

LIFETIME BRANDS, INC  
Form 10-Q  
November 10, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended: September 30, 2014**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**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)**

**11-2682486**  
**(I.R.S. Employer**  
**Identification No.)**

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  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  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

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

The number of shares of the registrant's common stock outstanding as of October 31, 2014 was 13,683,839.

**Table of Contents**

**LIFETIME BRANDS, INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

**INDEX**

	<b>Page No.</b>
<b>Part I. <u>Financial Information</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets – September 30, 2014 (unaudited) and December 31, 2013</u>	2
<u>Condensed Consolidated Statements of Operations (unaudited) – Three and Nine Months Ended September 30, 2014 and 2013</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited) – Three and Nine Months Ended September 30, 2014 and 2013</u>	4
<u>Condensed Consolidated Statements of Cash Flows (unaudited) – Nine Months Ended September 30, 2014 and 2013</u>	5
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	6
<u>Review Report of Independent Registered Public Accounting Firm</u>	23
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
Item 4. <u>Controls and Procedures</u>	37
<b>Part II. <u>Other Information</u></b>	
Item 1. <u>Legal Proceedings</u>	38
Item 1A. <u>Risk Factors</u>	38
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
Item 6. <u>Exhibits</u>	40
<u>Signatures</u>	41

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****LIFETIME BRANDS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
	(unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,977	\$ 4,947
Accounts receivable, less allowances of \$6,983 at September 30, 2014 and \$5,209 at December 31, 2013	101,765	87,217
Inventory (Note A)	170,320	112,791
Prepaid expenses and other current assets	9,014	5,781
Deferred income taxes (Note H)	3,938	3,940
<b>TOTAL CURRENT ASSETS</b>	<b>290,014</b>	<b>214,676</b>
<b>PROPERTY AND EQUIPMENT, net</b>	<b>26,953</b>	<b>27,698</b>
<b>INVESTMENTS (Note C)</b>	<b>30,893</b>	<b>36,948</b>
<b>INTANGIBLE ASSETS, net (Note D)</b>	<b>105,640</b>	<b>55,149</b>
<b>OTHER ASSETS</b>	<b>3,164</b>	<b>2,268</b>
<b>TOTAL ASSETS</b>	<b>\$ 456,664</b>	<b>\$ 336,739</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturity of Credit Agreement Term Loan (Note E)	\$ 10,000	\$
Current maturity of Senior Secured Term Loan (Note E)		3,937
Short term loan (Note E)	951	
Accounts payable	42,801	21,426
Accrued expenses	36,852	41,095
Income taxes payable (Note H)	345	3,036
<b>TOTAL CURRENT LIABILITIES</b>	<b>90,949</b>	<b>69,494</b>
<b>DEFERRED RENT &amp; OTHER LONG-TERM LIABILITIES</b>	<b>21,826</b>	<b>18,644</b>
<b>DEFERRED INCOME TAXES (Note H)</b>	<b>10,499</b>	<b>1,777</b>
<b>REVOLVING CREDIT FACILITY (Note E)</b>	<b>113,062</b>	<b>49,231</b>
<b>CREDIT AGREEMENT TERM LOAN (Note E)</b>	<b>37,500</b>	
<b>SENIOR SECURED TERM LOAN (Note E)</b>		<b>16,688</b>
<b>STOCKHOLDERS EQUITY</b>		

Edgar Filing: LIFETIME BRANDS, INC - Form 10-Q

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: 13,681,189 at September 30, 2014 and 12,777,407 at December 31, 2013	138	128
Paid-in capital	158,971	146,273
Retained earnings	28,956	38,224
Accumulated other comprehensive loss (Note K)	(5,237)	(3,720)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>182,828</b>	<b>180,905</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 456,664</b>	<b>\$ 336,739</b>

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

**Table of Contents****LIFETIME BRANDS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

(unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net sales	\$ 162,244	\$ 142,229	\$ 395,976	\$ 337,862
Cost of sales	104,321	90,952	252,869	213,917
Gross margin	57,923	51,277	143,107	123,945
Distribution expenses	13,262	10,564	38,068	31,489
Selling, general and administrative expenses	32,849	28,941	98,456	80,499
Intangible asset impairment (Note D)	3,384		3,384	
Restructuring expenses (Note A)		79	125	367
Income from operations	8,428	11,693	3,074	11,590
Interest expense (Note E)	(1,698)	(1,280)	(4,760)	(3,591)
Loss on early retirement of debt			(319)	
Income (loss) before income taxes and equity in earnings	6,730	10,413	(2,005)	7,999
Income tax provision (Note H)	(3,123)	(3,869)	(352)	(2,993)
Equity in earnings (losses), net of taxes (Note C)	(5,193)	(5,451)	(5,360)	(5,113)
<b>NET INCOME (LOSS)</b>	<b>\$ (1,586)</b>	<b>\$ 1,093</b>	<b>\$ (7,717)</b>	<b>\$ (107)</b>
<b>BASIC INCOME (LOSS) PER COMMON SHARE (NOTE G)</b>	<b>\$ (0.12)</b>	<b>\$ 0.09</b>	<b>\$ (0.57)</b>	<b>\$ (0.01)</b>
<b>DILUTED INCOME (LOSS) PER COMMON SHARE (NOTE G)</b>	<b>\$ (0.12)</b>	<b>\$ 0.08</b>	<b>\$ (0.57)</b>	<b>\$ (0.01)</b>
Cash dividends declared per common share	\$ 0.03750	\$ 0.03125	\$ 0.11250	\$ 0.09375

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

Table of Contents**LIFETIME BRANDS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(In thousands)

(unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net income (loss)	\$ (1,586)	\$ 1,093	\$ (7,717)	\$ (107)
Other comprehensive income (loss), net of taxes:				
Translation adjustment	(3,309)	200	(1,577)	(190)
Derivative fair value adjustment	73	(48)	39	196
Effect of retirement benefit obligations	7	14	21	40
Other comprehensive income (loss), net of taxes	(3,229)	166	(1,517)	46
Comprehensive income (loss)	\$ (4,815)	\$ 1,259	\$ (9,234)	\$ (61)

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

Table of Contents**LIFETIME BRANDS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (7,717)	\$ (107)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Provision for doubtful accounts	133	17
Depreciation and amortization	10,628	7,707
Amortization of financing costs	465	397
Deferred rent	(623)	(721)
Deferred income taxes	(212)	26
Stock compensation expense	2,133	2,131
Undistributed equity in losses, net	5,360	5,686
Intangible asset impairment	3,384	
Loss on early retirement of debt	319	
Changes in operating assets and liabilities (excluding the effects of business acquisitions)		
Accounts receivable	587	4,177
Inventory	(37,479)	(28,469)
Prepaid expenses, other current assets and other assets	(1,889)	(1,391)
Accounts payable, accrued expenses and other liabilities	10,985	20,266
Income taxes payable	(7,535)	(3,885)
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(21,461)</b>	<b>5,834</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(4,410)	(2,772)
Kitchen Craft acquisition, net of cash acquired	(59,977)	
Other acquisitions, net of cash acquired	(5,280)	
Net proceeds from sale of property	70	7
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(69,597)</b>	<b>(2,765)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from Revolving Credit Facility	206,193	155,929
Repayments of Revolving Credit Facility	(142,114)	(151,794)
Repayments of Senior Secured Term Loan	(20,625)	(3,500)



Edgar Filing: LIFETIME BRANDS, INC - Form 10-Q

Proceeds from Credit Agreement Term Loan	50,000	
Repayment of Credit Agreement Term Loan	(2,500)	
Proceeds from Short Term Loan	1,168	
Payments on Short Term Loan	(217)	
Payment of financing costs	(1,375)	
Payments for common stock repurchases		(3,229)
Proceeds from exercise of stock options	2,192	943
Cash dividends paid (Note K)	(1,517)	(1,117)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>91,205</b>	<b>(2,768)</b>
Effect of foreign exchange on cash	(117)	431
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>30</b>	<b>732</b>
Cash and cash equivalents at beginning of period	4,947	1,871
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 4,977</b>	<b>\$ 2,603</b>

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

**Table of Contents**

**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2014**

(unaudited)

**NOTE A BASIS OF PRESENTATION AND SUMMARY ACCOUNTING POLICIES**

**Organization and business**

Lifetime Brands, Inc. (the Company) designs, sources and sells branded kitchenware, tableware 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®, Lifetime Sterling® and The English Table Internet websites.

