LIFETIME BRANDS, INC
Form 10-Q
May 03, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

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

**For the quarterly period ended March 31, 2013**

**or**

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

**For the transition period from to**

**Commission File Number: 0-19254**

# LIFETIME BRANDS, INC.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **11-2682486** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**1000 Stewart Avenue, Garden City, New York, 11530**

**(Address of principal executive offices) (Zip Code)**

**(516) 683-6000**

**(Registrant s telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | x |
| Non-accelerated filer | ¨ (Do not check if a smaller reporting company) | Smaller reporting company | ¨ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares of the registrant s common stock outstanding as of May 3, 2013 was 12,827,614.

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**LIFETIME BRANDS, INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED MARCH 31, 2013**

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## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

## LIFETIME BRANDS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(unaudited)

| | March 31, 2013 (unaudited) | December 31, 2012 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 2,428 | $ 1,871 |
| Accounts receivable, less allowances of $3,751 at March 31, 2013 and $3,996 at December 31, 2012 | 62,152 | 97,369 |
| Inventory (Note A) | 104,043 | 104,584 |
| Prepaid expenses and other current assets | 5,570 | 5,393 |
| Income taxes receivable (Note G) | 1,319 | |
| Deferred income taxes (Note G) | 3,524 | 3,542 |
| TOTAL CURRENT ASSETS | 179,036 | 212,759 |
| PROPERTY AND EQUIPMENT, net | 30,907 | 31,646 |
| INVESTMENTS (Note B) | 45,608 | 43,685 |
| INTANGIBLE ASSETS, net (Note C) | 57,169 | 57,842 |
| OTHER ASSETS | 2,829 | 2,865 |
| **TOTAL ASSETS** | $ 315,549 | $ 348,797 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| CURRENT LIABILITIES | | |
| Revolving Credit Facility (Note D) | $ 7,000 | $ 7,000 |
| Current maturity of Senior Secured Term Loan (Note D) | 5,250 | 4,375 |
| Accounts payable | 18,125 | 18,555 |
| Accrued expenses | 26,957 | 33,354 |
| Income taxes payable (Note G) | | 3,615 |
| TOTAL CURRENT LIABILITIES | 57,332 | 66,899 |
| DEFERRED RENT & OTHER LONG-TERM LIABILITIES | 20,256 | 21,565 |
| DEFERRED INCOME TAXES (Note G) | 3,556 | 3,510 |
| REVOLVING CREDIT FACILITY (Note D) | 31,339 | 53,968 |
| SENIOR SECURED TERM LOAN (Note D) | 29,750 | 30,625 |
| STOCKHOLDERS EQUITY | | |
| Preferred stock, $.01 par value, shares authorized: 100 shares of Series A and 2,000,000 shares of Series B; none issued and outstanding | | |
| Common stock, $.01 par value, shares authorized: 25,000,000; shares issued and outstanding: 12,818,864 at March 31, 2013 and 12,754,467 at December 31, 2012 | 128 | 128 |

| | | |
|---|---|---|
| Paid-in capital | 143,461 | 142,489 |
| Retained earnings | 32,812 | 33,849 |
| Accumulated other comprehensive loss (Note J) | (3,085) | (4,236) |
| TOTAL STOCKHOLDERS EQUITY | 173,316 | 172,230 |
| **TOTAL LIABILITIES AND STOCKHOLDERS EQUITY** | $ 315,549 | $ 348,797 |

See accompanying independent registered public accounting firm review report and notes to unaudited condensed consolidated financial statements.

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**LIFETIME BRANDS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

(unaudited)

| | Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| Net sales | $ 98,657 | $ 109,041 |
| Cost of sales | 62,345 | 68,581 |
| Gross margin | 36,312 | 40,460 |
| Distribution expenses | 10,796 | 11,744 |
| Selling, general and administrative expenses | 25,631 | 25,484 |
| Income (loss) from operations | (115) | 3,232 |
| Interest expense (Note D) | (1,162) | (1,698) |
| Income (loss) before income taxes and equity in earnings | (1,277) | 1,534 |
| Income tax benefit (provision) (Note G) | 399 | (588) |
| Equity in earnings, net of taxes (Note B) | 246 | 398 |
| **NET INCOME (LOSS)** | $ (632) | $ 1,344 |
| **BASIC INCOME (LOSS) PER COMMON SHARE (NOTE F)** | $ (0.05) | $ 0.11 |
| **DILUTED INCOME (LOSS) PER COMMON SHARE (NOTE F)** | $ (0.05) | $ 0.11 |
| Cash dividends declared per common share (Note J) | $ 0.03125 | $ 0.05 |

See accompanying independent registered public accounting firm review report and notes to unaudited condensed consolidated financial statements.

