Linens Holding Co.
Form 10-Q
August 14, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark)

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

For the Quarterly Period Ended June 30, 2007

or

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

Commission file numbers: **333-135646-12**
001-12381
333-135646-11

LINENS HOLDING CO.

LINENS N THINGS, INC.

LINENS N THINGS CENTER, INC.

(Exact names of registrants as specified in their charters)

(States or other jurisdictions of incorporation or organization)	(I.R.S. Employer Identification Nos.)
Delaware	**20-4192917**
Delaware	**22-3463939**
California	**59-2740308**

6 Brighton Road, Clifton, New Jersey 07015

(Address of principal executive offices) (Zip Code)

(973) 778-1300

(Registrants telephone number, including area code)

Indicate by check mark whether the registrants (1) have 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) have been subject to such filing requirements for the past 90 days:

Yes x No o

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, or non-accelerated filers. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o Accelerated Filer o Non-accelerated filer x

Indicate by check mark whether the registrants are a shell company (as defined in Rule 12b-2 of the Act):

Yes o No x

As of July 31, 2007, there were 13,013,000 shares of Linens Holding Co. common stock, $0.01 par value, outstanding; 1,000 shares of Linens n Things, Inc. common stock, $0.01 par value, outstanding; and 100 shares of Linens n Things Center, Inc. common stock, no par value, outstanding.

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EXPLANATORY NOTE

On November 8, 2005, Linens Merger Sub Co. was formed by affiliates of Apollo Management, L.P., and National Realty & Development Corp. and Silver Point Capital Fund Investments LLC (collectively, the Sponsors) to serve as a holding company. On February 14, 2006, Linens Merger Sub Co. merged with and into Linens n Things, Inc. (the Merger), and Linens n Things, Inc., as the surviving corporation, became a wholly owned subsidiary of Linens Holding Co. (the Company). The Merger was financed in part by the issuance of $650.0 million aggregate principal amount of Senior Secured Floating Rate Notes (the Notes) due 2014 of Linens n Things, Inc. and Linens n Things Center, Inc., a wholly owned subsidiary of Linens n Things, Inc. The Notes are guaranteed by the Company and each of its domestic subsidiaries (other than Linens n Things, Inc. and Linens n Things Center, Inc.). This report also contains the condensed consolidated financial statements of the Company s predecessor entity, Linens n Things, Inc. and its subsidiaries, for the period January 1, 2006 to February 13, 2006. The accompanying condensed consolidated financial statements are those of Linens Holding Co. and its subsidiaries. The Company has not presented separate financial statements for Linens n Things, Inc. and its subsidiaries or Linens n Things Center, Inc. and its subsidiaries (collectively, the Issuers as described in Note 12) because management has determined that the differences in such financial statements are minor. Unless the context requires otherwise, we, us, our, or the Company refer to Linens Holding Co. and its subsidiaries and, for periods prio to February 14, 2006, the Company s predecessor entity and its subsidiaries.

FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) with respect to the Company s financial condition, results of operations and business that is not historical information. All statements, other than statements of historical fact, included in this report are forward-looking statements. In particular, statements that the Company makes relating to its overall volume trends, industry forces, margin trends, anticipated capital expenditures and its strategies are forward-looking statements. When used in this document, the words believe, expect, anticipate, intend, estimate, project, plan, and similar expressions, as well as future or conditional verbs such as will, should, could, are intended to identify forward-looking statements.

These statements are based on assumptions and assessments made by the Company s management in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes to be appropriate. The Company believes there is a reasonable basis for its expectations and beliefs, but they are inherently uncertain, the Company may not realize its expectations and its beliefs may not prove correct. Any forward-looking statements are not guarantees of the Company s future performance and are subject to risks and uncertainties that could cause actual results, developments and business decisions to differ materially from those described or implied by any such forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Such factors include, without limitation: general economic conditions; changes in the retailing environment and consumer spending habits; inclement weather and natural disasters; competition from existing and potential competitors; the amount of merchandise markdowns; loss or retirement of key members of management; increases in the costs of borrowings and unavailability of additional debt or equity capital; impact of the Company s substantial indebtedness on its operating income and its ability to grow; the cost of labor; labor disputes; increased healthcare benefit costs; other costs and expenses; and other important factors that could cause actual results to differ materially from those described or implied by the forward-looking statements contained in this report.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands) (Unaudited)