During the second quarter of 2014, the Company realigned its reportable segments into three categories, U.S. Wholesale, International and Retail Direct. The U.S. Wholesale segment, formerly the Wholesale segment, includes the domestic operations of the Company's primary business that designs, markets and distributes its products to retailers and distributors. Due to recent acquisitions, certain business operations conducted outside the U.S., previously included in the Wholesale segment, were moved to the International segment. This change reflects the manner in which management assesses performance and allocates resources. No changes were made to the Retail Direct segment. Previous periods presented have been recast to conform with the current period presentation.

**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, which consist 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 condensed consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. Operating results for the three and nine month periods ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

The Company's business and working capital needs are highly seasonal, with a majority of sales occurring in the third and fourth quarters. In 2013 and 2012, net sales for the third and fourth quarters accounted for 61% and 58% 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 \$219,000 and \$266,000 for the three months ended September 30, 2014 and 2013, respectively, and \$900,000 and \$918,000 for the nine months ended September 30, 2014 and 2013, 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.

**Table of Contents****LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014**

(unaudited)

**Cost of sales**

Cost of sales consist primarily of costs associated with the production and procurement of product, inbound freight costs, purchasing costs, royalties and other product procurement related charges.

**Distribution expenses**

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

**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 using 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:

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
	(in thousands)	
Finished goods	\$ 166,958	\$ 108,340
Work in process	1,840	1,966
Raw materials	1,522	2,485
Total	\$ 170,320	\$ 112,791

**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, credit agreement term loan, senior secured term loan and short term loan approximate fair value since such borrowings bear interest at variable market rates.

## Derivatives

The Company accounts for derivative instruments in accordance with Accounting Standard Codification ( 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 hedged item is recognized in earnings. If a 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 interest rate swap agreements with an aggregate notional amount of \$26.7 million to manage interest rate exposure in connection with its variable interest rate borrowings. The hedge periods of these agreements commenced in March 2013 and expire in June 2018 and the notional amounts amortize over this period. The interest rate swap agreements were designated as cash flow hedges under ASC Topic No. 815. The

**Table of Contents**

**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2014**

(unaudited)

effective portion of the fair value gain or loss on these agreements is recorded as a component of accumulated other comprehensive loss. The effect of recording these derivatives at fair value resulted in an unrealized gain of \$73,000 and an unrealized loss of \$48,000, net of taxes, for the three months ended September 30, 2014 and 2013, respectively, and unrealized gains of \$39,000 and \$196,000, net of taxes, for the nine months ended September 30, 2014 and 2013, respectively. No amounts recorded in accumulated other comprehensive loss are expected to be reclassified to interest expense in the next twelve months.

The fair value of the derivatives have been obtained from the counterparties to the agreement and were based on Level 2 observable inputs using proprietary models and estimates about relevant future market conditions. The aggregate fair value of the Company's interest derivative instruments was an asset of \$12,000 and a liability of \$54,000 at September 30, 2014 and December 31, 2013, respectively, and is included in accrued expenses and other long-term liabilities in the condensed consolidated balance sheet.

The Company has also entered into certain foreign exchange contracts, to primarily offset the earnings impact related to fluctuations in foreign currency exchange rates associated with inventory purchases denominated in foreign currencies. Although these foreign exchange contracts have not been designated as hedges as required in order to apply hedge accounting, the contracts are effective from an economic perspective. The changes in the fair value of these contracts are recorded in earnings immediately. A gain of \$0.5 million and \$76,000 is included in selling, general and administrative expenses in the condensed consolidated statements of operations for the three and nine months ended September 30, 2014, respectively.

The aggregate gross notional amount of foreign exchange contracts at September 30, 2014 was \$6.0 million. The fair value of the Company's foreign exchange contracts was a liability of \$27,000 and is included within other long-term liabilities in the condensed consolidated balance sheet. The fair value of the derivatives have been obtained from the counterparties to the agreements and were based on Level 2 observable inputs using proprietary models and estimates about relevant future market conditions.

**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 claims IBNR, actual claims may vary significantly from estimated claims.

**Restructuring Expenses**

Costs associated with restructuring activities are recorded at fair value when a liability has been incurred. A liability has been incurred at the point of closure for any remaining operating lease obligations and at the communication date for severance.

In May 2014, the Company commenced a plan to consolidate its customer service and call center functions and eliminated certain employee positions in connection with this consolidation. The Company recorded \$125,000 of restructuring expenses during the nine months ended September 30, 2014 related to the execution of this plan.

In April 2013, the Company commenced a plan to close the Fred® & Friends distribution center and eliminate certain employee positions in conjunction with the closure, which was completed as of December 31, 2013. The Company recorded \$367,000 of restructuring expenses during the nine months ended September 30, 2013 related to the execution of this plan.

### **New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2014-09, *Revenue from Contracts with Customers*, to clarify the principles of recognizing revenue and create common revenue recognition guidance under U.S. GAAP and International Financial Reporting Standards. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016 and can be adopted either retrospectively to each reporting period presented or as a cumulative effect adjustment as of the date of the adoption, with early application not permitted. The Company is currently determining its implementation approach and assessing the impact, if any, on the condensed consolidated financial statements.

Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014**

(unaudited)

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 K of its financial statements.

**NOTE B ACQUISITIONS****Kitchen Craft**

On January 15, 2014, the Company acquired 100% of the share capital of Thomas Plant (Birmingham) Limited (Kitchen Craft) for cash in the amount of £37.4 million (\$61.5 million) and 581,432 shares of common stock of the Company with an intrinsic value of £5.5 million (\$9.0 million). The purchase price also includes contingent cash consideration of up to £5.5 million (\$9.0 million) which will be payable in future years if Kitchen Craft achieves certain financial targets. Kitchen Craft is a leading supplier of kitchenware products and accessories in the United Kingdom. The assets, liabilities and operating results of Kitchen Craft are reflected in the Company's condensed consolidated financial statements in accordance with ASC Topic No. 805, *Business Combinations*, commencing from the acquisition date.

The purchase price has been determined to be as follows (in thousands):

Cash	\$ 61,302
Share consideration issued <sup>(1)</sup>	8,382
Value of contingent consideration <sup>(2)</sup>	2,488
Working capital adjustment <sup>(3)</sup>	374
<b>Total purchase price</b>	<b>\$ 72,546</b>



Edgar Filing: LIFETIME BRANDS, INC - Form 10-Q

- (1) Share consideration issued is valued at the closing market price discounted to account for lack of marketability related to the lock up period as described in the share purchase agreement.
- (2) The value of contingent consideration represents the present value of the estimated payments related to the attainment of certain financial targets for the years 2014 through 2016. The maximum undiscounted contingent consideration to be paid on the agreement is £5.5 million (\$9.0 million).
- (3) A working capital adjustment was made in May 2014 as provided for in the share purchase agreement.

