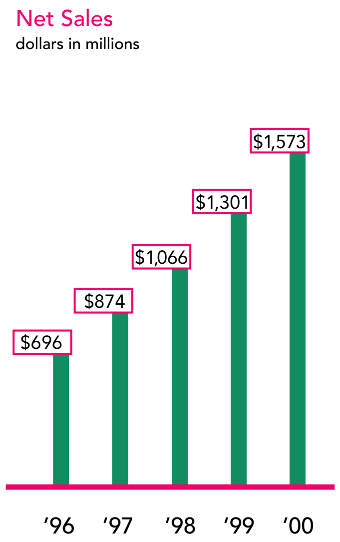

LINENS-N-THINGS
2000 Annual Report

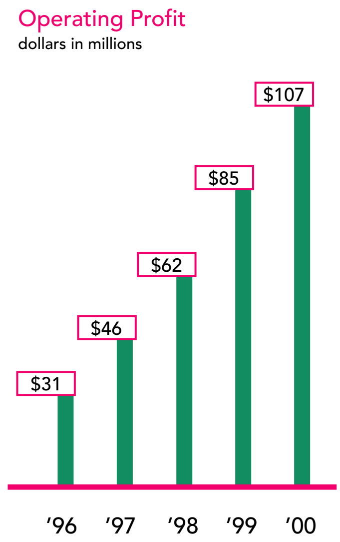
about us

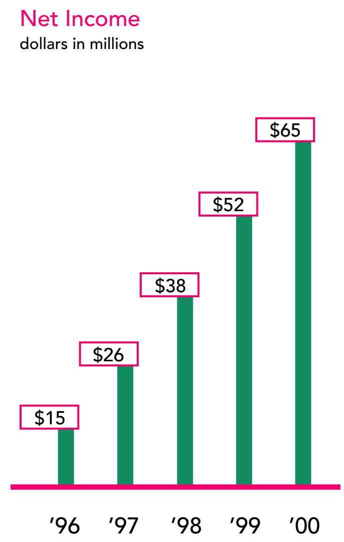
Linens 'n Things, Inc. is one of the nation's largest and fastest growing specialty retailers of home textiles, housewares and decorative home accessories, with 283 stores in the United States and Canada. The Company's ability to deliver consistently strong financial performance is the result of a focused business strategy: to market a broad and deep selection of fashionable home furnishings merchandise; to sell leading name brands at everyday value prices; to deliver superior service; and to inspire our guests through a fun and convenient shopping atmosphere that reflects their current lifestyles.

our results

Fiscal Year Ended *(in thousands, except per share data)*	Dec. 30, 2000	Jan. 1, 2000	Dec. 31, 1998	Dec. 31, 1997	Dec. 31, 1996
Net sales	$1,572,576	$1,300,632	$1,066,194	$874,224	$696,107
Gross profit	643,271	528,179	427,056	346,300	269,911
Selling, general & administrative expenses	536,179	443,627	365,068	300,793	239,228
Operating profit	107,092	84,552	61,988	45,507	30,683
Interest expense, net	1,941	43	83	1,013	4,692
Income before income taxes	105,151	84,509	61,905	44,494	25,991
Net income	$ 64,937	$ 52,052	$ 38,062	$ 25,790	$ 15,039
Basic					
Net income per share	$ 1.63	$ 1.32	$ 0.98	$ 0.67	$ 0.39
Weighted average shares outstanding	39,785	39,339	38,895	38,578	38,536
Diluted					
Net income per share	$ 1.60	$ 1.27	$ 0.94	$ 0.65	$ 0.39
Weighted average shares outstanding	40,712	40,907	40,407	39,537	38,558







To Our Shareholders:

True achievement is the result of setting ambitious goals and then working hard and smart to meet them—a discipline that Linens 'n Things has executed repeatedly in our 25-year history. In fact, our consistent ability to post solid financial performance in a cyclical industry may seem commonplace to some. But to the team here at Linens 'n Things, the only things commonplace about our accomplishments are the energy and enthusiasm we use to achieve them.

Norman Axelrod—
Chairman and Chief Executive Officer

The year 2000 was no exception. Despite a challenging retail environment, we delivered another year of record results:

- sales grew to $1.6 billion, an increase of 21 percent;
- operating profit rose 30 basis points; and
- net income grew to $64.9 million, an increase of 25 percent.

We also continued to gain industry marketshare by executing our growth strategy. We opened a record 57 new stores, including our "first-ever" locations in

Growth Our market offers enormous opportunity for continued

Canada, boosting our total square footage by 24 percent to 9.8 million and giving us a presence in 17 new markets.

Our pace of growth required intense focus on several fronts. Our six Canadian store openings, which marked our first international expansion, created new logistics and personnel challenges for our Company. Moreover, we needed to address these demands while simultaneously fueling our domestic growth, improving performance in our existing stores, and laying the groundwork for continued expansion.

