LINENS N THINGS INC
Form 10-Q
August 14, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2001

Commission File Number 1-12381

Linens n Things, Inc.

(Exact Name of Registrant as specified in its charter)

Delaware	**22-3463939**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification Number)
6 Brighton Road, Clifton, New Jersey	**07015**
(Address of principal executive offices)	(Zip Code)
(Registrant's telephone number, including area code)	**(973) 778-1300**

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

Yes X No _

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

Class	Outstanding at August 3, 2001
Common Stock, $0.01 par value	40,530,473

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Thirteen Weeks Ended	
	June 30, 2001	July 1, 2000
Net sales	$387,715	$339,655
Cost of sales, including buying and distribution costs	225,554	199,972
Gross profit	162,161	139,683
Selling, general and administrative expenses	153,562	127,743
Litigation provision	4,000	-

Operating profit	4,599	11,940
Interest income	-	(1)
Interest expense	1,187	667
Interest expense, net	1,187	666
Income before provision for income taxes	3,412	11,274
Provision for income taxes	1,303	4,327
Net income	$2,109	$6,947
Basic earnings per share	$0.05	$0.18
Diluted earnings per share	$0.05	$0.17

See accompanying notes to consolidated financial statements.

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

	June 30, 2001	Decemb 20
	(Unaudited)	(Aud
Assets		
Current assets:		
Cash and cash equivalents	$ 7,656	$
Accounts receivable, net	27,023	
Inventories	520,334	
Prepaid expenses and other current assets	30,653	
Total current assets	585,666	
Property and equipment, net	300,564	
Goodwill, net	18,552	
Deferred charges and other noncurrent assets, net	7,491	
Total assets	$ 912,273	$
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 206,866	$
Accrued expenses and other current liabilities	98,997	
Short-term borrowings	70,050	
Total current liabilities	375,913	
Deferred income taxes and other long-term liabilities	61,727	
Shareholders' equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; none issued and outstanding	--	
Common stock, $0.01 par value; 135,000,000 shares authorized; 40,644,166 shares issued and 40,527,473 shares outstanding at June 30,		

2001; 40,173,441 shares issued and 40,059,126 shares outstanding at December 30, 2000; and 39,842,595 shares issued and 39,766,118 shares outstanding at July 1, 2000	406	
Additional paid-in capital	240,842	
Retained earnings	236,989	
Accumulated other comprehensive income	(92)	
Treasury stock, at cost; 116,693 shares at June 30, 2001, 114,315 shares at December 30, 2000 and 76,477 shares at July 1, 2000	(3,512)	
Total shareholders' equity	474,633	
Total liabilities and shareholders' equity	$ 912,273	$

See accompanying notes to consolidated financial statements.

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

	Twenty-Six Weeks Ended	
	June 30, 2001	Jul 20
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 6,803	$
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	19,104	
Deferred income taxes	1,967	
Loss on disposal of assets	64	
Federal tax benefit from common stock issued under stock incentive plans	4,098	
Changes in assets and liabilities, net of effects of foreign currency translation:		
Decrease in accounts receivable, net	4,480	
Increase in inventories	(83,147)	
Increase in prepaid expenses and other current assets	(3,672)	
Increase in deferred charges and other noncurrent assets	(144)	
Increase in accounts payable	23,428	
Decrease in accrued expenses and other current liabilities	(18,493)	
Net cash used in operating activities	(45,512)	
Cash flows from investing activities:		
Additions to property and equipment	(56,663)	
Cash flows from financing activities:		
Increase in short-term borrowings	66,152	

Proceeds from common stock issued under stock incentive plans	5,202	
Increase in treasury stock	(82)	
Net cash provided by financing activities	71,272	
Effect of exchange rate changes on cash and cash equivalents	35	
Net decrease in cash and cash equivalents	(30,868)	
Cash and cash equivalents at beginning of period	38,524	
Cash and cash equivalents at end of period	$ 7,656	$

See accompanying notes to consolidated financial statements.

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

1. Basis of Presentation

The accompanying consolidated financial statements, except for the December 30, 2000 consolidated balance sheet, are unaudited. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of normal recurring accruals and items discussed in Note 6) necessary to present fairly the financial position of the Company as of June 30, 2001 and July 1, 2000 and the results of operations for the respective thirteen and twenty-six weeks then ended and cash flows for the twenty-six weeks then ended. Because of the seasonality of the specialty retailing business, operating results of the Company on a quarterly basis may not be indicative of operating results for the full year.