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**LIFETIME BRANDS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

(unaudited)

| | Three Months Ended March 31, 2013 | Three Months Ended March 31, 2012 |
|---|---|---|
| Net income (loss) | $ (632) | $ 1,344 |
| Other comprehensive income, net of tax: | | |
| Translation adjustment | 1,125 | 2,081 |
| Derivative fair value adjustment | 13 | |
| Effect of retirement benefit obligations | 13 | |
| Other comprehensive income, net of tax: | $ 1,151 | $ 2,081 |
| Comprehensive income | $ 519 | $ 3,425 |

See accompanying independent registered public accounting firm review report and notes to unaudited condensed consolidated financial statements.

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**LIFETIME BRANDS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(unaudited)

| | Three Months Ended March 31, 2013 | Three Months Ended March 31, 2012 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income (loss) | $ (632) | $ 1,344 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Provision for doubtful accounts | 32 | (25) |
| Depreciation and amortization | 2,523 | 2,207 |
| Deferred rent | (199) | (84) |
| Stock compensation expense | 671 | 698 |
| Undistributed equity earnings | (246) | (398) |
| Changes in operating assets and liabilities (excluding the effects of business acquisitions) | | |
| Accounts receivable | 35,185 | 4,872 |
| Inventory | 541 | (3,316) |
| Prepaid expenses, other current assets and other assets | 29 | 410 |
| Accounts payable, accrued expenses and other liabilities | (8,009) | (55) |
| Income taxes payable | (4,933) | (2,356) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | 24,962 | 3,297 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (1,187) | (475) |
| **NET CASH USED IN INVESTING ACTIVITIES** | (1,187) | (475) |
| **FINANCING ACTIVITIES** | | |
| Repayments of bank borrowings, net | (22,629) | (1,080) |
| Proceeds from the exercise of stock options | 302 | 22 |
| Cash dividend paid | (319) | (311) |
| **NET CASH USED IN FINANCING ACTIVITIES** | (22,646) | (1,369) |
| Effect of foreign exchange on cash | (572) | 442 |
| **INCREASE IN CASH AND CASH EQUIVALENTS** | 557 | 1,895 |
| Cash and cash equivalents at beginning of year | 1,871 | 2,972 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | $ 2,428 | $ 4,867 |

See accompanying independent registered public accounting firm review report and notes to unaudited condensed consolidated financial statements.

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LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(unaudited)

## NOTE A BASIS OF PRESENTATION AND SUMMARY ACCOUNTING POLICIES

### Organization and business

Lifetime Brands, Inc. (the Company ) designs, sources and sells branded kitchenware, tabletop and other products used in the home and markets its products under a number of brand names and trademarks, which are either owned or licensed by the Company or through retailers private labels. The Company markets and sells its products principally on a wholesale basis to retailers. The Company also markets and sells a limited selection of its products directly to consumers through its Pfaltzgraff®, Mikasa®, Housewares Deals® and Lifetime Sterling® Internet websites.

### Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation have been included. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. Operating results for the three month period ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The Company s business and working capital needs are highly seasonal, with a majority of sales occurring in the third and fourth quarters. In 2012 and 2011, net sales for the third and fourth quarters accounted for 58% and 59% of total annual net sales, respectively. In anticipation of the pre-holiday shipping season, inventory levels increase primarily in the June through October time period.

### Revenue recognition

The Company sells products wholesale, to retailers and distributors, and retail, directly to the consumer. Wholesale sales and retail sales are recognized when title passes to the customer, which is primarily at the shipping point for wholesale sales and upon delivery to the customer for retail sales. Shipping and handling fees that are billed to customers in sales transactions are included in net sales and amounted to $441,000 and $353,000 for the three months ended March 31, 2013 and 2012, respectively. Net sales exclude taxes that are collected from customers and remitted to the taxing authorities.

