

LINENS HOLDING CO. and SUBSIDIARIES (AND PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

(Unaudited)

| | Fiscal Year Ended December 29, 2007 | February 14, 2006 to December 30, 2006 | January 1, 2006 to February 13, 2006 |
|--|--|---|--|
| | <u>Successor Entity</u> | <u>Successor Entity</u> | <u>Predecessor Entity</u> |
| Net sales | \$ 2,794,776 | \$ 2,534,365 | \$ 284,971 |
| Cost of sales, including buying and distribution costs | 1,747,904 | 1,557,011 | 180,675 |
| Gross profit | <u>1,046,872</u> | <u>977,354</u> | <u>104,296</u> |
| Selling, general and administrative expenses | 1,221,324 | 1,040,680 | 175,424 |
| Impairment of property and equipment | 16,779 | 27,992 | — |
| Impairment of identifiable intangible asset | 100 | 3,119 | — |
| Operating loss | <u>(191,331)</u> | <u>(94,437)</u> | <u>(71,128)</u> |
| Interest income | (386) | (190) | (668) |
| Interest expense | 101,042 | 79,795 | — |
| Writeoff of deferred financing costs | 6,986 | — | — |
| Interest expense (income), net | <u>107,642</u> | <u>79,605</u> | <u>(668)</u> |
| Other income, net | <u>(6,251)</u> | <u>(657)</u> | <u>(1,286)</u> |
| Loss before benefit for income taxes | <u>(292,722)</u> | <u>(173,385)</u> | <u>(69,174)</u> |
| Benefit for income taxes | (50,631) | (66,852) | (21,270) |
| Net loss | <u>\$ (242,091)</u> | <u>\$ (106,533)</u> | <u>\$ (47,904)</u> |

LINENS HOLDING CO. and SUBSIDIARIES (AND PREDECESSOR)

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

| | December 29, 2007 | December 30, 2006 |
|---|------------------------------|------------------------------|
| | <hr/> | <hr/> |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 16,071 | \$ 12,526 |
| Accounts receivable | 34,189 | 37,063 |
| Inventories | 795,371 | 793,002 |
| Prepaid expenses and other current assets | 14,869 | 15,308 |
| Current deferred income taxes | 469 | 16,815 |
| | <hr/> | <hr/> |
| Total current assets | 860,969 | 874,714 |
| Property and equipment, net | 425,536 | 530,829 |
| Identifiable intangible assets, net | 142,754 | 150,044 |
| Goodwill | 272,420 | 267,830 |
| Deferred financing costs and other noncurrent assets, net | 38,708 | 34,517 |
| | <hr/> | <hr/> |
| Total assets | \$ 1,740,387 | \$ 1,857,934 |
| | <hr/> | <hr/> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 179,026 | \$ 204,760 |
| Accrued expenses and other current liabilities | 267,553 | 241,911 |
| | <hr/> | <hr/> |
| Total current liabilities | 446,579 | 446,671 |
| Senior secured notes and other long-term debt | 650,000 | 652,076 |
| Asset-based credit facility | 205,859 | 37,800 |
| Noncurrent deferred income taxes | 52,224 | 125,977 |
| Other long-term liabilities | 62,941 | 50,667 |
| | <hr/> | <hr/> |
| Total liabilities | 1,417,603 | 1,313,191 |
| | <hr/> | <hr/> |
| Total shareholders' equity | 322,784 | 544,743 |
| | <hr/> | <hr/> |
| Total liabilities and shareholders' equity | \$ 1,740,387 | \$ 1,857,934 |
| | <hr/> | <hr/> |