Through the hard work of our employees and the support of our suppliers, we skillfully cleared these hurdles, while remaining sharply focused on executing our core operating strategy. As a result, our domestic store network is stronger than ever. Moreover, we've initiated plans to open several more stores in Canada, and we've secured real estate commitments for a majority of the more than 60 locations we plan to open in 2001.

Raising the Bar for Guest Service

We differentiate Linens 'n Things by making the service improvements that are most valuable to our guests. In 2000, we continued to raise the bar for guest service by expanding and strengthening our sales team, broadening and enriching our training program, and upgrading our technology.

We also responded to growing consumer usage of the Internet by expanding our Linens 'n Things Web site, *linensnthings.com*. Our site now features on-line access to our Gift Registry and a significantly expanded e-commerce capability that allows our guests to purchase many of our most popular items from the convenience of their homes. In the Spring of 2001, our site will also provide a direct link to theKnot.com's popular on-line wedding services site.

In 2000, we also continued to diversify our products to offer an exciting and ever-changing selection. We continued to offer a complete assortment of the most desirable national brands, including Wamsutta, Croscill, and Calphalon. We also increased our selection of "things" by expanding the personal care and lighting collections we added in 1999, and introducing area rugs and occasional furniture.

In response to guest feedback, we also intensified our efforts to leverage our LNT Home line of proprietary products. Our LNT Home products offer guests exceptional value on quality linens and "things" while creating greater awareness of our brand. As a result, this product line is a powerful vehicle for us to use in improving productivity and profitability. Recognizing this potential, we dedicated significant resources to refining and expanding our selection of LNT Home products in

penetration, and we are well positioned to capture a significant share of this growth.

"Linens 'n Things has a wealth of core strengths: We are a leader in a highly fragmented and swiftly growing industry, with a solid financial base and a clear strategy for growth. We have a powerful infrastructure that includes an extensive nationwide network of stores, a strong centralized logistics system, a growing e-commerce business and an established presence in Canada. Above all, we have a team of more than 12,000 dedicated employees, strong relationships with our product suppliers and a base of loyal customers, all of whom help to drive our success."

2000, with a focus on creating a distinct "look" that reflects the current lifestyles and tastes of guests in our core target markets. Drawing on our strong supplier relationships and our keen understanding of the forces that shape consumer trends, we developed a bold collection of distinctive new products. We are committed to evolving this line to mirror the changing preferences of our guests, with an ultimate goal of doubling our current volume of proprietary sales.

Anticipating A Bright Future

We recognize that the future holds challenges. We know that to meet our aggressive growth targets while delivering the financial results our shareholders expect, we must continue to plan far ahead of our needs. As we do so, we must dedicate increasing resources to upgrading our technological systems, expanding our logistics capabilities, and attracting and developing skilled associates. Meanwhile, regardless of economic and competitive pressures, we must drive continuous improvement in our productivity and profitability by refreshing our product selection, fine-tuning our marketing programs, enhancing our range of services, and leveraging our growing scale.

While these demands require our unflagging focus, we are confident that Linens 'n Things has the strengths necessary to fulfill them: We have an experienced management team supported by more than 12,000 dedicated employees. We have an industry leadership position, a solid financial base and a clear strategy for growth. And we have a powerful infrastructure that includes a nationwide network of stores, a strong centralized logistics system, an advanced technological platform, an established presence in Canada and a growing e-commerce business.

To support our expansion and to help accelerate our aggressive growth plans for the coming years, I am pleased to announce that in early March 2001, Steven Silverstein, our Chief Merchandising Officer was named President. In his nine years at our Company, Steve has made significant contributions to our success, and we are delighted to have him in this role as we continue to drive our growth. I know Steve shares my enthusiasm for the future, and I am pleased to have him as a partner to lead our Company in the years ahead.

In 2001, we will leverage our strengths—along with our trademark energy and enthusiasm—to continue to deliver to our shareholders strong financial performance and the foundation to sustain it.

Sincerely,

Norman Axelrod

Chairman and Chief Executive Officer

"Linens 'n Things enters 2001 with a carefully structured strategy for continuing our growth and success. Our plans for the coming year include further expanding our store network, upgrading our technological systems, enhancing our logistics capabilities, and attracting and developing more skilled associates to manage our growing needs. At the same time, we will remain sharply focused on driving continuous improvement in our productivity and profitability by refining and refreshing our product selection, fine-tuning our marketing programs, enhancing our range of services, and leveraging our growing scale."

What's new now

Our "look"

In 2000, we leveraged the power of our nationally recognized brand name by creating a trend-setting collection of proprietary products with an exciting and distinctive look. Part of our successful LNT Home line, these products combine the latest colors, textures and patterns in a diverse selection of home fashion items that fit the evolving lifestyle needs of today's consumers and complement our core selection of high-profile national brands like Wamsutta, Laura Ashley, All-Clad, Cuisinart, Royal Velvet, Calphalon and Henckels.