The Company offers various sales incentives and promotional programs to its customers from time to time in the normal course of business. These incentives and promotions typically include arrangements such as cooperative advertising, buydowns, volume rebates and discounts. These arrangements and an estimate of sales returns are reflected as reductions in net sales in the Company s condensed consolidated statements of operations.

### Distribution expenses

Distribution expenses consist primarily of warehousing expenses and freight-out expenses.

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**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2013**

(unaudited)

**NOTE A BASIS OF PRESENTATION AND SUMMARY ACCOUNTING POLICIES (continued)**

**Inventory**

Inventory consists principally of finished goods sourced from third-party suppliers. Inventory also includes finished goods, work in process and raw materials related to the Company s manufacture of sterling silver products. Inventory is priced by the lower of cost (first-in, first-out basis) or market method. The Company estimates the selling price of its inventory on a product by product basis based on the current selling environment. If the estimated selling price is lower than the inventory s cost, the Company reduces the value of the inventory to its net realizable value.

The components of inventory are as follows:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| | (in thousands) | |
| Finished goods | $ 99,170 | $ 101,021 |
| Work in process | 2,818 | 2,046 |
| Raw materials | 2,055 | 1,517 |
| Total | $ 104,043 | $ 104,584 |

**Fair value of financial instruments**

The Company determined the carrying amounts of cash and cash equivalents, accounts receivable and accounts payable are reasonable estimates of their fair values because of their short-term nature. The Company determined that the carrying amounts of borrowings outstanding under its revolving credit facility and senior secured term loan approximate fair value since such borrowings bear interest at variable market rates.

**Derivatives**

The Company accounts for derivative instruments in accordance with ASC Topic No. 815, Derivatives and Hedging. ASC Topic No. 815 requires that all derivative instruments be recognized on the balance sheet at fair value as either an asset or liability. Changes in the fair value of derivatives that qualify as hedges and have been designated as part of a hedging relationship for accounting purposes have no net impact on earnings to the extent the derivative is considered highly effective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged, until the hedge item is recognized in earnings. If the derivative which is designated as part of a hedging relationship is considered ineffective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged, the changes in fair value are recorded in operations. For derivatives that do not qualify or are not designated as hedging instruments for accounting purposes, changes in fair value are recorded in operations.

The Company is a party to an interest rate swap agreement with a notional amount of $35.0 million to manage interest rate exposure in connection with its variable interest rate borrowings. The hedge period in the agreement commenced in March 2013 and expires in June 2018 and the notional amount amortizes over this period. The interest rate swap agreement was designated as a cash flow hedge under ASC Topic No. 815. The effective portion of the fair value gain or loss on this agreement is recorded as a component of accumulated other comprehensive loss. The effect of recording this derivative at fair value resulted in an unrealized gain of $13,000, net of taxes, for the three months ended March 31, 2013. No amounts recorded in accumulated other comprehensive loss are expected to be reclassified to interest expense in the next twelve months.

**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2013**

(unaudited)

**NOTE A BASIS OF PRESENTATION AND SUMMARY ACCOUNTING POLICIES (continued)**

The fair value of the derivative has been obtained from the counterparty to the agreement and was based on Level 2 observable inputs using proprietary models and estimates about relevant future market conditions. The aggregate fair value of the Company s derivative instruments was a liability of $432,000 at March 31, 2013 and is included in accrued expenses and other long-term liabilities.

**Employee Healthcare**

The Company self-insures certain portions of its health insurance plan. The Company maintains an accrual for unpaid claims and estimated claims incurred but not yet reported ( IBNR ). Although management believes that it uses the best information available to estimate IBNR, actual claims may vary significantly from estimated claims.

**Adoption of New Accounting Pronouncements**

Effective January 1, 2013, the Company adopted ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,* which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income (e.g., net periodic pension benefit cost), an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. In connection with the adoption of this standard, the Company added additional disclosure about the Company s accumulated other comprehensive income to Note J of its financial statements.

