

**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>
<b>Net sales</b>	\$ 2,794,776	\$ 2,534,365	\$ 284,971
Cost of sales, including buying and distribution costs	1,747,904	1,557,011	180,675
<b>Gross profit</b>	<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	—
<b>Operating loss</b>	<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>
<b>Loss before benefit for income taxes</b>	<u>(292,722 )</u>	<u>(173,385 )</u>	<u>(69,174 )</u>
Benefit for income taxes	(50,631 )	(66,852 )	(21,270 )
<b>Net loss</b>	<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)

	<b>December 29, 2007</b>	<b>December 30, 2006</b>
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<b>Assets</b>		
<b>Current assets:</b>		
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
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<b>Total current assets</b>	<b>860,969</b>	<b>874,714</b>
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
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<b>Total assets</b>	<b>\$ 1,740,387</b>	<b>\$ 1,857,934</b>
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<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 179,026	\$ 204,760
Accrued expenses and other current liabilities	267,553	241,911
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<b>Total current liabilities</b>	<b>446,579</b>	<b>446,671</b>
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
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<b>Total liabilities</b>	<b>1,417,603</b>	<b>1,313,191</b>
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<b>Total shareholders' equity</b>	<b>322,784</b>	<b>544,743</b>
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<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,740,387</b>	<b>\$ 1,857,934</b>
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**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
<b>Cash inflows (outflows) from operating activities:</b>			
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 )
<b>Net cash (used in) provided by operating activities</b>	<b>(123,354 )</b>	<b>2,202</b>	<b>(61,956 )</b>
<b>Cash inflows (outflows) from investing activities:</b>			
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	—
<b>Net cash used in investing activities</b>	<b>(31,622 )</b>	<b>(1,266,865 )</b>	<b>(10,956 )</b>
<b>Cash inflows (outflows) from financing activities:</b>			
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 )
<b>Net cash provided by financing activities</b>	<b>157,813</b>	<b>1,277,249</b>	<b>4,962</b>
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 )
<b>Cash and cash equivalents at beginning of period</b>	<b>12,526</b>	<b>—</b>	<b>158,158</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 16,071</b>	<b>\$ 12,526</b>	<b>\$ 90,333</b>

### **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>
<b>EBITDA</b>	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>
<b>EBITDA after rent-related adjustments</b>	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
<b>Adjusted EBITDA</b>	<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.