LINENS HOLDING CO. and SUBSIDIARIES (AND PREDECESSOR)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

| | Fiscal Year Ended December 29, 2007 Successor Entity | February 14, 2006 to December 30, 2006 Successor Entity | January 1, 2006 to February 13, 2006 Predecessor Entity |
|---|---|--|--|
| Cash inflows (outflows) from operating activities: | | | |
| Net loss | \$ (242,091) | \$ (106,533) | \$ (47,904) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | | |
| Depreciation and amortization | 130,301 | 114,509 | 12,642 |
| Deferred income taxes | (66,518) | (73,641) | (6,725) |
| Stock-based compensation | 3,189 | 4,263 | 12,484 |
| Writeoff of deferred financing costs | 6,986 | — | — |
| Amortization of deferred financing charges | 7,441 | 3,930 | 43 |
| Loss on sales and disposals of property and equipment | 539 | 671 | — |
| Impairment of property and equipment | 16,779 | 27,992 | — |
| Impairment of identifiable intangible asset | 100 | 3,119 | — |
| (Increase) decrease in assets, net of effect of acquisition: | | | |
| Accounts receivable | 3,539 | 8,727 | (2,240) |
| Inventories | 7,615 | 26,133 | (31,886) |
| Prepaid expenses and other current assets | 5,490 | 13,482 | (12,153) |
| Identifiable intangible assets and other noncurrent assets | 20 | 124 | 9,580 |
| Increase (decrease) in liabilities, net of effect of acquisition: | | | |
| Accounts payable | (31,035) | (26,921) | 12,010 |
| Accrued expenses and other liabilities | 34,291 | 6,347 | (7,807) |
| Net cash (used in) provided by operating activities | (123,354) | 2,202 | (61,956) |
| Cash inflows (outflows) from investing activities: | | | |
| Acquisition of the Predecessor Entity, net of cash acquired | — | (1,205,502) | — |
| Additions to property and equipment | (37,022) | (66,280) | (10,956) |
| Proceeds from sales of property and equipment | 5,400 | 3,100 | — |
| Proceeds from return of building purchase option deposit | — | 1,817 | — |
| Net cash used in investing activities | (31,622) | (1,266,865) | (10,956) |
| Cash inflows (outflows) from financing activities: | | | |
| Issuance of common stock to Linens Investors LLC and others | — | 650,650 | — |
| Issuance of floating rate notes | — | 650,000 | — |
| Financing and direct acquisition costs | (8,170) | (60,447) | — |
| Premium paid for derivative financial instrument | — | (700) | — |
| Issuance of common stock under stock incentive plans | — | — | — |
| Federal tax benefit from common stock issued under stock incentive plans | — | — | 4,298 |
| Change in borrowings under revolving credit facilities: | | | |
| Proceeds from borrowings | 1,422,558 | 965,328 | — |
| Repayments | (1,254,499) | (927,528) | — |
| Decrease in treasury stock | — | — | 674 |
| Payments on mortgage note | (2,076) | (54) | (10) |
| Net cash provided by financing activities | 157,813 | 1,277,249 | 4,962 |
| Effect of exchange rate changes on cash and cash equivalents | 708 | (60) | 125 |
| Net increase (decrease) in cash and cash equivalents | 3,545 | 12,526 | (67,825) |
| Cash and cash equivalents at beginning of period | 12,526 | — | 158,158 |
| Cash and cash equivalents at end of period | \$ 16,071 | \$ 12,526 | \$ 90,333 |

Net loss reconciliation to EBITDA and Adjusted EBITDA

LNT defines EBITDA as earnings before interest, income taxes, depreciation and amortization. The Company defines Adjusted EBITDA as EBITDA adjusted to exclude the additional items described in the following table.

The Company presents EBITDA and Adjusted EBITDA because it considers them as useful analytical tools for measuring its ability to service its debt and generate cash for other purposes. EBITDA and Adjusted EBITDA are not measurements of the Company's financial performance under Generally Accepted Accounting Principles ("GAAP") and should not be considered as alternatives to net income, operating income or any other performance measures derived in accordance with GAAP or an alternative to cash flow from operating activities as a measure of the Company's profitability or liquidity. Adjusted EBITDA is presented as additional information because management uses Adjusted EBITDA to evaluate the operating performance of the Company. Management also believes that Adjusted EBITDA is a meaningful measurement that is commonly used by investors, security analysts and others to measure the Company's operating performance. EBITDA and Adjusted EBITDA may differ from other similarly titled measures of other companies, limiting its usefulness as a comparative measure.