**NOTE B INVESTMENTS**

The Company owns approximately a 30% interest in Grupo Vasconia S.A.B. ( Vasconia ), an integrated manufacturer of aluminum products and one of Mexico s largest housewares companies. Shares of Vasconia s capital stock are traded on the Bolsa Mexicana de Valores, the Mexican Stock Exchange (www.bmv.com.mx). The Quotation Key is VASCONI. The Company accounts for its investment in Vasconia using the equity method of accounting and records its proportionate share of Vasconia s net income in the Company s statement of operations. Accordingly, the Company has recorded its proportionate share of Vasconia s net income (reduced for amortization expense related to the customer relationships acquired) for the three month periods ended March 31, 2013 and 2012 in the accompanying condensed consolidated statements of operations. The value of the Company s investment balance has been translated from Mexican Pesos ( MXN ) to U.S. Dollars ( USD ) using the spot rate of MXN 12.34 and MXN 12.78 at March 31, 2013 and 2012, respectively. The Company s proportionate share of Vasconia s net income has been translated from MXN to USD using the average exchange rate of MXN 12.70 and MXN 12.98 during the three months ended March 31, 2013 and 2012, respectively. The effect of the translation of the Company s investment resulted in an increase of the investment $1.7 million during the three months ended March 31, 2013 and 2012 (also see Note J). These translation effects are recorded in accumulated other comprehensive loss. Included in prepaid expenses and other current assets at March 31, 2013 and December 31, 2012 are amounts due from Vasconia of $63,000 and $71,000, respectively.

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**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2013**

(unaudited)

**NOTE B INVESTMENTS (continued)**

Summarized statement of operations information for Vasconia in USD and MXN is as follows:

| | Three Months Ended March 31, 2013 | | 2012 | |
|---|---|---|---|---|
| | (in thousands) | | | |
| | USD | MXN | USD | MXN |
| Net Sales | $ 40,240 | $ 510,879 | $ 28,687 | $ 372,489 |
| Gross Profit | 7,917 | 100,519 | 8,168 | 106,064 |
| Income from operations | 2,140 | 27,169 | 3,322 | 43,134 |
| Net Income | 1,226 | 15,568 | 1,965 | 25,511 |

The Company recorded equity in earnings of Vasconia, net of taxes, of $0.3 million and $0.5 million for the three months ended March 31, 2013 and 2012, respectively.

The Company owns a 40% equity interest in GS Internacional S/A ( GSI ), a leading wholesale distributor of branded housewares products in Brazil, which the Company acquired in December 2011. The Company recorded equity in losses of GSI of $(23,000) and $(133,000), net of taxes, for the three months ended March 31, 2013 and 2012, respectively.

**NOTE C INTANGIBLE ASSETS**

Intangible assets consist of the following (in thousands):

| | March 31, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| **Goodwill** | $ 5,085 | | $ 5,085 | $ 5,085 | | $ 5,085 |
| **Indefinite-lived intangible assets:** | | | | | | |
| Trade names | 18,364 | | 18,364 | 18,364 | | 18,364 |
| **Finite-lived intangible assets:** | | | | | | |
| Licenses | 15,847 | (7,207) | 8,640 | 15,847 | (7,096) | 8,751 |
| Trade names | 10,056 | (2,020) | 8,036 | 10,056 | (1,800) | 8,256 |
| Customer relationships | 18,406 | (1,743) | 16,663 | 18,406 | (1,409) | 16,997 |
| Patents | 584 | (203) | 381 | 584 | (195) | 389 |
| **Total** | $ 68,342 | $ (11,173) | $ 57,169 | $ 68,342 | $ (10,500) | $ 57,842 |

**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2013**

(unaudited)

**NOTE D DEBT**

*Revolving Credit Facility*

The Company has a $175.0 million secured credit agreement (the Revolving Credit Facility ), maturing on July 27, 2017, with a bank group led by JPMorgan Chase Bank, N.A.

Borrowings under the Revolving Credit Facility bear interest, at the Company s option, at one of the following rates: (i) the Alternate Base Rate, defined as the greater of the Prime Rate, Federal Funds Rate plus 0.5% or the Adjusted LIBO Rate plus 1.0%, plus a margin of 1.0% to 1.75%, or (ii) the Eurodollar Rate, defined as the Adjusted LIBO Rate plus a margin of 2.0% to 2.75%. The respective margins are based upon availability. Interest rates on outstanding borrowings at March 31, 2013 ranged from 2.50% to 4.50%. In addition, the Company pays a commitment fee of 0.375% to 0.50% on the unused portion of the Revolving Credit Facility.