- 9 -

Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014**

(unaudited)

The purchase price was allocated based on the Company's preliminary estimate of the fair value of the assets acquired and liabilities assumed, as follows (in thousands):

	Purchase Price Allocation
Accounts Receivable <sup>(1)</sup>	\$ 14,267
Inventory	17,912
Other assets	4,054
Other liabilities	(10,242)
Deferred income tax	(8,805)
Goodwill and other intangibles	55,360
<b>Total allocated value</b>	<b>\$ 72,546</b>

(1) The fair value of accounts receivable approximated the gross contractual amounts receivable. Goodwill results from such factors as an assembled workforce. The total amount of goodwill is not expected to be deductible for tax purposes. All of the goodwill and other intangible assets are included in the International Segment. Customer relationships and trade names are amortized on a straight-line basis over their estimated useful lives (see Note D).

Kitchen Craft pension plan

Kitchen Craft is the sponsor of a defined benefit pension plan (the Plan) for which service costs accrual ceased prior to the acquisition. Pursuant to the share purchase agreement, the Company and the sellers agreed to take action to settle the Plan's obligation through the purchase of a group annuity contract and terminate the Plan.

As of the acquisition closing date, the projected benefit obligation of the Plan was estimated to be £7.1 million (\$11.7 million) and was fully funded pursuant to the share purchase agreement. The assumptions utilized in the measurement of the funded status at the acquisition date, including a discount rate of 3.3%, reflected Kitchen Craft's intent to settle the Plan through the purchase of a group annuity contract.

On October 31, 2014, the Plan trustees secured, in full, all benefits payable or contingently payable under the Plan (subject to adjustment as determined by the UK pension authority in connection with its approval of the Plan's termination) through the purchase of a group annuity contract from a major UK-based insurance company. The terms

of the group annuity contract required Kitchen Craft to make an additional payment of approximately £1.5 million (\$2.4 million). The share purchase agreement provides that any additional contribution required in connection with the settlement and termination of the Plan shall be offset by future amounts owed to the sellers or, if those amounts are insufficient, reimbursed by the sellers. Accordingly, there was no impact, nor is there any expected future impact, to the Company's statement of operations in connection with the settlement and planned termination of the Plan.

The Company's net periodic benefit cost for the three and nine months ended September 30, 2014 was not material.

Unaudited pro forma results

The nine months ended September 30, 2014 includes the operations of Kitchen Craft for the period from January 15, 2014 to September 30, 2014. The condensed consolidated statements of operations for the three and nine months ended September 30, 2014, include \$16.8 million and \$47.2 million of net sales, respectively, and \$1.6 million and \$1.9 million of income from operations, respectively, contributed by Kitchen Craft.

Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014**

(unaudited)

The following table presents the Company's pro forma consolidated net sales and income (loss) before income taxes and equity in earnings for the three and nine months ended September 30, 2014 and 2013. The unaudited pro forma results include the historical statements of operations information of the Company and of Kitchen Craft, giving effect to the Kitchen Craft acquisition and related financing as if they had occurred at the beginning of the period presented. As described below under Other Acquisitions, the Company consummated certain other acquisitions during the nine months ended September 30, 2014; however the Company has not included the results prior to their acquisition in these pro forma results as the impact would not have been material.

	Unaudited pro forma results			
	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(In thousands, except per share data)			
Net Sales	\$ 162,244	\$ 156,741	\$ 395,976	\$ 381,035
Income (loss) before income taxes and equity in earnings	6,730	10,042	(130)	8,112
Net income (loss)	(1,586)	899	(6,573)	95
Basic earnings (loss) per common share	(0.12)	0.06	(0.49)	0.01
Diluted earnings (loss) per common share	\$ (0.12)	\$ 0.06	\$ (0.49)	\$ 0.01

The pro forma results, prepared in accordance with U.S. GAAP, include the following pro forma adjustments related to the Kitchen Craft acquisition:

- (i) the elimination of the charge in cost of sales related to the increase in fair value of acquired inventory of \$0.9 million in the nine months ended September 30, 2014;
- (ii) an increase in amortization expense related to the fair value of the identifiable intangible assets of \$0.9 million and \$2.6 million in the three and nine months ended September 30, 2013, respectively;
- (iii) the elimination of acquisition costs recorded in the nine months ended September 30, 2014 of \$0.9 million;
- (iv)

an increase in interest expense and amortization of debt issuance costs of \$0.4 million and \$1.4 million, resulting from the refinancing of the Company's debt to finance the acquisition, in the three and nine months ended September 30, 2013, respectively;

- (v) an adjustment of \$2.1 million in the nine months ended September 30, 2013 to conform compensation expense to the Company's current compensation policies.

The unaudited pro forma results do not include any revenue or cost reductions that may be achieved through the business combination, or the impact of non-recurring items directly related to the business combination.

The unaudited pro forma results are not necessarily indicative of the operating results that would have occurred if the Kitchen Craft acquisition had been completed as of the date for which the pro forma financial information is presented. In addition, the unaudited pro forma results do not purport to project the future condensed consolidated operating results of the combined companies.

### **Other acquisitions**

In February 2014, the Company acquired certain assets of Built NY, Inc. ( Built NY ), including inventory, trademarks and other intellectual property. Also in February 2014, the Company acquired certain assets of The Empire Silver Company, Inc. ( Empire Silver ), including trademarks and other intellectual property. In March 2014, the Company acquired the share capital of La Cafetière (UK) Limited, together with certain assets of other subsidiaries of The Greenfield Group Limited (collectively, La Cafetière ). The La Cafetière acquisition included the purchase of certain trademarks and other intellectual property, and certain inventory and receivables.

Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014**

(unaudited)

In aggregate, the Company paid approximately \$5.3 million of primarily cash consideration for the acquisitions of Built NY, Empire Silver and La Cafetière. The assets, liabilities and operating results of the acquisitions are reflected in the Company's condensed consolidated financial statements in accordance with ASC Topic No. 805, *Business Combinations*, commencing from the acquisition dates.

**NOTE C 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 and nine month periods ended September 30, 2014 and 2013 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 rates of MXN 13.49 and MXN 13.06 at September 30, 2014 and December 31, 2013, respectively. The Company's proportionate share of Vasconia's net income has been translated from MXN to USD using the average exchange rates of MXN 13.11 and MXN 12.90 during the three months ended September 30, 2014 and 2013, respectively, and MXN 13.05 to MXN 13.11 and MXN 12.41 to MXN 12.77 during the nine months ended September 30, 2014 and 2013, respectively. The effect of the translation of the Company's investment resulted in a decrease to the investment of \$1.3 million and \$0.5 million during the nine months ended September 30, 2014 and 2013, respectively (also see Note K). These translation effects are recorded in accumulated other comprehensive loss. Included within accrued expenses at September 30, 2014 and December 31, 2013 are amounts due to Vasconia of \$117,000 and \$152,000, respectively.