	Thirteen Weeks Ended June 30, 2007	Thirteen Weeks Ended July 1, 2006
Net sales	**$ 593,571**	**$ 611,583**
Cost of sales, including buying and distribution costs	346,654	373,265
Gross profit	**246,917**	**238,318**
Selling, general and administrative expenses	289,179	283,219
Operating loss	**(42,262)**	**(44,901)**
Interest income	(109)	(33)
Interest expense	25,725	21,845
Interest expense, net	25,616	21,812
Other income, net	(1,425)	(2,932)
Loss before benefit for income taxes	**(66,453)**	**(63,781)**
Benefit for income taxes	(24,467)	(24,654)
Net loss	**$ (41,986)**	**$ (39,127)**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands) (Unaudited)

	Twenty-six Weeks Ended June 30, 2007 (Successor Entity)	February 14, 2006 to July 1, 2006 (Successor Entity)	January 1, 2006 to February 13, 2006 (Predecessor Entity)
Net sales	**$ 1,165,131**	**$ 919,428**	**$ 284,971**
Cost of sales, including buying and distribution costs	704,730	562,333	180,675
Gross profit	**460,401**	**357,095**	**104,296**
Selling, general and administrative expenses	572,115	420,779	175,424
Operating loss	**(111,714)**	**(63,684)**	**(71,128)**
Interest income	(264)	(119)	(668)
Interest expense	49,887	31,832	
Interest expense (income), net	49,623	31,713	(668)
Other income, net	(2,298)	(2,731)	(1,286)
Loss before benefit for income taxes	**(159,039)**	**(92,666)**	**(69,174)**
Benefit for income taxes	(58,879)	(35,967)	(21,270)
Net loss	**$ (100,160)**	**$ (56,699)**	**$ (47,904)**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

LINENS HOLDING CO. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)(Unaudited)

	June 30, 2007	December 30, 2006	July 1, 2006 (Restated)
Current assets:			
Cash and cash equivalents	$ 16,963	$ 12,526	$ 13,494
Accounts receivable	36,133	37,063	39,695
Inventories	858,368	793,002	854,823
Prepaid expenses and other current assets	14,288	15,308	74,658
Current deferred taxes	17,879	16,815	6,678
Total current assets	**943,631**	**874,714**	**989,348**
Property and equipment, net of accumulated depreciation of $162,059, $100,616 and $43,543 at June 30, 2007, December 30, 2006 and July 1, 2006, respectively	487,489	530,829	590,781
Identifiable intangible assets, net	146,434	150,044	157,887
Goodwill	270,880	267,830	265,865
Deferred financing costs and other noncurrent assets	42,589	34,517	35,364
Total assets	**$ 1,891,023**	**$ 1,857,934**	**$ 2,039,245**
Liabilities and Shareholders Equity			
Current liabilities:			
Accounts payable	$ 191,021	$ 204,760	$ 191,491
Accrued expenses and other current liabilities	194,280	241,911	223,806
Mortgage note payable on property sold	2,043		
Short-term borrowings			155,006
Total current liabilities	**387,344**	**446,671**	**570,303**
Senior secured notes and other long-term debt	915,125	689,876	652,108
Noncurrent deferred income taxes	74,959	125,977	176,061
Other long-term liabilities	58,287	50,667	45,422
Total liabilities	**1,435,715**	**1,313,191**	**1,443,894**
Shareholders equity:			
Common stock, $0.01 par value; 15,000,000 shares authorized; 13,013,000 shares issued and outstanding at June 30, 2007 and December 30, 2006; 13,003,000 shares issued and outstanding at July 1, 2006	131	131	130
Additional paid-in capital	653,851	652,395	649,966
Retained deficit	(206,693)	(106,533)	(56,699)
Accumulated other comprehensive income (loss)	8,019	(1,250)	1,954
Total shareholders equity	**455,308**	**544,743**	**595,351**
Total liabilities and shareholders equity	**$ 1,891,023**	**$ 1,857,934**	**$ 2,039,245**