We constantly seek new ways to differentiate Linens 'n Things from the competition—a goal that's especially challenging because the home fashions industry is impacted by a spectrum of constantly changing forces. For example, shifts in consumer lifestyles dictate the various types of products in demand at any given time. The most popular trends in music, art and clothing, may set the tone for the current consumer attraction to specific styles, colors and fashions. In addition, merchandise demand is affected by evolving seasonal needs, such as spring cleaning, outdoor summer living, back-to-school, and holiday entertaining.

In such a dynamic marketplace, our ability to attract guests to Linens' n Things—and keep them coming back on a regular basis—is directly related to our success in anticipating tomorrow's trends, and offering seasonally-based products that draw on their appeal. One of our most vital tools in this effort is our line of proprietary products, which bear the LNT Home brand name.

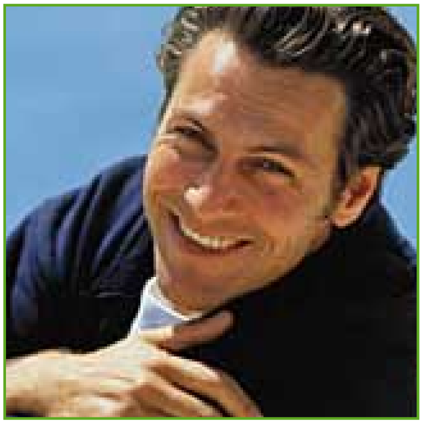
Since LNT Home products are available exclusively at our stores, they provide us with a unique opportunity to project a specific "look" through our merchandise, enabling us to build a loyal guest following and reinforce brand awareness. In 2000, we leveraged some of our core competencies—including a sharp insight into key fashion drivers; a proprietary marketing database that houses information about the lifecycle stage, interests, tastes and buying habits of our guests; strong relationships with a diverse group of suppliers; and a nationwide reputation for selling fashionable, high-quality merchandise—to redefine and expand our LNT Home line.

In 2001, we launched an entirely new collection of products with a look that's uniquely Linens' n Things. We're committed to building and evolving our LNT Home line to reflect up-to-the-minute consumer interests, with a long-term goal of more than doubling our proprietary product sales.

What you want

"At Linens 'n Things, we don't believe in reading 'yesterday's news'—or selling yesterday's products. So we dedicate extraordinary time and attention to keeping our finger on the pulse of the home fashions industry, and zeroing in on the constantly changing preferences and tastes of our guests. That's how we can feature the products and services that draw new guests into our stores and keep them coming back time and time again."

It's all about catering to **TODAY'S LIFESTYLES**

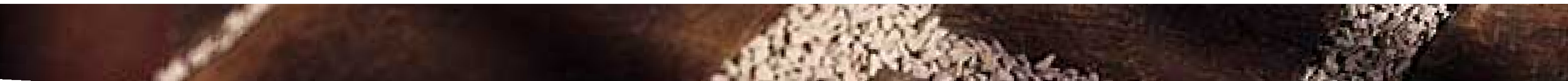


selling the products our guests need,

in the looks they love, at the prices they like.

Wamsutta • Royal Velvet • Krups • All-Clad • Calphalon • Cuisinart • Henckels • Laura Ashley •

Braun • Fieldcrest • Umbra • Croscill • Springmaid • Circulon • Farberware • Waverly • LNT Home •



Our growth

The year 2000 was a banner year for Linens 'n Things in the area of growth, marked by the continued expansion of our store network through the opening of 57 new locations, including six in Canada. These openings established our Company in 17 new markets and marked our first foray into the international arena.

One of Linens 'n Things' chief competitive advantages is our "superstore" structure. Research proves that the superstore concept we helped to put on the map combines the things consumers prize most—wide product selection, quality brands, current styles, value pricing, convenient hours and time-saving services—all under one roof. What's more, demand for quality home fashions is growing faster than ever as both primary home and vacation home ownership continue to rise to record levels. Since the home furnishings industry still remains highly fragmented and largely underpenetrated by superstores, these demographics signify excellent growth opportunities for Linens 'n Things.

We're committed to deploying an aggressive growth strategy that will enable us to capture the largest possible share of this expanding market. In 2000, we accelerated our efforts through our 57 new store openings, 6 of which heralded our penetration into the Canadian market, which promises to provide equally strong growth prospects to its U.S. counterpart over the long term. Between 2001 and 2003, we plan to open more than 200 new stores, a number of which will be in Canada. In driving this growth, we are expanding our presence in areas where Linens 'n Things is already established, as well as targeting untapped regions where we can attract new groups of guests with our excellent brands, services and values.

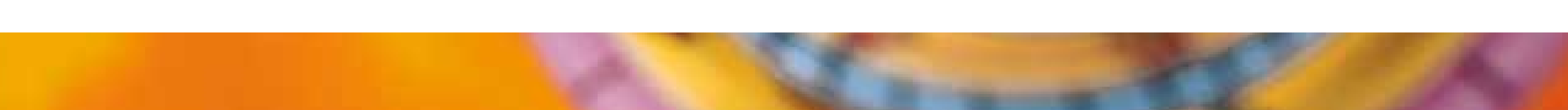
As we expanded our network in 2000, we also significantly broadened the infrastructure that our growing team of employees requires. Our initiatives included the expansion of our management training program to include more professional development courses. This important effort not only prepares our managers to take advantage of our commitment to promoting from within, but it also ensures that they have the tools they need to deliver premier guest service and top-notch overall performance.