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

	<b>Three Months Ended</b>			
	<b>September 30,</b>			
	<b>2014</b>		<b>2013</b>	
	(in thousands)			
	USD	MXN	USD	MXN
Net Sales	\$ 45,635	\$ 598,197	\$ 37,306	\$ 481,222
Gross Profit	8,173	107,134	6,215	80,167
Income (loss) from operations	1,720	22,547	(131)	(1,686)
Net Income (loss)	1,173	15,381	(853)	(11,003)

	<b>Nine Months Ended September 30,</b>			
	<b>2014</b>		<b>2013</b>	
	(in thousands)			
	USD	MXN	USD	MXN
Net Sales	\$ 137,348	\$ 1,799,920	\$ 116,117	\$ 1,472,703
Gross Profit	24,989	327,454	20,085	254,861
Income from operations	5,697	74,628	1,423	18,172
Net Income	2,649	34,575	1,794	22,273

- 12 -

**Table of Contents**

**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2014**

(unaudited)

The Company recorded equity in earnings of Vasconia, net of taxes, of \$0.3 million for the three months ended September 30, 2014 and equity in losses of Vasconia of \$5.3 million (including a charge of \$5.0 million, net of tax, for the reduction in the fair value of the Company's investment in Vasconia) for the three months ended September 30, 2013. The Company recorded equity in earnings of Vasconia, net of taxes of \$0.6 million and equity in losses of Vasconia of \$4.7 million for the nine months ended September 30, 2014 and 2013, respectively.

As of September 30, 2014 and December 31, 2013, the fair value (based upon Vasconia's quoted stock price) of the Company's investment in Vasconia was \$33.5 million and \$35.2 million, respectively. The carrying value of the Company's investment in Vasconia was \$30.5 million and \$30.5 million as of September 30, 2014 and December 31, 2013, respectively.

The Company has 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. As a result of the decline in operating results of GSI and the current business environment in Brazil, the Company evaluated its carrying value of the investment for other-than-temporary impairment under the equity-method of accounting. Management performed an evaluation of quantitative factors and concluded that the investment was other-than-temporarily impaired as of September 30, 2014. The estimate of fair value was based upon the median of the income-approach (discounted cash flow method) and market-approach valuation methodology using Level 3 unobservable inputs. Accordingly the Company recorded a \$5.2 million impairment charge, net of tax, in equity in earnings (losses), net of tax, for the three and nine month periods ended September 30, 2014.

The Company, together with Vasconia and unaffiliated partners, formed Housewares Corporation of Asia Limited (HCA), a Hong Kong-based company, to supply direct import kitchenware products to retailers in North, Central and South America. The Company initially invested \$105,000 for a 40% equity interest in this entity during 2011. The operating results of HCA were not significant through September 30, 2014. As of September 30, 2014 and December 31, 2013, the carrying value of the Company's investment in HCA was \$129,000 and \$144,000, respectively. In October 2014, the Company sold its investment in HCA to an unaffiliated partner. No significant gains or losses are expected to be recognized in connection with this sale.

In February 2012, the Company entered into Grand Venture Holdings Limited (Grand Venture), a joint venture with Manweal Development Limited (Manweal), a Chinese corporation, to distribute Mikasa products in China, which included an initial investment by the Company of \$500,000. The Company and Manweal each own 50% of Grand Venture and have rights and obligations proportionate to their ownership percentage. The Company accounts for its investment in Grand Venture using the equity method of accounting and has recorded its proportionate share of Grand Venture's net loss as equity in earnings (losses), net of tax, in the Company's condensed consolidated statements of operations. The Company recorded equity in losses of the joint venture of \$17,000 and \$73,000 for the three and nine months ended September 30, 2014, respectively, and \$21,000 and \$58,000 for the three and nine months ended September 30, 2013, respectively. As of September 30, 2014 and December 31, 2013, the carrying value of the



Company's investment in Grand Venture was \$265,000 and \$287,000, respectively.

Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014**

(unaudited)

The Company evaluated the disclosure requirements of ASC Topic No. 860, *Transfers and Servicing*, and determined that at September 30, 2014, the Company did not have a controlling voting interest or variable interest in any of its investments and therefore continued accounting for the investments using the equity method of accounting.

**NOTE D INTANGIBLE ASSETS**

Intangible assets consist of the following (in thousands):

	September 30, 2014			December 31, 2013		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
<b>Goodwill</b>	\$ 18,515	\$	\$ 18,515	\$ 5,085	\$	\$ 5,085
<b>Indefinite-lived intangible assets:</b>						
Trade names	14,980		14,980	18,364		18,364
<b>Finite-lived intangible assets:</b>						
Licenses	15,847	(7,893)	7,954	15,847	(7,551)	8,296
Trade names	22,384	(3,939)	18,445	10,056	(2,677)	7,379
Customer relationships	50,641	(5,717)	44,924	18,406	(2,736)	15,670
Other	1,202	(380)	822	584	(229)	355
<b>Total</b>	\$ 123,569	\$ (17,929)	\$ 105,640	\$ 68,342	\$ (13,193)	\$ 55,149

Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014**

(unaudited)

A summary of the activities related to the Company's intangible assets for the nine months ended September 30, 2014 consists of the following (in thousands):

<b>Goodwill and Intangible Assets, December 31, 2013</b>	<b>\$ 55,149</b>
Impairment of trade names	(3,384)
Goodwill acquired	13,430
Intangibles acquired	45,181
Amortization	(4,736)
<b>Goodwill and Intangible Assets, September 30, 2014</b>	<b>\$ 105,640</b>

The Company performed its annual impairment test for its indefinite-lived trade names as of October 1, 2014. The test involved the assessment of the fair market values of the Company's indefinite-lived trade names based on Level 3 unobservable inputs, using a relief from royalty approach, assuming a discount rate of 14.0%-15.5% and an average long term growth rate of 2.5%-3%. The result of the impairment assessment of the Company's indefinite-lived trade names indicated that the carrying values of the Elements<sup>®</sup>, and Melannco<sup>®</sup> trade names exceeded their fair values as of October 1, 2014.

The Company's home décor products category has experienced a decline in sales and profit in recent years. The Company believes the most significant factor resulting in the decline was the reduction in retail space allocated to the category which has also contributed to pricing pressure. The Company has been re-branding a portion of the home décor products under the Mikasa<sup>®</sup> and Pfaltzgraff<sup>®</sup> trade names and more recently through the Bombay<sup>®</sup> license. The Company is also taking advantage of promotional sale opportunities, such as flash sale websites and online retailers to offset the effect of a reduction in retail space for this product category and pricing pressures. As a result of these factors, the Company recorded an impairment charge of \$3.4 million, related to these brands, in its condensed consolidated statement of operations for the three and nine month periods ended September 30, 2014.

**NOTE E DEBT***Credit Agreement*

In January 2014, the Company entered into a Second Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A. as Administrative Agent and Co-Collateral Agent, and HSBC Bank USA, National Association, as Syndication Agent and Co-Collateral Agent (as amended, the Second Amended and Restated Credit Agreement ) amending and restating the Company's then existing Amended and Restated Credit Agreement. The Second Amended and Restated Credit Agreement, which matures in January 2019, provides for, among other things, a Revolving Credit

Facility commitment totaling \$175.0 million (\$40.0 million of which is available for multi-currency borrowings) and a new Term Loan facility of \$50.0 million.

Each borrowing under the Revolving Credit Facility bears 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 0.75% to 1.25%, or (ii) the Eurodollar Rate, defined as the Adjusted LIBO Rate plus a margin of 1.75% to 2.25%. The respective margins are based upon availability which is a function of usage and the borrowing base. Interest rates on outstanding borrowings at September 30, 2014 ranged from 2.125% to 4.25%. In addition, the Company pays a commitment fee of 0.375% on the unused portion of the Revolving Credit Facility.