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)

	Successor Entity Twenty-six Weeks Ended June 30, 2007	February 14, 2006 to July 1, 2006 (Restated)	Predecessor Entity January 1, 2006 to February 13, 2006
Cash flows from operating activities:			
Net loss	$ (100,160)	$ (56,699)	$ (47,904)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	64,285	46,816	12,642
Deferred income taxes	(60,738)	(9,902)	(6,725)
Share-based compensation	1,455	2,328	12,484
Amortization of deferred financing charges	4,381	1,610	43
Loss on sale and disposals of property and equipment	307	73	
Changes in assets and liabilities, net of effect of acquisition:			
Decrease (increase) in accounts receivable	1,184	6,231	(2,240)
Increase in inventories	(60,010)	(33,433)	(31,886)
Decrease (increase) in prepaid expenses and other current assets	2,611	(45,410)	(12,153)
Decrease in identifiable intangible assets and other noncurrent assets	72	236	9,580
(Decrease) increase in accounts payable	(16,373)	(41,174)	12,010
Decrease in accrued expenses and other liabilities	(38,969)	(18,169)	(7,807)
Net cash used in operating activities	**(201,955)**	**(147,493)**	**(61,956)**
Cash flows from investing activities:			
Acquisition of the Predecessor Entity, net of cash acquired(1)		(1,205,502)	
Additions to property and equipment	(22,495)	(29,630)	(10,956)
Proceeds from sale of property and equipment	3,300		
Net cash used in investing activities	**(19,195)**	**(1,235,132)**	**(10,956)**
Cash flows from financing activities:			
Issuance of common stock to Linens Investors LLC and others		650,150	
Issuance of floating rate notes		650,000	
Financing and direct acquisition costs	(2,095)	(59,220)	
Federal tax benefit from common stock issued under stock incentive plans			4,298
Net increase in borrowings under revolving credit facility	227,325	155,006	
Decrease in treasury stock			674
Payments on mortgage note	(33)	(23)	(10)
Net cash provided by financing activities	**225,197**	**1,395,913**	**4,962**
Effect of exchange rate changes on cash and cash equivalents	390	206	125
Net increase (decrease) in cash and cash equivalents	4,437	13,494	(67,825)
Cash and cash equivalents at beginning of period	**12,526**		**158,158**
Cash and cash equivalents at end of period	**$ 16,963**	**$ 13,494**	**$ 90,333**
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Interest (net of amounts capitalized)	$ 43,131	$ 14,031	$ 135

Income taxes						
Income taxes paid	$	9,527	$	25,761	$	57
Income tax refunds	$	947	$	261	$	
Non-cash transactions:						
Increase (decrease) in goodwill due to purchase accounting adjustments, net	$	3,050	$	(120)	$	
Decrease in accrued additions to property and equipment	$	6,453	$	4,408	$	3,180

(1) In connection with the Merger, net cash settlements of approximately $20.0 million and $4.4 million for stock options and restricted stock units, respectively, are included in Acquisition of the Predecessor Entity, net of cash acquired.

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

On November 8, 2005, Linens Merger Sub Co. was formed by affiliates of Apollo Management, L.P., and National Realty & Development Corp. and Silver Point Capital Fund Investments LLC (collectively, the Sponsors) to serve as a holding company. On February 14, 2006, Linens Merger Sub Co. merged with and into Linens n Things, Inc. (the Merger), and Linens n Things, Inc., as the surviving corporation, became a wholly owned subsidiary of Linens Holding Co. (the Company). The acquisition and related financings are referred to collectively as the Transactions and are discussed in more detail in Note 3 to the audited consolidated financial statements included in the Company s 2006 Annual Report on Form 10-K. As a result of the consummation of the Transactions, a new entity (the Successor or Successor Entity) was formed for financial accounting purposes with an effective date of February 14, 2006, consisting of Linens Holding Co. and Subsidiaries. The condensed consolidated financial statements as of June 30, 2007 and July 1, 2006, for the twenty-six weeks ended June 30, 2007 and for the period February 14, 2006 to July 1, 2006 show the financial position and results of operations and cash flows of the Successor Entity, Linens Holding Co. and Subsidiaries. The condensed consolidated financial statements for the period January 1, 2006 to February 13, 2006 show the results of operations and cash flows of Linens n Things, Inc. and Subsidiaries (the Predecessor or Predecessor Entity).