For the thirteen and fifty-two weeks ended December 29, 2007 and December 30, 2006, the following table presents EBITDA reconciled to the Company's net loss for such periods and Adjusted EBITDA reconciled to EBITDA for such periods.

LINENS HOLDING CO. and SUBSIDIARIES (AND PREDECESSOR)

(In thousands)

(Unaudited)

| | Thirteen Weeks Ended <u>December 29, 2007</u> | Thirteen Weeks Ended <u>December 30, 2006</u> | Fifty-Two Weeks Ended <u>December 29, 2007</u> | Fifty-Two Weeks Ended <u>December 30, 2006</u> |
|--|--|--|---|---|
| Net loss | \$ (62,002) | \$ (22,459) | \$ (242,091) | \$ (154,437) |
| Provision (benefit) for income taxes | 7,505 | (16,530) | (50,631) | (88,122) |
| Interest expense, net | 33,896 | 24,338 | 107,642 | 78,937 |
| Depreciation and amortization | <u>33,027</u> | <u>34,294</u> | <u>130,301</u> | <u>127,151</u> |
| EBITDA | 12,426 | 19,643 | (54,779) | (36,471) |
| Non-cash rent expense (a) | 1,993 | 2,625 | 9,227 | 11,273 |
| Non-cash lease transactions (b) | (619) | (617) | (2,470) | (2,112) |
| Non-cash landlord allowance amortization (c) | (363) | (259) | (1,357) | (3,834) |
| Cash landlord allowances received (d) | <u>1,023</u> | <u>2,232</u> | <u>3,034</u> | <u>7,281</u> |
| EBITDA after rent-related adjustments | 14,460 | 23,624 | (46,345) | (23,863) |
| Non-cash impairment of property and equipment (e) | - | 27,992 | 16,779 | 27,992 |
| Non-cash impairment of identifiable intangible asset (f) | - | 3,119 | 100 | 3,119 |
| Transaction expenses (g) | - | 550 | - | 33,554 |
| Non-cash write-off of property and equipment (h) | - | 255 | 21 | 671 |
| Non-cash stock-based compensation (i) | - | - | - | 3,180 |
| Accelerated payment of stock option (j) | - | - | - | 9,305 |
| Stock-based compensation expense (k) | 859 | 900 | 3,189 | 4,263 |
| Executive severance (l) | - | 1,661 | 21 | 3,353 |
| Adjusted EBITDA | <u>\$ 15,319</u> | <u>\$ 58,101</u> | <u>\$ (26,235)</u> | <u>\$ 61,574</u> |

- (a) Represents the straight-line effect of scheduled rent increases over the expected lease term.
- (b) Represents non-cash unfavorable lease amortization for leases valued below market as a result of the acquisition of the Company by the Sponsors.
- (c) Non-cash landlord allowance amortization represents the amortization of cash allowances received from landlords at inception of leases. Non-cash landlord allowance amortization has the effect of reducing rent expense.
- (d) Represents cash allowances received from landlords at inception of leases.
- (e) Represents the non-cash accelerated write-down of the book value of certain underperforming property and equipment.
- (f) Represents the non-cash accelerated write-down of a certain identifiable intangible asset.
- (g) Transaction costs represent legal and other merger related expenses.
- (h) Represents the non-cash disposal of fixed assets for locations that have closed.
- (i) Represents non-cash compensation expense related to predecessor period restricted stock grants.
- (j) Represents acceleration of compensation expense related to stock option grants as a result of the acquisition of the Company by the Sponsors.
- (k) Represents stock-based compensation expense related to stock option grants under SFAS 123R, "Share-Based Payment".
- (l) Charges related to severance for a former executive coupled with individuals effected under the Company's cost containment initiative.