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

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

2. Earnings Per Share

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

Periods ended June 30, 2001
(in thousands, except EPS)

	Thirteen week period			T
	Income	Shares	EPS	Income
Basic	$2,109	40,522	$0.05	$6,803
Effect of outstanding stock options and deferred stock grants	--	752		--
Diluted	$2,109	41,274	$0.05	$6,803

Periods ended July 1, 2000
(in thousands, except EPS)

	Thirteen week period			Tw
	Income	Shares	EPS	Income
Basic	$6,947	39,672	$0.18	$12,002
Effect of outstanding stock options and deferred stock grants	--	949		--
Diluted	$6,947	40,621	$0.17	$12,002

Options for which the exercise price was greater than the average market price of common shares for the period were not included in the computation of diluted earnings per share. These consisted of options totaling 163,864 shares and 160,566 shares for the thirteen weeks and 87,316 shares and 379,888 shares for the twenty-six weeks ended June 30, 2001 and July 1, 2000, respectively.

3. Short-Term Borrowing Arrangements

The Company has available a three-year, $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 of borrowings from uncommitted lines of credit outside of the 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 based upon several alternative rates as stipulated in the Credit Agreement, including a fixed rate plus LIBOR based rate. The Credit Agreement contains certain financial covenants, including those relating to the maintenance of a minimum tangible net worth, a minimum fixed charge coverage ratio, and a maximum leverage ratio. As of June 30, 2001, the Company was in compliance with its covenants under the Credit Agreement. In addition, the Credit Agreement contains a covenant that limits the amount of cash dividends. According to this covenant, the amount of dividends shall not exceed the sum of $50 million plus on a cumulative basis an amount equal to 50% of the consolidated net income for each fiscal quarter, commencing with the fiscal quarter ending September 30, 2000. However, the Company has never made any dividend payments. As of June 30, 2001, the Company had $60.0 million in borrowings under the Credit Agreement and $10.1 million in borrowings against the uncommitted lines of credit at a weighted average interest rate of 5.3%. The Company also had $20.1 million of letters of credit outstanding as of June 30, 2001, which were primarily used for merchandise purchases.

4. Comprehensive Income

Comprehensive income for the thirteen weeks and twenty-six weeks ended June 30, 2001 and July 1, 2000 is as follows:

	Thirteen Weeks Ended June 30, July 1, 2001 2000		
Comprehensive Income:			
Net Income	$2,109	$6,947	$6
Other comprehensive income/(loss)-- Foreign currency translation adjustment	204	(166)	
Comprehensive income	$2,313	$6,781	$6

5. Recent Accounting Pronouncements

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

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

In July 2001, the FASB issued SFAS No. 141, Business Combinations (SFAS No. 141), which supercedes Accounting Principles Board (APB) Opinion No. 16, Business Combinations . SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase method. The provisions of this statement apply to all business combinations initiated after June 30, 2001. The Company has determined that the implementation of SFAS No. 141 did not have a significant effect on its results of operations or financial position.

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

6. Litigation

The Company 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 separate claim for accrued vacation pay on behalf of certain former employees. On April 2, 2001, the managers were granted class certification status for the overtime pay claims. On August 3, 2001 the plaintiffs in this case filed an Offer to Compromise with the court. Based upon this Offer to Compromise, the Company has recorded a one-time charge of $4.0 million in the second quarter of fiscal 2001 related to these wage claims. The Company does not admit any liability with regard to such class action and continues to defend the matter. While the Company believes that the final outcome in such litigation will not exceed provisions already established, the Company can provide no assurance to that effect.

7. Reclassification

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

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<u>Independent Auditors' Review Report</u>

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

We have reviewed the consolidated balance sheets of Linens n Things, Inc. and Subsidiaries as of June 30, 2001 and July 1, 2000, and the related consolidated statements of operations for the thirteen and twenty-six week periods then ended and the related consolidated statements of cash flows for the twenty-six week periods ended June 30, 2001 and July 1, 2000. These consolidated financial statements are the responsibility of the Company s management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical review procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

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

KPMG LLP

New York, New York
July 18, 2001

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

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

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

Results of Operations

Thirteen Weeks Ended June 30, 2001 Compared With Thirteen Weeks Ended July 1, 2000

Net sales increased 14.1% to $387.7 million for the thirteen weeks ended June 30, 2001, up from $339.7 million for the same period in 2000, primarily as a result of new store openings since July 1, 2000. Comparable store net sales for the thirteen weeks ended June 30, 2001 declined 3.6% as compared with an increase of 5.7% for the same period last year. The decline in comparable store net sales can be primarily attributed to a decline in consumer traffic due to the slowing economy.

During the thirteen weeks ended June 30, 2001, the Company opened 12 stores and closed one store, compared with opening 5 stores and closing one store during the same period last year. At June 30, 2001, the Company operated 304 stores, compared with 244 stores at July 1, 2000. Store square footage increased 26.6% to 10,696,000 at June 30, 2001 compared with 8,451,000 at July 1, 2000.