The accompanying condensed consolidated financial statements are unaudited. In the opinion of management, the accompanying condensed consolidated financial statements for the Successor Entity and Predecessor Entity include all normal and recurring adjustments that are considered necessary to present fairly the financial position and the results of operations and cash flows for the respective periods presented. As a result of the consummation of the Transactions, the condensed consolidated financial statements for the periods after February 13, 2006 are presented on a different basis than that for the periods before February 14, 2006 as a result of the application of purchase accounting as of February 14, 2006 and, therefore, are not comparable.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Because of the seasonality of the specialty retailing business, operating results of the Company on a quarterly or interim basis may not be indicative of operating results for the full year.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the fiscal year ended December 30, 2006 included in the Company s 2006 Annual Report on Form 10-K available from the Securities and Exchange Commission (SEC) or through the Company s website at *lnt.com* posted on March 27, 2007 under *SEC Filings*. All significant intercompany accounts and transactions have been eliminated.

The accompanying condensed consolidated financial statements are those of Linens Holding Co. and its subsidiaries. The Company has not presented separate financial statements for Linens n Things, Inc. and its subsidiaries or Linens n Things Center, Inc. and its subsidiaries (collectively, the Issuers as described in Note 12) because management has determined that the differences in such financial statements are minor.

The Predecessor adopted SEC Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB No. 108) effective January 1, 2006, the beginning of the 52-week period ended December 30, 2006, which is more fully described in Note 2 to the audited consolidated financial statements included in the Company s 2006 Annual Report on Form 10-K under *Summary of Significant Accounting Policies Adoption of Staff Accounting Bulletin No. 108*. In accordance with the requirements of SAB No. 108 and to conform to the current period s presentation, the Company has restated certain balances at July 1, 2006 in the accompanying condensed consolidated balance sheets.

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, cont d

The cumulative effect of the January 1, 2006 adoption of SAB 108 by the Predecesor to certain accounts on the Company s balance sheet at July 1, 2006 is as follows (in thousands):

	Increase (Decrease) to Amount Previously Reported	
Balance Sheet Account Adjusted	**Assets**	**Liabilities and Shareholders Equity**
Goodwill	$ (11,450)	$
Noncurrent deferred income taxes		(10,371)
Current deferred income taxes	1,079	
Total	$ (10,371)	$ (10,371)

The adoption of SAB No. 108 by the Predecessor did not impact the Company s results of operations and cash flows for any of the periods presented.

Certain other prior period amounts have been reclassified to conform to the current period s presentation. Additionally, the Company corrected its reporting of cash flows for the period February 14, 2006 to July 1, 2006. Additions to property and equipment on the condensed consolidated statements of cash flows was adjusted to exclude accrued additions. This correction increased additions to property and equipment with an offsetting reduction to net cash used in operating activities by $4.4 million for the period February 14, 2006 to July 1, 2006.

2. Share-based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), *Share-Based Payment* (SFAS No. 123 (Revised 2004)), requiring the recognition of compensation cost for all equity classified awards granted, modified or settled after the effective date and for the unvested portion of awards outstanding as of the effective date using the fair-value measurement method. SFAS No. 123 (Revised 2004) revised SFAS No. 123, *Accounting for Stock-Based Compensation*, and superseded Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*.

The Company recognizes the cost of all time-based employee stock options on a straight-line attribution basis and the cost of all performance-based employee stock options on an accelerated basis in accordance with Financial Accounting Standards Board Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans* over their respective vesting periods, net of estimated forfeitures.