"People love shopping in our stores because our product selection is great, and our superstore concept fits the needs of today's busy consumers. Our grasp of what our guests want and how they like to shop drives us to provide excellent personal service, to use a convenient store layout, and to offer amenities you can't get at department stores—all of which allows our guests to relax and enjoy their Linens 'n Things shopping experience."

57

record new store openings

283 store locations • International growth • E-Commerce expansion • 9.8 million square feet •



We're leveraging excellent MARKET OPPORTUNITIES

and our winning superstore formula to create value for our shareholders, guests and employees.

Two state-of-the-art distribution centers • Advanced point of sale systems • Nationwide Gift Registry •

Our results

In 2000, we pushed our sales to a record $1.6 billion, representing an increase of 21 percent compared with 1999. What's more, 2000 marked our fourth consecutive year as a public company of posting sales growth in excess of 20 percent—an achievement that clearly indicates the accuracy of our strategy and the consistency of our efforts. Other key performance measures included increasing our operating profit by 30 basis points and driving net income up 25 percent to $64.9 million.

For Linens 'n Things, 2000 was another year of delivering exceptional financial results. Through the continued execution of our core strategy, we drove a multi-faceted effort to improve our operating performance without eliminating the services our guests have come to value.

A key performance driver was our ability to leverage the growing economies of scale and efficiencies that we have gained as we have expanded. For example, in 2000, we realized valuable cost benefits through the utilization of our two distribution centers, the second of which opened during 1999. The state-of-the-art technology we employ in these facilities enabled us to speed merchandise to our selling floors, streamline inventory management and reduce our freight costs, activities that more than offset the year's higher fuel prices.

We also upgraded our technological infrastructure to improve productivity, lower costs and create the framework to support our next phase of growth. Our initiatives included increasing our use of the Company-wide intranet we launched in 1999, as well as rolling out hand-held computer devices to all of our stores. Successfully tested in some of our locations in 1999, these compact devices have raised our standards of efficiency and improved our in-stock position by permitting our sales associates to remain accessible to guests while performing a variety of tasks that traditionally took them off of the selling floor such as checking inventory, verifying prices and creating signage.

During the year, we also gained leverage from our proprietary marketing database. Drawing on our growing capability to track buying trends, we sent out mailings that alerted our guests to in-store events most likely to appeal to them, thereby generating a greater return for our marketing dollars.

Driving performance

from sales, to operating profit, to net income

"We're constantly looking at the 'big picture' to find new ways to drive performance improvements in every area of our Company—without eliminating the value-added guest services that give us a competitive advantage. That's part of why we're so focused on employing advanced technology, developing creative merchandising techniques and marketing programs, and leveraging efficiencies created by economies of scale. The result? Year-end 2000 marked our fourth consecutive year as a public company of delivering strong financial results."

Where we are

UNITED STATES

ALABAMA
Huntsville

ARIZONA
Chandler • Peoria • Phoenix • Scottsdale (2) • Tempe • Tucson

ARKANSAS
Little Rock

CALIFORNIA
Brea • Camarillo • Costa Mesa • Encinitas • Fresno • Glendale • Goleta • La Jolla • La Mesa • Long Beach • Los Angeles • Marin • Milpitas • Mission Viejo • Montclair • Northridge • Palmdale • Pleasanton • Puente Hills • Rancho Santa Margarita • Rohnhert Park • Roseville • Sacramento (2) • San Diego • San Jose • Santa Maria • Sherman Oaks • Temecula • Thousand Oaks • Torrance • Valencia • Vallejo

COLORADO
• Colorado Springs • Ft. Collins • Westminster • Littleton (2)

CONNECTICUT
Danbury • Enfield • Fairfield • Farmington • Manchester • Meriden • Milford • Norwalk (2)

FLORIDA
Altamonte Springs • Aventura • Boca Raton • Brandon • Coral Springs • Ft. Meyers • Ft. Lauderdale • Jacksonville • Jupiter • Kendall • Miami (2) • Naples • Orlando (2) • Oveido • Pembroke Pines • Pensacola • Plantation • Sarasota • Venetian • West Palm Beach

GEORGIA
Alpharetta • Atlanta (3) • Buford • Duluth • Fayetteville • Kennesaw • Lawrenceville • Snellville • Stone Mountain

IDAHO
Boise

ILLINOIS
Batavia • Bloomingdale • Chicago (2) • Crystal Lake • Downers Grove • Gurnee • Joliet • Naperville • Northbrook • Oakbrook • Orland Park • Palatine • Rockford • Schaumburg • Skokie • Vernon Hills

INDIANA
Ft. Wayne • Greenwood • Indianapolis

KANSAS
Lenexa • Olathe • Wichita

KENTUCKY
Lexington

LOUISIANA
Harahan • Lafayette

MAINE
Augusta • Kittery • S. Portland

MARYLAND
College Park • Rockville • Silver Springs • Towson

MASSACHUSETTS
Bellingham • Braintree • Burlington • Danvers • Framingham • Hadley • Leominster • Marlboro • Newton

MICHIGAN
Ann Arbor • Lansing • Livonia • Novi • Orion Township • Rochester Hills • Sterling Heights • Troy • W. Bloomfield Twp.