At September 30, 2014, borrowings outstanding under the Revolving Credit Facility were \$113.1 million and open letters of credit were \$4.1 million. At September 30, 2014, availability under the Revolving Credit Facility was approximately \$57.7 million. The borrowing capacity under the Revolving Credit Facility depends, in part, on eligible levels of accounts receivable and inventory that fluctuate regularly and certain trademark values based upon periodic appraisals. Consequently, the \$175.0 million commitment may not represent actual borrowing capacity.

Table of Contents

**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2014**

(unaudited)

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.

ABR Term Loans or Eurocurrency Term Loans, provided for under the Second Amended and Restated Credit Agreement, bear interest based on the applicable Senior Leverage Ratio. The ABR Spread for Term Loans is 3.0% to 3.5% and the Eurocurrency Spread for Term Loans is 4.0% to 4.5%. As of September 30, 2014, \$47.5 million was outstanding under the Term Loan.

The Company's payment obligations under the Revolving Credit Facility are unconditionally guaranteed by each of its existing and future U.S. subsidiaries. Certain payment obligations under the Revolving Credit Facility are also direct obligations of its foreign subsidiary borrowers designated as such under the Second Amended and Restated Credit Agreement and, subject to limitations on such guaranty, are guaranteed by the foreign subsidiary borrowers, as well as by the Company. The obligations of the Company under the Revolving Credit Facility and any hedging arrangements and cash management services and the guarantees by its domestic subsidiaries in respect of those obligations are secured by substantially all of the assets and stock (but in the case of foreign subsidiaries, limited to 65% of the capital stock in first-tier foreign subsidiaries and not including stock of subsidiaries of such first-tier foreign subsidiaries) owned by the Company and the U.S. subsidiary guarantors, subject to certain exceptions. Such security interest consists of a first-priority lien, subject to certain permitted liens, with respect to the assets of the Company and its domestic subsidiaries pledged as collateral in favor of lenders under the Revolving Credit Facility.

The Second Amended and Restated Credit Agreement provides for customary restrictions and events of default. Restrictions include limitations on additional indebtedness, acquisitions, investments and payment of dividends, among other things. Further, the Second Amended and Restated Credit Agreement provides that at any time any Term Loan is outstanding or at any time no Term Loan is outstanding and availability under the Revolving Credit Facility is less than \$17.5 million and continuing until availability of at least \$20.0 million is maintained for three consecutive months, the Company is required to maintain a minimum fixed charge coverage ratio of 1.10 to 1.00 for each four consecutive fiscal quarter periods. The Second Amended and Restated Credit Agreement also provides that when the Term Loan is outstanding, the Company is required to maintain a Senior Leverage Ratio within defined parameters not to exceed 4.00 to 1.00 at the fiscal quarter ending September 30, 2014; 4.25 to 1.00 at the fiscal quarter ending December 31, 2014; 3.50 to 1.00 at each fiscal quarter end in 2015; and 2.50 to 1.00 at each fiscal quarter end thereafter; provided that for any fiscal quarter ending on September 30 of any year, the maximum Senior Leverage Ratio specified above shall be increased by an additional 0.25:1.00.

The Company was in compliance with the financial covenants of the Second Amended and Restated Credit Agreement at September 30, 2014.

In January 2014, the Company repaid the previously outstanding Senior Secured Term Loan in connection with the execution and delivery of the Second Amended and Restated Credit Agreement.

*Other Credit Agreements*

A subsidiary of the Company has a credit facility ( HSBC Facility or Short term loan ) with HSBC Bank (China) Company Limited, Shanghai Branch ( HSBC ) for up to RMB 18.0 million (\$2.9 million). The HSBC Facility is subject to annual renewal and may be used to fund general working capital needs of the subsidiary which is a trading company in the People s Republic of China. Borrowings under the HSBC Facility are guaranteed by the Company and are granted at the sole discretion of HSBC. At September 30, 2014, RMB 5.9 million (\$951,000) was outstanding and the interest rate was 6.44% under the HSBC Facility.

Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014**

(unaudited)

**NOTE F STOCK COMPENSATION**

A summary of the Company's stock option activity and related information for the nine months ended September 30, 2014 is as follows:

	<b>Options</b>	<b>Weighted- average exercise price</b>	<b>Weighted- average contractual life (years)</b>	<b>Aggregate intrinsic value</b>
<b>Options outstanding, January 1, 2014</b>	2,371,650	\$ 12.75		
Grants	394,400	18.83		
Exercises	(339,331)	8.44		
Cancellations	(32,200)	12.23		
Expirations	(17,000)	21.67		
<b>Options outstanding, September 30, 2014</b>	2,377,519	14.32	6.19	\$ 7,681,733
<b>Options exercisable, September 30, 2014</b>	1,527,594	13.87	4.97	\$ 6,148,510

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 September 30, 2014. 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 September 30, 2014 and the exercise price.

The total intrinsic value of stock options exercised for the nine months ended September 30, 2014 and 2013 was \$3.0 million and \$1.7 million, respectively. The intrinsic value of a stock option that is exercised is calculated at the date of exercise.

Total unrecognized stock option compensation expense at September 30, 2014, before the effect of income taxes, was \$5.6 million and is expected to be recognized over a weighted-average period of 2.74 years.

During the nine months ended September 30, 2014, the Company granted an aggregate of 21,511 shares of restricted stock to its independent directors as part of their annual retainer that vest 100% one year from the date of grant. The restricted stock had a weighted average grant date fair value of \$16.07 that will be recognized in stock compensation

expense over the one year vesting period. Total unrecognized restricted stock compensation expense at September 30, 2014 was \$247,000 and is expected to be recognized over a weighted-average period of 0.7 years.

The Company recognized stock compensation expense of \$680,000 and \$740,000 for the three months ended September 30, 2014 and 2013, respectively, and \$2,133,000 and \$2,131,000 for the nine months ended September 30, 2014 and 2013, respectively.

At September 30, 2014, there were 276,362 shares available for awards that could be granted under the Company's 2000 Long-Term Incentive Plan.

**NOTE G 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 and nine month periods ended September 30, 2014 and 2013 are as follows:



Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014**

(unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	(in thousands, except per share amounts)			
<b>Net income (loss) basic and diluted</b>	\$ (1,586)	\$ 1,093	(7,717)	\$ (107)
<b>Weighted-average shares outstanding basic</b>	13,619	12,707	13,460	12,758
Effect of dilutive securities:				
Stock options		339		
<b>Weighted-average shares outstanding diluted</b>	13,619	13,046	13,460	12,758
<b>Basic income (loss) per common share</b>	\$ (0.12)	\$ 0.09	\$ (0.57)	\$ (0.01)
<b>Diluted income (loss) per common share</b>	\$ (0.12)	\$ 0.08	\$ (0.57)	\$ (0.01)

The computation of diluted income (loss) per common share for the three months ended September 30, 2014 and 2013 excludes options to purchase 2,377,519 shares and options to purchase 336,500 shares, respectively. The computation of diluted loss per common share for the nine months ended September 30, 2014 and 2013 excludes options to purchase 2,443,481 shares and options to purchase 2,476,500 shares, respectively. These shares were excluded due to their antidilutive effects.

**NOTE H INCOME TAXES**

On a quarterly basis, the Company evaluates its tax positions and revises its estimates accordingly. The estimated value of the Company's uncertain tax positions at September 30, 2014 is a gross liability of \$245,000. 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 \$245,000, all of which would benefit the Company's tax provision. The Company believes that \$245,000 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 2010. At September 30, 2014, the periods subject to examination for the Company's major state jurisdictions are the years ended 2009 through 2013.

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 and nine months ended September 30, 2014 and 2013.