Share-based Compensation Plans Predecessor Entity

Prior to the completion of the Merger, the Company granted stock options and restricted stock units for a fixed number of shares to employees and directors under share-based compensation plans, which are more fully described in Note 13 to the audited consolidated financial statements included in the Company s 2006 Annual Report on Form 10-K under *Share-based Compensation Plans Predecessor Entity*. The exercise prices of the stock options were equal to the fair market value of the underlying shares at the date of grant. Compensation expense for restricted stock awards was measured at fair value on the date of grant based on the number of shares granted and the quoted market price of the Company s common stock. Such value was recognized as an expense over the vesting period of the award adjusted for actual forfeitures.

Upon completion of the Merger and in accordance with the terms of the stock plans, all of the outstanding stock options became fully vested and immediately exercisable. Each option was exercised, equal to the excess of $28.00 over the underlying stock option exercise price, less applicable withholding taxes. Each restricted stock unit award was exercised at $28.00 in cash, without interest, less applicable withholding taxes.

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, cont d

There were no share-based grants during the period January 1, 2006 to February 13, 2006. The total intrinsic value of stock options and restricted stock units exercised due to the Merger was approximately $20.0 million and $4.4 million, respectively, for the period January 1, 2006 to February 13, 2006.

The total fair value of stock options and restricted stock units vested during the period from January 1, 2006 to February 13, 2006 was approximately $11.2 million and $4.0 million, respectively.

As of January 1, 2006, there was approximately $9.3 million and $3.2 million of total unrecognized compensation cost related to stock option grants and restricted stock unit awards, respectively, under the share-based compensation plans. The consummation of the Merger accelerated the recognition of compensation cost and, accordingly, all of this cost was included in selling, general and administrative expense in the condensed consolidated statements of operations for the period January 1, 2006 to February 13, 2006.

Share-based Compensation Plans Successor Entity

On February 14, 2006, the board of directors (the Board) and stockholders of Linens Holding Co. adopted the Linens Holding Co. Stock Option Plan (the Plan). The Plan provides employees or directors of the Company or its subsidiaries who are in a position to contribute to the long-term success of these entities, with options to acquire shares in the Company to aid in attracting, retaining and motivating persons of outstanding ability. The Plan was amended in March 2006 to increase the number of shares of common stock, par value $0.01 per share, of Linens Holding Co. (the Common Stock) available for issuance under the Plan to 1,157,298 shares.

As of June 30, 2007, a total of 953,696 stock options were outstanding.

Stock options granted under the Plan to each optionee are equally divided between a Time Option and a Performance Option, as those terms are defined in the standard form of option grant letter. For each stock option granted the estimated fair market value of the underlying shares at the date of grant was less than or equal to the stock option s exercise price of $50.00 per share, and expire seven years after the date of grant. Time Options become vested and exercisable in four equal installments on either (1) each of February 14, 2007, February 14, 2008, February 14, 2009, and February 14, 2010 with respect to options initially granted March 27, 2006 or (2) on each of the first four anniversaries of the date of grant for all other options. With respect to Performance Options and as provided for and defined in the standard form of grant letter, the stock options become vested and exercisable in two equal installments from a measurement date if, on such measurement date, the value per share equals or exceeds a target stock price.

The following is a summary of share-based option activity for the twenty-six weeks ended June 30, 2007:

Successor Entity

Options	**Shares**		**Weighted Average Exercise Price**		**Weighted Average Remaining Contractual Term (years)**
Outstanding at December 30, 2006	**839,946**		**$**	**50.00**	
Options granted	195,750		50.00		
Exercised					
Canceled	(82,000	)	50.00		
Outstanding at June 30, 2007	**953,696**		**$**	**50.00**	**5.99**
Exercisable at June 30, 2007	**178,658**		**$**	**50.00**	**5.80**

There are no provisions in the Plan for the issuance of restricted stock units.