MINNESOTA
Bloomington • Burnsville • Coon Rapids • Maple Grove • Minnetonka • Roseville

MISSOURI
Chesterfield • Clayton • Fenton • Kansas City • Manchester

NEBRASKA
Lincoln • Omaha

NEVADA
Henderson • Las Vegas

NEW HAMPSHIRE
Bedford • Concord • Nashua • Salem

NEW JERSEY
Bridgewater • Freehold • Ledgewood • Livingston • Mount Laurel • Paramus • Princeton • Shrewsbury • Springfield • Toms River • Totowa

NEW MEXICO
Albuquerque (2) • Santa Fe

NEW YORK
Buffalo • Carle Place • Cheektowaga • Clarence • Clifton Park • Colonie • Kingston • Massapequa • Middletown • Niagara • Patchogue • Poughkeepsie • Rochester (2) • Staten Island • Stony Brook • Victor

NORTH CAROLINA
Asheville • Cary • Charlotte • Durham • Fayetteville • Hickory • Pineville • Raleigh • Winston-Salem

OHIO
Boardman • Cincinnati (3) • Columbus (2) • Niles

OKLAHOMA
Oklahoma City • Tulsa

OREGON
Beaverton • Bend • Clackamas • Portland

PENNSYLVANIA
Cranberry • Erie • Lancaster • Langhorne • Montgomeryville • Springfield • Willow Grove

RHODE ISLAND
Cranston

SOUTH CAROLINA
Charleston

TENNESSEE
Brentwood • Memphis • Murfreesboro

TEXAS
Arlington • Austin • Baybrook • Cedar Hill • Dallas (2) • El Paso • Fort Worth • Frisco • Grapevine • Houston (3) • Irving • Katy • Lakeline • Lewisville • Lubbock • Midland • Preston Park • Rockwall • Saginaw • San Antonio (2) • Sugarland • Sunset Valley • Woodlands

UTAH
Murray • Orem • Sandy

VIRGINIA
Arlington • DC • Fairfax • Falls Church • Fredericksburg • Glen Allen • Prince William • Richmond • Springfield • Sterling • Virginia Beach

WASHINGTON
Federal Way • Issaquah • Lynnwood • Olympia • Redmond • Silverdale • Spokane • Tukwila • Woodinville

WEST VIRGINIA
Barboursville

WISCONSIN
Brookfield

CANADA

ALBERTA
Calgary (2) • Edmonton

BRITISH COLUMBIA
Langley • Vancouver

ONTARIO
Mississauga

Financial directory

Five-Year Financial Summary

Fiscal Year Ended	December 30, 2000	January 1, 2000	December 31, 1998	December 31, 1997	December 31, 1996
(in thousands, except per share and selected operating data)					
Income statement data:					
Net sales	$1,572,576	$1,300,632	$1,066,194	$874,224	$696,107
Operating profit	107,092	84,552	61,988	45,507	30,683
Net income	64,937	52,052	38,062	25,790	15,039
Net income per share—basic[1]	$ 1.63	$ 1.32	$ 0.98	$ 0.67	$ 0.39
Basic weighted average shares outstanding[1]	39,785	39,339	38,895	38,578	38,536
Net income per share—diluted[1]	$ 1.60	$ 1.27	$ 0.94	$ 0.65	$ 0.39
Diluted weighted average shares outstanding[1]	40,712	40,907	40,407	39,537	38,558
Balance sheet data:					
Total assets	$ 821,557	$ 679,916	$ 560,844	$472,099	$423,957
Working capital	226,694	181,380	154,893	123,375	113,582
Total long-term debt	—	—	—	—	13,500
Shareholders' equity	$ 458,994	$ 383,962	$ 323,576	$280,035	$249,727
Selected operating data:					
Number of stores	283	230	196	176	169
Total gross square footage (000's)	9,836	7,925	6,487	5,493	4,727
Increase in comparable store net sales	3.7%	5.4%	8.3%	6.6%	1.1%

[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 stock split effected in May 1998.*

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:

Fiscal Year Ended	Dec. 30, 2000	Jan. 1, 2000	Dec. 31, 1998
Percentage of net sales			
Net sales	100.0%	100.0%	100.0%
Cost of sales, including buying and distribution costs	59.1	59.4	60.0
Gross profit	40.9	40.6	40.0
Selling, general and administrative expenses	34.1	34.1	34.2
Operating profit	6.8	6.5	5.8
Interest expense, net	0.1	0.0	0.0
Income before income taxes	6.7	6.5	5.8
Provision for income taxes	2.6	2.5	2.2
Net income	4.1%	4.0%	3.6%

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.