At March 31, 2013, borrowings outstanding under the Revolving Credit Facility were $38.3 million and open letters of credit were $1.1 million. Availability under the Revolving Credit Facility was approximately $75.0 million, or 42.9% of the total loan commitment at March 31, 2013.

The Company classifies a portion of the Revolving Credit Facility as a current liability if the Company s intent and ability is to repay the loan from cash flows from operations which are expected to occur within the next 12 months. Repayments and borrowings under the facility can vary significantly from planned levels based on cash flow needs and general economic conditions. The Company expects that it will continue to borrow and repay funds, subject to availability, under the facility based on working capital and other corporate needs.

*Senior Secured Term Loan*

The Company has a $35.0 million second lien credit agreement (the Senior Secured Term Loan ), which matures on July 27, 2018, with JPMorgan Chase Bank, N.A.

The Senior Secured Term Loan bears interest, at the Company s option, at the Alternate Base Rate (as defined) plus 4.00%, or the Adjusted LIBOR Rate (as defined) plus 5.00%. The interest rate on outstanding borrowings at March 31, 2013 was 5.25%. The Company is a party to an interest rate swap agreement with a notional amount of $35.0 million to manage interest rate exposure in connection with its variable interest rate borrowings. The hedge period in the agreement commenced in March 2013 and expires in June 2018, and the notional amount amortizes over this period. The hedge provides for a fixed payment of interest at an annual rate of 1.05% in exchange for the Adjusted LIBOR Rate. Beginning in March 2013, based on the interest rate swap agreement, the Company will pay interest at a fixed annual rate of 6.05%.

The Senior Secured Term Loan provides that for any four consecutive fiscal quarters, (x) if EBITDA (as defined) is less than $34.0 million but equal to or greater than $30.0 million, the ratio of Indebtedness (as defined) to EBITDA shall not exceed 3.0 to 1.0 and (y) EBITDA shall not be less than $30.0 million. Capital expenditures are limited and for the year ended December 31, 2013, such limit is $9.0 million.

The Revolving Credit Facility and Senior Secured Term Loan provide for other customary restrictions and events of default. Restrictions include limitations on additional indebtedness, acquisitions, investments and payment of dividends, among others. The Company was in compliance with the financial covenants of the Senior Secured Term Loan and Revolving Credit Facility at March 31, 2013.

**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2013**

(unaudited)

**NOTE E STOCK COMPENSATION**

A summary of the Company s stock option activity and related information for the three months ended March 31, 2013 is as follows:

| | Options | Weighted-average exercise price | Weighted-average remaining contractual life (years) | Aggregate intrinsic value |
|---|---|---|---|---|
| **Options outstanding, January 1, 2013** | 2,528,177 | $ 13.06 | | |
| Grants | 100,000 | 10.72 | | |
| Exercises | (64,397) | 4.69 | | |
| Cancellations | (45,000) | 19.37 | | |
| **Options outstanding, March 31, 2013** | 2,518,780 | 13.07 | 5.92 | $ 4,839,538 |
| **Options exercisable, March 31, 2013** | 1,564,405 | 14.32 | 4.87 | $ 3,907,931 |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that would have been received by the option holders had all option holders exercised their stock options on March 31, 2013. The intrinsic value is calculated for each in-the-money stock option as the difference between the closing price of the Company s common stock on March 29, 2013 and the exercise price.

The total intrinsic value of stock options exercised for the three months ended March 31, 2013 and 2012 was $427,100 and $56,889, respectively. The intrinsic value of a stock option that is exercised is calculated at the date of exercise.

The Company recognized stock compensation expense of $671,000 and $698,000 for the three months ended March 31, 2013 and 2012, respectively.

Total unrecognized compensation cost related to unvested stock options at March 31, 2013, before the effect of income taxes, was $4.0 million and is expected to be recognized over a weighted-average period of 1.66 years.

At March 31, 2013, there were 701,832 shares available for awards that could be granted under the Company s 2000 Long-Term Incentive Plan.