In addition to the cost of inventory sold, the Company includes its buying and distribution expenses in its cost of sales. Buying expenses include all direct and indirect costs to procure merchandise. Distribution expenses include the cost of operating the Company s distribution centers and freight expense related to transporting merchandise. Gross profit for the thirteen weeks ended June 30, 2001 was $162.2 million, or 41.8% of net sales, compared with $139.7 million, or 41.1% of net sales, for the same period last year. The increase in gross profit as a percent of net sales was principally due to improved mark-on as a result of product mix. In addition, freight expense as a percentage of net sales declined from the prior year as a result of a reduction in the volume of inventory receipts in response to sales trends.

The Company s selling, general and administrative (SG&A) expenses consist of store selling expenses, occupancy costs, advertising expenses and corporate office expenses. For the thirteen weeks ended June 30, 2001, SG&A expenses were $153.6 million, or 39.6% of net sales, compared with $127.7 million, or 37.6% of net sales, for the same period last year. The increase as a percentage of net sales is primarily due to the de-leveraging of occupancy costs. Occupancy costs for the quarter increased as a percent of net sales versus the same period last year, which reflects the decline in comparable store net sales along with the opening of 63 stores since July 1, 2000. In addition, advertising expenses as a percentage of net sales increased compared with the same period last year due to a slight increase in promotional activity. These expenses were partially offset by the leveraging of corporate office expenses.

The Company recorded a one-time charge of $4.0 million in the second quarter of fiscal 2001 in connection with the claims arising in a class action lawsuit in California regarding overtime pay, as well as a separate claim for accrued vacation pay on behalf of certain former employees. While the Company believes that the final outcome in such litigation will not exceed provisions already established, the Company can provide no assurance to that effect.

Operating profit for the thirteen weeks ended June 30, 2001 was $4.6 million, or 1.2% of net sales, compared with $11.9 million, or 3.5% of net sales, for the same period last year.

The Company incurred net interest expense of $1.2 million (including amortization of commitment fees in connection with the Company s $140 million Credit Agreement) for the thirteen weeks ended June 30, 2001, compared with $0.7 million for the same period in 2000. The increase in net interest expense is mainly attributed to an increase in short-term borrowings to fund the Company s operations.

The Company s income tax expense for the thirteen weeks ended June 30, 2001 was $1.3 million compared with $4.3 million for the same period last year. The Company s effective tax rate was 38.2% for the thirteen weeks ended June 30, 2001 compared with 38.4% for the same period last year.

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

Net income for the thirteen weeks ended June 30, 2001 was $2.1 million, or $0.05 per share on a diluted basis, compared with $6.9 million, or $0.17 per share on a diluted basis, for the same period last year.

Twenty-Six Weeks Ended June 30, 2001 Compared With Twenty-Six Weeks Ended July 1, 2000

Net sales increased 15.1% to $767.0 million for the twenty-six weeks ended June 30, 2001, up from $666.6 million for the same period in 2000, primarily as a result of new store openings since July 1, 2000. Comparable store net sales for the twenty-six weeks ended June 30, 2001 declined 2.7% as compared with an increase of 4.5% for the same period last year. The decline in comparable store net sales can be primarily attributed to a decline in consumer traffic due to the slowing economy.

During the twenty-six weeks ended June 30, 2001, the Company opened 23 stores and closed 2 stores, compared with opening 17 stores and closing 3 stores during the same period last year.

Gross profit for the twenty-six weeks ended June 30, 2001 was $312.9 million, or 40.8% of net sales, compared with $268.0 million, or 40.2% of net sales, for the same period last year. The increase in gross profit as a percent of net sales was principally due to improved mark-on as a result of product mix. In addition, freight expense as a percentage of net sales declined from the prior year as a result of a reduction in the volume of inventory receipts in response to sales trends.

SG&A expenses for the twenty-six weeks ended June 30, 2001 were $296.1 million, or 38.6% of net sales, compared with $248.0 million, or 37.2% of net sales, for the same period last year. The increase as a percentage of net sales is primarily due to the de-leveraging of occupancy costs. Occupancy costs as a percent of net sales increased versus the same period last year, which reflects the decline in comparable store net sales along with the opening of 63 stores since July 1, 2000. In addition, advertising expenses as a percentage of net sales increased compared to the same period last year as a result of a slight increase in promotional activity. These expenses were partially offset by the leverage of corporate office expenses.