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.

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.

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.

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 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

Fiscal Year Ended	December 30, 2000	January 1, 2000	December 31, 1998
(in thousands, except per share amounts)			
Net sales	$1,572,576	$1,300,632	$1,066,194
Cost of sales, including buying and distribution costs	929,305	772,453	639,138
Gross profit	643,271	528,179	427,056
Selling, general and administrative expenses	536,179	443,627	365,068
Operating profit	107,092	84,552	61,988
Interest expense, net of interest income and capitalized interest	1,941	43	83
Income before income taxes	105,151	84,509	61,905
Provision for income taxes	40,214	32,457	23,843
Net income	$ 64,937	$ 52,052	$ 38,062
Per share of common stock:			
Basic			
Net income	$ 1.63	$ 1.32	$ 0.98
Weighted average shares outstanding	39,785	39,339	38,895
Diluted			
Net income	$ 1.60	$ 1.27	$ 0.94
Weighted average shares outstanding	40,712	40,907	40,407

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(in thousands, except share amounts)	December 30, 2000	January 1, 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 38,524	$ 45,751
Accounts receivable, net	31,508	20,836
Inventories	437,258	342,681
Prepaid expenses and other current assets	25,360	21,410
Total current assets	532,650	430,678
Property and equipment, net	262,409	223,725
Goodwill, net of accumulated amortization of $8,214 at December 30, 2000 and $7,364 at January 1, 2000	18,977	19,826
Deferred charges and other noncurrent assets, net	7,521	5,687
Total assets	$821,557	$679,916
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$183,473	$144,884
Accrued expenses and other current liabilities	118,580	104,414
Short-term borrowings	3,903	—
Total current liabilities	305,956	249,298
Deferred income taxes and other long-term liabilities	56,607	46,656
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; 40,173,441 shares issued and 40,059,126 shares outstanding at December 30, 2000; 39,555,259 shares issued and 39,478,782 shares outstanding at January 1, 2000	402	396
Additional paid-in capital	231,547	220,751
Retained earnings	230,186	165,249
Accumulated other comprehensive income	289	—
Treasury stock, at cost; 114,315 shares at December 30, 2000 and 76,477 shares at January 1, 2000	(3,430)	(2,434)
Total shareholders' equity	458,994	383,962
Total liabilities and shareholders' equity	$821,557	$679,916

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	Common Stock		Additional Paid-in Capital	Retained Earnings	Foreign Currency Translation Adjustment	Treasury Stock	Total
	Shares	Amount					
(in thousands, except number of shares)							
Balance at December 31, 1997	38,633,840	$386	$204,514	$ 75,135	$ —	$ —	$280,035
Net income	—	—	—	38,062	—	—	38,062
Common stock issued under stock incentive plans	457,441	5	6,864	—	—	—	6,869
Purchase of treasury stock	(53,333)	—	—	—	—	(1,390)	(1,390)
Balance at December 31, 1998	39,037,948	391	211,378	113,197	—	(1,390)	323,576
Net income	—	—	—	52,052	—	—	52,052
Common stock issued under stock incentive plans	463,978	5	9,373	—	—	—	9,378
Purchase of treasury stock	(23,144)	—	—	—	—	(1,044)	(1,044)
Balance at January 1, 2000	39,478,782	396	220,751	165,249	—	(2,434)	383,962
Net income	—	—	—	64,937	—	—	64,937
Currency translation adjustment	—	—	—	—	289	—	289
Comprehensive earnings							65,226
Common stock issued under stock incentive plans	618,182	6	10,796	—	—	—	10,802
Purchase of treasury stock	(37,838)	—	—	—	—	(996)	(996)
Balance at December 30, 2000	40,059,126	$402	$231,547	$230,186	$289	$(3,430)	$458,994

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Fiscal Year Ended	December 30, 2000	January 1, 2000	December 31, 1998
(in thousands)			
Cash flows from operating activities:			
Net income	$ 64,937	$ 52,052	$ 38,062
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	32,422	26,521	21,308
Deferred income taxes	5,074	3,784	2,502
Loss on disposal of assets	807	868	1,560
Federal tax benefit from common stock issued under stock incentive plans	4,480	4,669	3,212
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(10,672)	1,978	(9,050)
Increase in inventories	(94,577)	(71,292)	(48,201)
Increase in prepaid expenses and other current assets	(2,468)	(1,551)	(4,814)
(Increase) decrease in deferred charges and other noncurrent assets	(2,425)	(1,062)	175
Increase in accounts payable	2,929	31,033	472
Increase (decrease) in accrued expenses and other liabilities	27,027	(5,618)	25,671
Net cash provided by operating activities	27,534	41,382	30,897
Cash flows from investing activities:			
Additions to property and equipment	(70,473)	(70,129)	(46,272)
Cash flows from financing activities:			
Proceeds from common stock issued under stock incentive plans	6,322	4,709	3,657
Purchase of treasury stock	(996)	(1,044)	(1,390)
Increase in short-term borrowings	3,903	—	—
Increase in book overdrafts	26,483	28,195	15,864
Net cash provided by financing activities	35,712	31,860	18,131
Net (decrease) increase in cash and cash equivalents	(7,227)	3,113	2,756
Cash and cash equivalents at beginning of year	45,751	42,638	39,882
Cash and cash equivalents at end of year	$ 38,524	$ 45,751	$ 42,638
Supplemental disclosure of cash flow information			
Cash paid during the year for:			
Interest (net of amounts capitalized)	$ 2,500	$ 747	$ 727
Income taxes	$ 25,102	$ 20,889	$ 16,756