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**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2013**

(unaudited)

**NOTE F INCOME (LOSS) PER COMMON SHARE**

Basic income (loss) per common share has been computed by dividing net income (loss) by the weighted-average number of shares of the Company s common stock outstanding. Diluted income (loss) per common share adjusts net income (loss) and basic income (loss) per common share for the effect of all potentially dilutive shares of the Company s common stock. The calculations of basic and diluted income (loss) per common share for the three month periods ended March 31, 2013 and 2012 are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| | (in thousands, except per share amounts) | |
| **Net income (loss) basic and diluted** | $ (632) | $ 1,344 |
| **Weighted-average shares outstanding basic** | 12,761 | 12,432 |
| Effect of dilutive securities: | | |
| Stock options | | 333 |
| **Weighted-average shares outstanding diluted** | 12,761 | 12,765 |
| **Basic income (loss) per common share** | $ (0.05) | $ 0.11 |
| **Diluted income (loss) per common share** | $ (0.05) | $ 0.11 |

The computation of diluted income (loss) per common share for the three months ended March 31, 2013 and 2012 excludes options to purchase 2,518,780 shares and 1,188,800 shares, respectively. These shares were excluded due to their antidilutive effects.

**NOTE G INCOME TAXES**

The Company has generated various state net operating loss carryforwards of which $18.7 million remains at March 31, 2013 that begin to expire in 2014. The Company has net operating losses in foreign jurisdictions of $2.1 million at March 31, 2013 that begin to expire in 2016. The valuation allowance of $1.2 million which exists as of March 31, 2013 relates to certain state net operating losses.

The estimated value of the Company s uncertain tax positions at March 31, 2013 is a gross liability of $301,000. If the Company s tax positions are sustained by the taxing authorities in favor of the Company, the Company s net liability would be reduced by $301,000, all of which would benefit the Company s tax provision. On a quarterly basis, the Company evaluates its tax positions and revises its estimates accordingly. The Company believes that $301,000 of its tax positions will be resolved within the next twelve months.

The Company has identified the following jurisdictions as major tax jurisdictions: U.S. Federal, California, Massachusetts, New York, New Jersey and the United Kingdom. The Company is no longer subject to U.S. Federal income tax examinations for the years prior to 2009. At March 31, 2013, the periods subject to examination for the Company s major state jurisdictions are the years ended 2008 through 2012.

The Company s policy for recording interest and penalties is to record such items as a component of income taxes. Interest and penalties were not material to the Company s financial position, results of operations or cash flows as of and for the three months ended March 31, 2013 and 2012.

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**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2013**

(unaudited)

**NOTE H BUSINESS SEGMENTS**

The Company operates in two reportable business segments: the Wholesale segment, the Company s primary business segment, in which the Company designs, markets and distributes products to retailers and distributors, and the Retail Direct segment, in which the Company markets and sells a limited selection of its products directly to consumers through its Pfaltzgraff®, Mikasa®, Housewares Deals® and Lifetime Sterling® Internet websites. The operating results of Fred® & Friends since the date of the acquisition are included in the Wholesale segment.

The Company has segmented its operations to reflect the manner in which management reviews and evaluates the results of its operations. While both segments distribute similar products, the segments have been distinct due to the different methods the Company uses to sell, market and distribute the products. Management evaluates the performance of the Wholesale and Retail Direct segments based on net sales and income (loss) from operations. Such measures give recognition to specifically identifiable operating costs such as cost of sales, distribution expenses and selling, general and administrative expenses. Certain general and administrative expenses, such as senior executive salaries and benefits, stock compensation, director fees and accounting, legal and consulting fees, are not allocated to the specific segments and are reflected as unallocated corporate expenses.

| | Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| **Net sales** | | |
| Wholesale | $ 93,118 | $ 103,340 |
| Retail Direct | 5,539 | 5,701 |
| Total net sales | $ 98,657 | $ 109,041 |
| **Income (loss) from operations** | | |
| Wholesale | $ 2,559 | $ 6,160 |
| Retail Direct | 9 | (8) |
| Unallocated corporate expenses | (2,683) | (2,920) |
| Total income (loss) from operations | $ (115) | $ 3,232 |
| **Depreciation and amortization** | | |
| Wholesale | $ (2,458) | $ (2,150) |
| Retail Direct | (65) | (57) |
| Total depreciation and amortization | $ (2,523) | $ (2,207) |