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, cont d

The weighted-average grant date fair value of options granted during the twenty-six weeks ended June 30, 2007 and the period February 14, 2006 to July 1, 2006 was $ 9.34 and $17.39, respectively.

There were no stock option exercises during the twenty-six weeks ended June 30, 2007 and the period February 14, 2006 to July 1, 2006.

The following is a summary of the activity for nonvested stock option grants as of June 30, 2007 and the changes for the twenty-six weeks then ended:

	Successor Entity Stock Options Options	Fair Value(1)
Nonvested at December 30, 2006	**736,946**	**$ 17.41**
Grants	195,750	**$ 9.34**
Vested	(76,595)	**$ 17.46**
Canceled	(81,063)	**$ 17.38**
Nonvested at June 30, 2007	**775,038**	**$ 15.37**

(1) Represents the weighted-average grant date fair value per option, using the Monte Carlo simulation option-pricing model for Performance Options, and the Black-Scholes option-pricing model for Time Options.

The total fair value of stock options vested during the twenty-six weeks ended June 30, 2007 and the period February 14, 2006 to July 1, 2006 was approximately $1.3 million and $1.5 million, respectively.

As of June 30, 2007, there was approximately $8.7 million of total unrecognized compensation cost related to stock option grants both under and outside the Plan. This cost is expected to be recognized over a remaining weighted-average period of 2.5 years. The compensation cost that has been charged against income for stock option grants was approximately $0.9 million and $1.6 million for the thirteen weeks ended June 30, 2007 and July 1, 2006, respectively. The compensation cost that has been charged against income for stock option grants was approximately $1.5 million and $2.3 million for the twenty-six weeks ended June 30, 2007 and for the period February 14, 2006 to July 1, 2006, respectively. Such compensation cost is included in selling, general and administrative expenses in the condensed consolidated statements of operations.

Prior to the adoption of SFAS 123 (Revised 2004) the Company used the Black-Scholes option-pricing model for estimating the fair value for all options granted. Beginning in the first quarter of 2006, the Company used the Monte Carlo simulation option-pricing model for estimating the fair value of Performance Options and the Black-Scholes option-pricing model for Time Options. This change was made in order to provide a better estimate of fair value. The Monte Carlo option-pricing model is particularly useful in the valuation of options with complicated features that make them difficult to value through a straight-forward Black-Scholes-style computation.

LINENS HOLDING CO. AND SUBSIDIARIES (AND PREDECESSOR)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, cont d

Presented below is a comparative summary of valuation assumptions for grants issued in each of the indicated periods:

Valuation Assumptions:	Thirteen Weeks Ended June 30, 2007 (Monte Carlo Simulation and Black-Scholes)		Thirteen Weeks Ended July 1, 2006 (Monte Carlo Simulation and Black-Scholes)	
Weighted-average calculated value of options granted	$ 9.14		$ 17.21	
Expected volatility (1)	N/A		N/A	
Weighted-average volatility (1)	33.7	%	36.8	%
Weighted-average expected term (in years)	3.4		3.7	
Dividend yield				
Risk-free interest rate	4.5% - 5.1	%	4.8% - 5.2	%
Weighted-average risk-free interest rate	4.6	%	4.9	%
Weighted average expected annual forfeiture	2.0	%	1.4	%

Valuation Assumptions:	Twenty-six Weeks Ended June 30, 2007 (Monte Carlo Simulation and Black-Scholes) (Successor Entity)		February 14, 2006 to July 1, 2006 (Monte Carlo Simulation and Black-Scholes) (Successor Entity)		January 1, 2006 to February 13, 2006 (Black-Scholes) (Predecessor Entity)
Weighted-average calculated value of options granted	$ 9.34		$ 17.39		No Grants
Expected volatility (1)	N/A		N/A		No Grants
Weighted-average volatility (1)	34.0	%	38.0	%	No Grants
Weighted-average expected term (in years)	3.4		3.7		No Grants
Dividend yield					No Grants
Risk-free interest rate	4.4% - 5.1	%	4.7% - 5.2	%	No Grants
Weigh					