See accompanying notes to consolidated financial statements.

1. Business

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.

2. Summary of Significant Accounting Policies

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 the 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.

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.

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 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.

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.

Reclassifications

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

Accounts receivable, net, consisted of the following (in thousands):	Fiscal Year Ended 2000	1999
Credit and charge card receivables	$ 9,489	$ 6,457
Due from landlords and vendors	20,934	13,172
Other, net of allowance	1,085	1,207
	$31,508	$20,836

4. Property and Equipment

Property and equipment consisted of the following (in thousands):	Fiscal Year Ended 2000	1999
Land	$ 430	$ 430
Building	4,760	4,760
Furniture, fixtures and equipment	283,608	226,810
Leasehold improvements	83,480	74,320
Computer software	9,905	7,829
	382,183	314,149
Less accumulated depreciation and amortization	119,774	90,424
	$262,409	$223,725

5. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):	Fiscal Year Ended 2000	1999
Income taxes payable	$ 22,403	$ 16,778
Other taxes payable	18,383	16,508
Salaries and employee benefits	16,834	15,565
Other	60,960	55,563
	$118,580	$104,414

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 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.

7. Deferred Income Taxes and Other Long-Term Liabilities

Deferred income taxes and other long-term liabilities consisted of the following (in thousands):	Fiscal Year Ended 2000	1999
Deferred income taxes	$30,198	$23,642
Deferred rent	18,988	15,097
Other	7,421	7,917
	$56,607	$46,656

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):

Fiscal Year Ended	2000	1999	1998
Minimum rentals	$125,172	$101,575	$83,881
Contingent rentals	151	212	139
	125,323	101,787	84,020
Less sublease rentals	503	577	563
	$124,820	$101,210	$83,457

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	
2001	$ 132,267
2002	132,898
2003	131,240
2004	128,572
2005	126,423
Thereafter	1,065,730
	$1,717,130
Total future minimum sublease rentals	$ 8,257

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

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. 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:

	Number of Shares	Weighted Average Exercise Price
Balance at December 31, 1997	2,598,618	$10.47
Options granted	853,708	$30.31
Options exercised	378,611	$ 7.86
Options canceled	91,882	$12.56
Balance at December 31, 1998	2,981,833	$16.39
Options granted	785,450	$31.52
Options exercised	390,038	$10.10
Options canceled	68,413	$18.48
Balance at January 1, 2000	3,308,832	$20.71
Options granted	1,097,060	$21.77
Options exercised	537,449	$10.13
Options canceled	75,401	$27.18
Balance at December 30, 2000	3,793,042	$22.43
Options Exercisable as of:		
December 31, 1998	720,616	$10.03
January 1, 2000	1,055,448	$12.25
December 30, 2000	1,212,408	$14.35

	Options Outstanding		
Range of Exercise Price	Outstanding as of December 30, 2000	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 7.75–$ 9.75	660,329	5.9 years	$ 7.78
$ 9.76–$14.62	14,000	6.4 years	$12.45
$14.63–$19.50	501,174	6.9 years	$17.44
$19.51–$24.37	1,045,685	9.8 years	$21.44
$24.38–$29.25	64,309	6.4 years	$26.89
$29.26–$34.12	1,475,145	8.4 years	$30.82
$34.13–$39.00	7,850	8.5 years	$36.68
$39.01–$43.87	17,350	8.3 years	$40.21
$43.88–$48.75	7,200	8.3 years	$45.02
Total	3,793,042	8.1 years	$22.43

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

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:

Fiscal Year Ended	2000	1999	1998
Expected life (years)	6.0	4.5	4.5
Expected volatility	55.0%	45.0%	45.0%
Risk-free interest rate	5.1%	6.2%	4.7%
Expected dividend yield	0.0%	0.0%	0.0%

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:

Fiscal Year Ended	2000	1999	1998
(in millions, except per share data)			
Net income:			
As reported	\$64.9	\$52.1	\$38.1
Pro forma	\$59.8	\$49.3	\$36.2
Net income per share of common stock:			
Basic:			
As reported	\$1.63	\$1.32	\$0.98
Pro forma	\$1.50	\$1.25	\$0.93
Diluted:			
As reported	\$1.60	\$1.27	\$0.94
Pro forma	\$1.47	\$1.20	\$0.89

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.

