SERP, which is funded with the cash surrender value of a life insurance policy, provides eligible executives with supplemental pension benefits, in addition to amounts received under the Company's other retirement plan. Under the terms of the SERP, upon termination of employment with the Company, eligible participants will be entitled to the benefit amount as defined under the SERP. The Company recorded expenses related to the SERP of approximately \(\$ 34,000\) for fiscal 2000 and \(\$ 34,000\) for fiscal 1999.

\section*{11. 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 the Company's deferred tax assets and liabilities were as follows (in thousands) :


\title{
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}
\begin{tabular}{|c|c|c|c|}
\hline & 35,140 & 28,673 & 21,431 \\
\hline \multicolumn{4}{|l|}{Deferred:} \\
\hline U.S. Federal & 4,572 & 3,328 & 2,148 \\
\hline U.S. State. & 570 & 456 & 264 \\
\hline \multirow[t]{2}{*}{Non-U.S.} & (68) & -- & -- \\
\hline & 5,074 & 3,784 & 2,412 \\
\hline Total & \$40,214 & \$32,457 & \$23,843 \\
\hline
\end{tabular}

The following is a reconciliation between the statutory Federal income tax rate and the effective rate for:
\begin{tabular}{lccc} 
& \multicolumn{3}{c}{ Fiscal Year Ended } \\
& & 2000 & 1999
\end{tabular}

\section*{12. Commitments and Contingencies}

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 will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

The Company is a defendant in a California state court litigation brought as a class action on behalf of certain managers of company stores located in California seeking overtime pay as well as a claim for accrued vacation pay on behalf of certain former employees. In the event such claims for vacation pay are determined adversely to the Company, management of the Company does not believe such claims, if so adversely determined, would have a material adverse effect on the Company's financial position, liquidity or results of operations. At the present time, there has been no determination of the number of any actual class. Nor has there been any determination of the extent to which overtime pay may or may not be owed. Accordingly, the Company is not presently in a position to estimate with any degree of certainty, the range of potential exposure represented by this litigation.

\section*{13. Summary of Quarterly Results (unaudited)}
(in
thousands,
\begin{tabular}{cccccc} 
except per & First & Second & Third & Fourth & Fiscal \\
share data) & Quarter & Quarter & Quarter Quarter & Year
\end{tabular}
\begin{tabular}{|c|c|c|c|c|c|}
\hline \multicolumn{6}{|l|}{Net sales} \\
\hline 2000 & \$326,976 & \$339,655 & \$410,371 & \$495,574 & \$1,572,576 \\
\hline 1999 & 273,540 & 271,628 & 341,122 & 414,342 & 1,300,632 \\
\hline \multicolumn{6}{|l|}{Gross profit} \\
\hline 2000 & 128,301 & 139,683 & 166,086 & 209,201 & 643,271 \\
\hline 1999 & 106,692 & 110,895 & 137,236 & 173,356 & 528,179 \\
\hline \multicolumn{6}{|l|}{Net income} \\
\hline 2000 & 5,055 & 6,947 & 18,406 & 34,529 & 64,937 \\
\hline 1999 & 3,595 & 5,103 & 14,662 & 28,692 & 52,052 \\
\hline \multicolumn{6}{|l|}{Net income per share} \\
\hline \multicolumn{6}{|l|}{Basic1} \\
\hline 2000 & \$ 0.13 & \$ 0.18 & \$ 0.46 & \$ 0.86 & \$ 1.63 \\
\hline \multirow[t]{2}{*}{1999} & & & & & \\
\hline & 0.09 & 0.13 & 0.37 & 0.73 & 1.32 \\
\hline \multicolumn{6}{|l|}{Diluted1} \\
\hline 2000 & \$ 0.13 & \$ 0.17 & \$ 0.45 & \$ 0.84 & \$ 1.60 \\
\hline \multirow[t]{2}{*}{1999} & & & & & \\
\hline & 0.09 & 0.12 & 0.36 & 0.70 & 1.27 \\
\hline
\end{tabular}

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.
14. Market Information (unaudited)

The Company's common stock is listed on the New York Stock Exchange. Its trading symbol is LIN. The Company has not paid a dividend on its common stock. The high and low trading price of the Company's common stock for each quarter is as follows:

For Fiscal 2000
\begin{tabular}{|c|c|c|}
\hline & High & Low \\
\hline First Quarter & 3/8 & \$17 15/16 \\
\hline Second Quarter & 15/16 & 23 /16 \\
\hline Third Quarter & 3/8 & 23 7/8 \\
\hline Fourth Quarter & 1/2 & 20 \\
\hline
\end{tabular}

For Fiscal 1999


At fiscal year end 2000, there were approximately 7,300 beneficial shareholders.

Management's Responsibility for Financial Reporting

The integrity and objectivity of the financial statements and related financial information in this report are the responsibility of 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, at appropriate cost, that assets are safeguarded, transactions are executed in accordance with management's authorization, and the accounting records provide a reasonable basis for the preparation of the financial statements. The system of internal accounting controls is continually reviewed by management and improved and modified as necessary in response to changing business conditions and recommendations of the Company's independent auditors.

The Audit Committee of the Board of Directors, currently consisting solely of outside non-management directors, meets periodically with management and the independent auditors to review matters relating to the Company's financial reporting, the adequacy of internal accounting controls and the scope and results of audit work. The independent auditors have free access to the Audit Committee.

KPMG LLP, certified public accountants, is engaged to audit the consolidated financial statements of the Company. Its Independent Auditors' Report, which is based on an audit made in conformity with generally accepted auditing standards, expresses an opinion as to the fair presentation of these financial statements.

\section*{/s/ Norman Axelrod}
Norman Axelrod
Chairman and Chief Executive Officer
/s/ William T. Giles
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William T. Giles
Senior Vice President, Chief Financial Officer
January 31, 2001

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Independent Auditors' Report

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 December 30, 2000 and January 1, 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 30, 2000 . These consolidated financial statements are the responsibility of the Company's
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. Those 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 respects, the financial position of Linens 'n Things, Inc. and Subsidiaries as of December 30, 2000 and January 1, 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 30, 2000 in conformity with accounting principles generally accepted in the United States of America.
/s/ KPMG LLP

KPMG LLP

New York, New York
January 31, 2001```