**NOTE I BUSINESS SEGMENTS**

The Company operates in three reportable business segments: U.S. Wholesale, International and Retail Direct. The U.S. Wholesale segment is the Company's primary domestic business that designs, markets and distributes its products to retailers and distributors. The International Segment consists of certain business operations conducted outside the U.S. which was previously included in the Wholesale segment. The Retail Direct segment is where the Company markets and sells a limited selection of its products to consumers through its Pfaltzgraff®, Mikasa® and Lifetime Sterling® websites.

The Company has segmented its operations to reflect the manner in which management reviews and evaluates the results of its operations. While the three 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 U.S. Wholesale, International 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.

Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014**

(unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	(in thousands)			
<b>Net sales</b>				
U.S. Wholesale	\$ 125,341	\$ 128,143	\$ 296,155	\$ 299,457
International	33,247	10,360	87,969	25,433
Retail Direct	3,656	3,726	11,852	12,972
<b>Total net sales</b>	<b>\$ 162,244</b>	<b>\$ 142,229</b>	<b>\$ 395,976</b>	<b>\$ 337,862</b>
<b>Income (loss) from operations</b>				
U.S. Wholesale	\$ 9,919	\$ 15,294	\$ 13,096	\$ 23,671
International	2,141	213	1,226	(2,185)
Retail Direct	(372)	(267)	(1,088)	(533)
Unallocated corporate expenses	(3,260)	(3,547)	(10,160)	(9,363)
<b>Total income from operations</b>	<b>\$ 8,428</b>	<b>\$ 11,693</b>	<b>\$ 3,074</b>	<b>\$ 11,590</b>
<b>Depreciation and amortization</b>				
U.S. Wholesale	\$ (1,888)	\$ (2,161)	\$ (6,409)	\$ (6,340)
International	(1,373)	(290)	(4,054)	(1,170)
Retail Direct	(38)	(66)	(165)	(197)
<b>Total depreciation and amortization</b>	<b>\$ (3,299)</b>	<b>\$ (2,517)</b>	<b>\$ (10,628)</b>	<b>\$ (7,707)</b>

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
	(in thousands)	
<b>Assets</b>		
U.S. Wholesale	\$ 316,369	\$ 291,757
International	130,873	35,365
Retail Direct	507	730
Unallocated/ Corporate/ Other	8,915	8,887
<b>Total assets</b>	<b>\$ 456,664</b>	<b>\$ 336,739</b>

**NOTE J 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.

**Table of Contents****LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014**

(unaudited)

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, and 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. The Company granted such access.

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 such litigation, individually or collectively, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

**NOTE K OTHER****Cash dividends**

Dividends declared in the nine months ended September 30, 2014 are as follows:

<b>Dividend per share</b>	<b>Date declared</b>	<b>Date of record</b>	<b>Payment date</b>
\$ 0.03750	March 11, 2014	May 1, 2014	May 15, 2014
\$ 0.03750	June 19, 2014	August 1, 2014	August 15, 2014
\$ 0.03750	July 29, 2014	October 31, 2014	November 14, 2014

On February 15, 2014, May 15, 2014 and August 15, 2014 the Company paid cash dividends of \$501,000, \$506,000 and \$510,000, respectively, which reduced retained earnings. In the three months ended September 30, 2014, the Company reduced retained earnings for the accrual of \$510,000 relating to the dividend payable on November 14, 2014.

On November 5, 2014, the Board of Directors declared a quarterly dividend of \$0.0375 per share payable on February 13, 2015 to shareholders of record on January 30, 2015.

Dividends declared in the nine months ended September 30, 2013 are as follows:

<b>Dividend per share</b>	<b>Date declared</b>	<b>Date of record</b>	<b>Payment date</b>
\$ 0.03125	March 12, 2013	May 1, 2013	May 15, 2013
\$ 0.03125	June 13, 2013	August 1, 2013	August 15, 2013
\$ 0.03125	August 2, 2013	November 1, 2013	November 15, 2013

### **Stock repurchase program**

On April 30, 2013, Lifetime's Board of Directors authorized the repurchase of up to \$10.0 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. During the nine months ended September 30, 2013, the Company repurchased 245,575 shares under the April 2013 authorization at a total cost of \$3.2 million and thereafter retired the repurchased shares. No shares were repurchased during the three and nine months ended September 30, 2014.

Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014**

(unaudited)

**Supplemental cash flow information**

	<b>Nine Months Ended September 30, 2014      2013</b>	
	(in thousands)	
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 3,664	\$ 2,742
Cash paid for taxes	4,771	4,891
<b>Non-cash investing activities:</b>		
Translation adjustment	\$ 1,577	\$ 190

- 21 -

Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2014**

(unaudited)

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	(in thousands)			
<i>Accumulated translation adjustment:</i>				
Balance at beginning of period	\$ (1,212)	\$ (3,194)	\$ (2,944)	\$ (2,804)
Translation gain (loss) during period	(3,309)	200	(1,577)	(190)
Balance at end of period	\$ (4,521)	\$ (2,994)	\$ (4,521)	\$ (2,994)
<i>Accumulated deferred losses on cash flow hedges:</i>				
Balance at beginning of period	\$ (65)	\$ (28)	\$ (31)	\$ (272)
Derivative fair value adjustment, net of taxes of \$49 and \$32 for the three months ended September 30, 2014 and 2013, respectively, and \$26 and \$131 for the nine months ended September 30, 2014 and 2013, respectively	73	(48)	39	196
Balance at end of period	\$ 8	\$ (76)	\$ 8	\$ (76)
<i>Accumulated effect of retirement benefit obligations:</i>				
Balance at beginning of period	\$ (731)	\$ (1,134)	\$ (745)	\$ (1,160)
Amounts reclassified from accumulated other comprehensive loss: <sup>(1)</sup>				
Amortization of actuarial losses, net of taxes of \$5 and \$8 for the three months ended September 30, 2014 and 2013, respectively, and \$14 and \$27 for the nine months ended September 30, 2014 and 2013, respectively	7	14	21	40
Balance at end of period	\$ (724)	\$ (1,120)	\$ (724)	\$ (1,120)
Total accumulated other comprehensive loss at end of period	\$ (5,237)	\$ (4,190)	\$ (5,237)	\$ (4,190)



- (1) Amounts are recorded in selling, general and administrative expense on the Condensed consolidated statements of operations.

- 22 -

**Table of Contents**

**Review Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Lifetime Brands, Inc.:

We have reviewed the condensed consolidated balance sheet of Lifetime Brands, Inc. (the Company) as of September 30, 2014, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2014 and 2013, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2014 and 2013. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Lifetime Brands, Inc. as of December 31, 2013, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated March 14, 2014. We did not audit the consolidated financial statements of Grupo Vasconia, S.A.B. and Subsidiaries (a corporation in which the Company has a 30% interest), which statements have been audited by other auditors whose report has been furnished to us, and our opinion on the consolidated financial statements, insofar as it relates to the amounts included for Grupo Vasconia, S.A.B. and Subsidiaries, is based solely on the report of the other auditors. In the consolidated financial statements, the Company's investment in Grupo Vasconia, S.A.B. and Subsidiaries is stated at \$30.5 million at December 31, 2013, and the Company's equity in the net loss of Grupo Vasconia, S.A.B. and Subsidiaries is stated at \$4.0 million for the year ended December 31, 2013. In our opinion, the accompanying condensed consolidated balance sheet of Lifetime Brands, Inc. as of December 31, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Jericho, New York

November 10, 2014

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This Quarterly Report on Form 10-Q of Lifetime Brands, Inc. (the Company and, unless the context otherwise requires, references to the Company shall include its consolidated subsidiaries) contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements include information concerning Lifetime Company's plans, objectives, goals, strategies, future events, future revenues, performance, capital expenditures, financing needs and other information that is not historical information. Many of these statements appear, in particular, in *Management's Discussion and Analysis of Financial Condition and Results of Operations*. When used in this Quarterly Report on Form 10-Q, the words estimates, expects, anticipates, projects, plans, intends, believes, may, should, seeks, and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, the Company's examination of historical operating trends, are based upon the Company's current expectations and various assumptions. The Company believes there is a reasonable basis for its expectations and assumptions, but there can be no assurance that the Company will realize its expectations or that the Company's assumptions will prove correct.