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):

Fiscal Year Ended	2000	1999
Deferred tax assets:		
Employee benefits	\$ 6,806	\$ 6,150
Inventories	5,596	5,460
Other	2,720	2,154
Total deferred tax assets	15,122	13,764
Deferred tax liabilities:		
Property and equipment	33,193	26,761
Net deferred tax liability	\$18,071	\$12,997

Based on the Company's historical and current pre-tax earnings, management believes it is more likely than not that the Company will realize the deferred tax assets.

The provision for income taxes comprised the following for:

Fiscal Year Ended	2000	1999	1998
(in thousands)			
Current:			
U.S. Federal	$30,401	$25,449	$19,032
U.S. State	3,868	3,224	2,399
Non-U.S.	871	—	—
	35,140	28,673	21,431
Deferred:			
U.S. Federal	4,572	3,328	2,148
U.S. State	570	456	264
Non-U.S.	(68)	—	—
	5,074	3,784	2,412
Total	$40,214	$32,457	$23,843

The following is a reconciliation between the statutory Federal income tax rate and the effective rate for:

Fiscal Year Ended	2000	1999	1998
Effective tax rate	38.2%	38.4%	38.5%
State income taxes, net of Federal benefit	(2.7)	(2.8)	(2.8)
Goodwill	(0.3)	(0.4)	(0.5)
Other	(0.2)	(0.2)	(0.2)
Statutory Federal income tax rate	35.0%	35.0%	35.0%

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.

13. Summary of Quarterly Results (unaudited)

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Net sales					
2000	$326,976	$339,655	$410,371	$495,574	$1,572,576
1999	273,540	271,628	341,122	414,342	1,300,632
Gross profit					
2000	128,301	139,683	166,086	209,201	643,271
1999	106,692	110,895	137,236	173,356	528,179
Net income					
2000	5,055	6,947	18,406	34,529	64,937
1999	3,595	5,103	14,662	28,692	52,052
Net income per share					
Basic[1]					
2000	$ 0.13	$ 0.18	$ 0.46	$ 0.86	$ 1.63
1999	0.09	0.13	0.37	0.73	1.32
Diluted[1]					
2000	$ 0.13	$ 0.17	$ 0.45	$ 0.84	$ 1.60
1999	0.09	0.12	0.36	0.70	1.27

[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		For Fiscal 1999	
	High	Low	High	Low
First Quarter	$34 3/8	$17 15/16	$48 1/4	$34 3/16
Second Quarter	35 15/16	23 3/16	52 1/16	37 5/8
Third Quarter	36 3/8	23 7/8	49 1/2	30 5/8
Fourth Quarter	33 1/2	20	41 7/16	22 7/16

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.

Norman Axelrod
Chairman and Chief Executive Officer

William T. Giles
Senior Vice President, Chief Financial Officer

January 31, 2001

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.

KPMG LLP

KPMG LLP

New York, New York
January 31, 2001

Corporate directory

DIRECTORS

Norman Axelrod
Chairman and Chief Executive Officer
of Linens 'n Things, Inc.

Philip E. Beekman
President of Owl Hollow Enterprises, Inc.,
a consulting and investment company

Harold F. Compton
President and Chief Executive Officer of
CompUSA, Inc., a personal computer and
related products and services retailer

Stanley P. Goldstein
Former Chairman of the Board of
CVS Corporation, a prescription drugs,
health and beauty care retailer

Morton E. Handel
Chairman of the Board of Marvel Enterprises, Inc., an entertainment, publishing and toy company. Director of Concurrent Computer Corporation, the leading supplier of video-on-demand technology for the cable industry and manufacturer of real time computers. President of S&H Consulting Ltd., a private investment and consulting company

EXECUTIVE OFFICERS

Norman Axelrod
Chairman and Chief Executive Officer

Steven B. Silverstein
President

William T. Giles
Senior Vice President, Chief Financial Officer

Hugh J. Scullin
Senior Vice President, Store Operations,
Real Estate and Construction

Brian D. Silva
Senior Vice President, Human Resources
and Corporate Secretary

OTHER KEY PERSONNEL

Matthew J. Meaney
Chief Information Officer

SHAREHOLDER INFORMATION

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Web Site: www.lnt.com

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Independent Auditors
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345 Park Avenue
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Transfer Agent and Registrar
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c/o EquiServe LP
P.O. Box 43010
Providence, RI 02940-3010
(781) 575-3120
www.equiserve.com

Form 10-K
The Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission is available without charge upon written request to:
Linens 'n Things Corporate Headquarters
6 Brighton Road
Clifton, NJ 07015
Attention: Investor Relations

Annual Meeting
The Company's Annual Meeting of Shareholders will be held at the
Linens 'n Things Corporate Headquarters
6 Brighton Road, Clifton, New Jersey at
11:00 a.m. on May 2, 2001

Designed by Curran & Connors, Inc. / www.curran-connors.com

LINENS-N-THINGS

6 Brighton Road, Clifton, New Jersey 07015