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**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2013**

(unaudited)

**NOTE I CONTINGENCIES**

Wallace Silversmiths de Puerto Rico, Ltd. ( Wallace de Puerto Rico ), a wholly-owned subsidiary of the Company, operates a manufacturing facility in San Germán, Puerto Rico that is leased from the Puerto Rico Industrial Development Company ( PRIDCO ). In March 2008, the United States Environmental Protection Agency (the EPA ) announced that the San Germán Ground Water Contamination site in Puerto Rico (the Site ) had been added to the Superfund National Priorities List due to contamination present in the local drinking water supply.

In May 2008, Wallace de Puerto Rico received from the EPA a Notice of Potential Liability and Request for Information Pursuant to 42 U.S.C. Sections 9607(a) and 9604(e) of the Comprehensive Environmental Response, Compensation, Liability Act. The Company responded to the EPA s Request for Information on behalf of Wallace de Puerto Rico. In July 2011, Wallace de Puerto Rico received a letter from the EPA requesting access to the property that it leases from PRIDCO, and the Company granted such access. In February, 2013, the EPA requested access to conduct further environmental investigation at the property during May 2013.

The Company is not aware of any determination by the EPA that any remedial action is required for the Site, and, accordingly, is not able to estimate the extent of any possible liability.

The Company is, from time to time, involved in other legal proceedings. The Company believes that other current litigation is routine in nature and incidental to the conduct of the Company s business and that none of this litigation, individually or collectively, would have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

**NOTE J OTHER**

**Cash dividends**

On March 12, 2013, the Board of Directors declared a quarterly dividend of $0.03125 per share payable on May 15, 2013 to shareholders of record on May 1, 2013. As of March 31, 2013, the Company had accrued $401,000 for the payment of the dividend.

On January 11, 2012, the Board of Directors declared a quarterly dividend of $0.025 payable on February 15, 2012 to shareholders of record on February 1, 2012. On March 6, 2012, the Board of Directors declared a quarterly dividend of $0.025 per share payable on May 15, 2012 to shareholders of record on May 1, 2012.

**Subsequent events**

*Stock repurchase program*

On April 30, 2013, Lifetime s Board of Directors authorized the repurchase of up to $10 million of the Company s common stock. The repurchase authorization permits the Company to effect the repurchases from time to time through open market purchases and privately negotiated transactions.

*Stock option grant*

On April 30, 2013, the Board of Directors granted, effective as of May 7, 2013, options to purchase a total of 290,800 shares of the Company s common stock. The exercise price will equal the closing price of the Company s common stock on the effective date.

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**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2013**

(unaudited)

**NOTE J OTHER (continued)**

**Supplemental cash flow information**

| | Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid for interest | $ 908 | $ 1,476 |
| Cash paid for taxes | 4,375 | 1,760 |
| **Non-cash investing activities:** | | |
| Translation adjustment | $ (1,125) | $ (2,081) |

**Components of accumulated other comprehensive loss, net**

| | Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| *Accumulated translation adjustment:* | | |
| Balance at beginning of period | $ (2,804) | $ (5,881) |
| Translation gain during period | 1,125 | 2,081 |
| Balance at end of period | $ (1,679) | $ (3,800) |
| *Accumulated effect of retirement benefit obligations:* | | |
| Balance at beginning of period | $ (1,160) | $ |
| Amounts reclassified from accumulated other comprehensive loss: | | |
| Amortization of acturial losses, net of tax of $9 | 13 | |
| Balance at end of period | $ (1,147) | $ |
| *Accumulated deferred losses on cash flow hedges:* | | |
| Balance at beginning of period | $ (272) | $ |
| Derivative fair value adjustment, net of tax of $9 | 13 | |
| Balance at end of period | $ (259) | $ |

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**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2013**

(unaudited)

**NOTE J OTHER (continued)**

**Reclassifications out of accumulated other comprehensive loss**

**For the Three Months Ended March 31, 2013**

| Accumulated other comprehensive loss component | Amount reclassified | Statement of Operations |
|---|---|---|