There are a number of risks and uncertainties that could cause the Company's actual results to differ materially from the forward-looking statements contained in this Quarterly Report. Important factors that could cause the Company's actual results to differ materially from those expressed as forward-looking statements are set forth in this Quarterly Report on Form 10-Q in Part II, Item 1A under the heading *Risk Factors* and in the Company's 2013 Annual Report on Form 10-K in Part I, Item 1A under the heading *Risk Factors*. Such risks, uncertainties and other important factors include, among others, risks related to:

Indebtedness;

Seasonality;

General economic factors and political conditions;

Acquisitions and investments;

International operations;

Liquidity;

Interest;

Competition;

Customer practices;

Supply chain;

International trade and transportation;

Intellectual property, brands and licenses;

Regulatory matters;

Product liability;

Technology;

Personnel;

Business interruptions;

Price fluctuations; and

Projections.

**Table of Contents**

There may be other factors that may cause the Company's actual results to differ materially from the forward-looking statements. Except as may be required by law, the Company undertakes no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

- 25 -

## **Table of Contents**

### **ABOUT THE COMPANY**

The Company designs, sources and sells branded kitchenware, tableware and other products used in the home. The Company's product categories include two categories of products that people use to prepare, serve and consume foods, Kitchenware (kitchen tools and gadgets, cutlery, cutting boards, shears, cookware and bakeware) and Tableware (dinnerware, stemware, flatware and giftware); and one category, Home Solutions, which comprises other products used in the home (pantryware, spice racks, thermal beverageware, food storage and home décor). In 2013, Kitchenware products and Tableware products accounted for approximately 89% of the Company's wholesale net sales and 86% of its consolidated net sales.

The Company markets several product lines within each of its product categories and under most of the Company's brands, primarily targeting moderate price points through virtually every major level of trade. The Company believes it possesses certain competitive advantages based on its brands, its emphasis on innovation and new product development and its sourcing capabilities. The Company owns or licenses a number of leading brands in its industry including Farberware®, Mikasa®, Pfaltzgraff®, KitchenAid®, Kamenstein®, Fred®, Towle®, Wallace®, Sabatier®, KitchenCraft®, masterclass® and colourworks®. Historically, the Company's sales growth has come from expanding product offerings within its product categories, by developing existing brands, acquiring new brands and establishing new product categories. Key factors in the Company's growth strategy have been the selective use and management of the Company's brands and the Company's ability to provide a stream of new products and designs. A significant element of this strategy is the Company's in-house design and development teams that create new products, packaging and merchandising concepts. More recently, the Company has significantly expanded its international footprint through acquisitions of businesses which own or license complementary brands.

### **BUSINESS SEGMENTS**

During the second quarter of 2014, the Company realigned its reportable segments into three categories: U.S. Wholesale, International and Retail Direct. The U.S. Wholesale segment, formerly the Wholesale segment, is the Company's primary domestic business that designs, markets and distributes its products to retailers and distributors. The International segment consists of certain business operations conducted outside the U.S. which was previously included in the Wholesale segment. The Retail Direct segment is where the Company markets and sells a limited selection of its products to consumers through its Pfaltzgraff®, Mikasa® and Lifetime Sterling® Internet websites. The Company has segmented its operations to reflect the manner in which management reviews and evaluates its results of operations. Previous periods presented have been recast to conform with the current period presentation.

### **EQUITY INVESTMENTS**

The Company owns approximately 30% of the outstanding capital stock of 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 has recorded its proportionate share of Vasconia's net income, net of taxes, as equity in earnings in the Company's consolidated statements of operations. Pursuant to a Shares Subscription Agreement (the Agreement), the Company may designate four persons to be nominated as members of Vasconia's Board of Directors. As of September 30, 2014, Vasconia's Board of Directors is comprised of ten members of whom the Company has designated three members.

The Company owns approximately 40% of the outstanding capital stock of GS Internacional S/A ( GSI ). GSI is a wholesale distributor of branded housewares products in Brazil. The Company accounts for its investment in GSI using the equity method of accounting and has recorded its proportionate share of GSI s net income, net of taxes, as equity in earnings in the Company s condensed consolidated statements of operations. Pursuant to a Shareholders Agreement, the Company has the right to designate three persons (including one independent person, as defined) to be nominated as members of GSI s Board of Directors which shall be comprised of a maximum of seven members. As of September 30, 2014, GSI s Board of Directors is comprised of six members (including two independent members) of which three have been designated by the Company (including one independent member).

**Table of Contents****SEASONALITY**

The Company's business and working capital needs are highly seasonal, with a majority of sales occurring in the third and fourth quarters. In 2013 and 2012 net sales for the third and fourth quarters accounted for 61% and 58% 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.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

There have been no material changes to the Company's critical accounting policies and estimates discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

**RESULTS OF OPERATIONS**

The following table sets forth statement of operations data of the Company as a percentage of net sales for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	64.3	64.0	63.9	63.3
Gross margin	35.7	36.0	36.1	36.7
Distribution expenses	8.2	7.5	9.6	9.3
Selling, general and administrative expenses	20.2	20.2	24.8	23.8
Intangible asset impairment	2.1		0.9	
Restructuring expenses		0.1		0.1
Income from operations	5.2	8.2	0.8	3.5
Interest expense	(1.0)	(0.9)	(1.2)	(1.1)
Loss on early retirement of debt			(0.1)	
Income (loss) before income taxes and equity in earnings	4.2	7.3	(0.5)	2.4
Income tax provision	(1.9)	(2.6)	(0.1)	(1.0)
Equity in earnings (losses), net of taxes	(3.2)	(3.9)	(1.4)	(1.5)
Net income (loss)	(0.9)%	0.8%	(2.0)%	(0.1)%



---

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**THREE MONTHS ENDED SEPTEMBER 30, 2014 AS COMPARED TO THE THREE MONTHS  
ENDED SEPTEMBER 30, 2013**

**Net Sales**

Net sales for the three months ended September 30, 2014 were \$162.2 million, an increase of \$20.0 million, or 14.1%, as compared to net sales of \$142.2 million for the corresponding period in 2013.

Net sales for the U.S. Wholesale segment for the three months ended September 30, 2014 were \$125.3 million, a decrease of \$2.8 million, or 2.2%, as compared to net sales of \$128.1 million for the corresponding period in 2013.

Net sales for the U.S. Wholesale's Kitchenware product category were \$70.4 million for the three months ended September 30, 2014, a decrease of \$10.8 million, or 13.3%, as compared to \$81.2 million for the corresponding period in 2013. The decrease in the U.S. Wholesale Kitchenware product category was primarily due to a decrease in warehouse club programs in the current year.

Net sales for the U.S. Wholesale's Tableware product category were \$39.3 million for the three months ended September 30, 2014, an increase of \$7.9 million, or 25.2%, as compared to \$31.4 million for the corresponding period in 2013. The Tableware product category sales increase was attributable to higher sales volumes in housewares and luxury tableware as well as flatware.