The Company recorded a one-time charge of $4.0 million in the second quarter of fiscal 2001 in connection with the claims arising in a class action lawsuit in California regarding overtime pay, as well as a separate claim for accrued vacation pay on behalf of certain former employees. While the Company believes that the final outcome in such litigation will not exceed provisions already established, the Company can provide no assurance to that effect.

Operating profit for the twenty-six weeks ended June 30, 2001 was $12.8 million, or 1.7% of net sales, compared with $20.0 million, or 3.0% of net sales, for the same period last year.

The Company incurred net interest expense of $1.8 million (including amortization of commitment fees in connection with the Company s $140 million Credit Agreement) for the twenty-six weeks ended June 30, 2001, compared with $0.6 million for the same period in 2000. The increase in net interest expense is mainly attributed to an increase in short-term borrowings to fund the Company s operations.

The Company s income tax expense for the twenty-six weeks ended June 30, 2001 was $4.2 million compared with $7.5 million for the same period last year. The Company s effective tax rate was 38.2% for the twenty-six weeks ending June 30, 2001, compared with 38.3% for the same period last year.

Net income for the twenty-six weeks ended June 30, 2001 was $6.8 million, or $0.16 per share on a diluted basis, compared with $12.0 million, or $0.30 per share on a diluted basis, for the same period last year.

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

Liquidity and Capital Resources

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

The Company has available a $140 million senior revolving credit facility expiring October 20, 2003, which can be increased up to $150 million provided certain terms and conditions contained in the Credit Agreement are met. This agreement allows for up to $40 million in borrowings from uncommitted lines of credit.

Net cash used in operating activities for the twenty-six weeks ended June 30, 2001 was $45.5 million compared with $23.1 million for the same period last year. The increase in cash used in operating activities was primarily due to the timing of vendor payments impacted by a slight decline in inventory turn.

Net cash used in investing activities during the twenty-six weeks ended June 30, 2001 was $56.7 million compared with $33.0 million for the same period last year. The increase in net cash used in investing activities was due to capital expenditures related to incremental new stores opened and scheduled to open in fiscal 2001 compared with the same period last year.

Net cash provided by financing activities during the twenty-six weeks ended June 30, 2001 was $71.3 million compared with $17.0 million for the same period last year. This increase in net cash provided by financing activities was primarily the result of an increase in short-term borrowings to fund the Company s operations.

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

Inflation

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

Seasonality

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

Forward-Looking Statements

The foregoing contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. The statements were made a number of times and have been identified as such forward-looking terminology as expect , believe , may , will , intend , plan , and similar statements of variations of such terms. All of our outlook information constitutes forward-looking information. All such forward-looking statements are based on our current expectations, assumptions, estimates and projections about the 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 furnishing retailers, the success of the Canadian expansion, availability of suitable future store locations, schedule of store expansion, the impact of bankruptcies and consolidations in our industry, and the impact of the

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

slowing consumer economy. These and other important factors that may cause actual results to differ materially from such forward-looking statements are included in the Risk Factors section of the Company s Registration Statement on Form S-1 as filed with the 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 charges in other factors affecting such forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Interest Rate Risk

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

Foreign Currency Risk

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

In addition, the Company operated eight stores in Canada as of June 30, 2001. The Company believes its foreign currency translation risk is minimal, as a hypothetical 10% strengthening or weakening of the U.S. dollar relative to the Canadian dollar would not materially affect the Company s results from operations and cash flow.

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

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings -

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 separate claim for accrued vacation pay on behalf of certain former employees. On April 2, 2001, the managers were granted class certification status for the overtime pay claims. On August 3, 2001 the plaintiffs in this case filed an Offer to Compromise with the court. Based upon this Offer to Compromise, the Company has recorded a one-time charge of $4.0 million in the second quarter of fiscal 2001 related to these wage claims. The Company does not admit any liability with regard to such class action and continues to defend the matter. While the Company believes that the final outcome in such litigation will not exceed provisions already established, the Company can provide no assurance to that effect.

Item 4. Submission of Matters to a Vote of Security Holders.

On May 2, 2001 the Company held its Annual Meeting of Shareholders. At the Annual Meeting, Stanley P. Goldstein was re-elected as director of the Company, with 36,019,154 shares voted for and 4,409,695 shares withheld. Directors whose term of office continued following the meeting were: Norman Axelrod, Philip E. Beekman, Harold F. Compton and Morton E. Handel.

Item 6. Exhibits and Reports on Form 8-K

(a) EXHIBIT INDEX

Exhibit Number	Description
15	Letter re unaudited interim financial information

(b) Reports on Form 8-K:

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

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LINENS N THINGS, INC.
(Registrant)

By: WILLIAM T. GILES

William T. Giles
Senior Vice President, Chi
(Duly authorized officer an
principal financial office

Date: August 14, 2001

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