Net sales for U.S. Wholesale's Home Solutions product category were \$15.6 million for the three months ended September 30, 2014, an increase of \$0.1 million, or 0.6%, as compared to \$15.5 million for the three months ended September 30, 2013. The increase in the Home Solutions product category reflects the inclusion of Built NY, acquired in the first quarter of 2014, offset by lower volumes for home décor products.

Net sales for the International segment for the three months ended September 30, 2014 were \$33.2 million, an increase of \$22.8 million, as compared to net sales of \$10.4 million for the corresponding period in 2013. Of the increase, \$18.7 million represents sales from Kitchen Craft and La Cafetière, which were acquired during the first quarter of 2014. The balance of the increase was due to higher sales of tableware products and, to a lesser extent, the effect of a stronger Pound Sterling.

Net sales for the Retail Direct segment were \$3.7 million in each of the three months ended September 30, 2014 and 2013.

**Gross margin**

Gross margin for the three months ended September 30, 2014 was \$57.9 million, or 35.7%, as compared to \$51.3 million, or 36.0%, for the corresponding period in 2013.

Gross margin for the U.S. Wholesale segment was \$43.7 million, or 34.9%, for the three months ended September 30, 2014, as compared to \$45.4 million, or 35.5%, for the corresponding period in 2013. The decrease in U.S. Wholesale gross margin reflects an increase in the proportion of tableware product sales, which typically have lower gross margin than kitchenware products, and an increase in promotional activities to introduce new brands and products.

Gross margin for the International segment was \$11.7 million, or 35.2%, for the three months ended September 30, 2014, as compared to \$3.2 million, or 30.8%, for the corresponding period in 2013. The increase in gross margin in the International segment is a result of the inclusion of Kitchen Craft, whose products carry a higher margin than other product categories in the segment.

Gross margin for the Retail Direct segment was \$2.5 million, or 69.3%, for the three months ended September 30, 2014, as compared to \$2.7 million, or 70.8%, for the corresponding period in 2013. The decrease in gross margin in Retail Direct reflects increased promotional activities.

## **Table of Contents**

### **Distribution expenses**

Distribution expenses for the three months ended September 30, 2014 were \$13.3 million as compared to \$10.6 million for the corresponding period in 2013. Distribution expenses as a percentage of net sales were 8.2% for the three months ended September 30, 2014 as compared to 7.5% for the three months ended September 30, 2013.

Distribution expenses as a percentage of net sales for the U.S. Wholesale segment were approximately 7.4% and 6.8% for the three months ended September 30, 2014 and 2013. As a percentage of sales shipped from the Company's warehouses, distribution expenses for the U.S. Wholesale segment were 8.8% and 8.2% for the three months ended September 30, 2014 and 2013, respectively. The increase reflects the effect of lower sales, increased labor costs from lower revenue per shipment and the impact of a longshoremen's work slowdown on the West Coast.

Distribution expenses as a percentage of net sales for the International segment were approximately 8.7% and 7.7% for the three months ended September 30, 2014 and 2013, respectively. As a percentage of sales shipped from the Company's U.K. warehouses, distribution expenses for the International segment were 10.8% and 15.5% for the three months ended September 30, 2014 and 2013, respectively. The decrease in expenses as percentage of sales shipped from the Company's U.K. warehouses reflects the higher sales volume of tableware products and the use of more competitive priced freight carriers.

Distribution expenses as a percentage of net sales for the Retail Direct segment were approximately 29.7% and 29.5% for the three months ended September 30, 2014 and 2013, respectively.

### **Selling, general and administrative expenses**

Selling, general and administrative expenses for the three months ended September 30, 2014 were \$32.8 million, an increase of \$3.9 million, or 13.5%, as compared to \$28.9 million for the corresponding period in 2013.

Selling, general and administrative expenses for the three months ended September 30, 2014 for the U.S. Wholesale segment were \$21.1 million, a decrease of \$0.4 million, or 1.9%, from \$21.5 million for the corresponding period in 2013. During the three months ended September 30, 2014, the Company incurred certain expenses related to its growth and acquisitions activities which were offset by a net reduction in operating activities primarily due to the timing of short term incentive compensation expense. As a percentage of net sales, selling, general and administrative expenses was 16.8% for both the three months ended September 30, 2014 and 2013.

Selling, general and administrative expenses for the three months ended September 30, 2014 for the International segment were \$6.6 million, an increase of \$4.5 million, from \$2.1 million for the corresponding period in 2013. The increase was primarily due to the inclusion of Kitchen Craft. As a percentage of net sales, selling, general and administrative expenses decreased to 19.9% for the three months ended September 30, 2014 compared to 20.2% for the corresponding period in 2013.

Selling, general and administrative expenses for the Retail Direct segment were \$1.8 million for both the three months ended September 30, 2014 and 2013.

Unallocated corporate expenses for the three months ended September 30, 2014 were \$3.3 million as compared to \$3.5 million for the corresponding period in 2013. The decrease was primarily attributable to a decrease in employee related and professional expenses.

### **Intangible asset impairment**

The Company's home décor products category has experienced a decline in sales and profit in recent years. The Company believes the most significant factor resulting in the decline was the reduction in retail space allocated to the category which has also contributed to pricing pressure. The Company has been re-branding a portion of the home décor products under the Mikasa® and Pfaltzgraff® trade names and more recently through the Bombay® license. The Company is also taking advantage of promotional sale opportunities, such as flash sale websites and online retailers to offset the effect of a reduction in retail space for this product category and pricing pressures. As a result of these factors, the Company recorded an impairment charge of \$3.4 million, related to these brands in its condensed consolidated statement of operations for the three months ended September 30, 2014.

#### **Restructuring expenses**

Restructuring expenses for the three months ended September 30, 2013 were \$0.1 million. The expenses resulted from the planned closure of the Fred® & Friends distribution center which included the elimination of certain employee positions in the third quarter of 2013.

**Table of Contents**

**Interest expense**

Interest expense for the three months ended September 30, 2014 was \$1.7 million as compared to \$1.3 million for the three months ended September 30, 2013. The increase in interest expense was attributable to higher average borrowings attributable to recent acquisitions which were partially offset by lower interest rates from the debt refinancing.

**Income tax provision**

The income tax provision for the three months ended September 30, 2014 was \$3.1 million as compared to \$3.9 million for the corresponding period in 2013. The Company's effective tax rate for the three months ended September 30, 2014 was 46.4% as compared to 37.2% for the 2013 period. The higher effective tax rate for the three months ended September 30, 2014 reflects a reduction on the deferred tax assets in Puerto Rico as a result of a rate change.

**Equity in earnings (losses)**

Equity in earnings of Vasconia, net of taxes, was \$0.3 million for the three months ended September 30, 2014 as compared to equity in losses of \$5.3 million (including a charge of \$5.0 million, net of tax, for the reduction in the fair value of the Company's investment in Vasconia) for the three months ended September 30, 2013. The 2013 reduction in the fair value was based upon a decline in the quoted stock price of Vasconia and the 2013 quarterly decline in operating results of Vasconia. Vasconia reported income from operations of \$1.7 million for the three months ended September 30, 2014 as compared to a loss from operations of \$0.1 million for the three months ended September 30, 2013.

Equity in losses of GSI was \$5.5 million (including a charge of \$5.2 million, net of tax, for the reduction in the fair value of the Company's investment in GSI, for the three months ended September 30, 2014), as compared to equity in losses of \$132,000 for the three months ended September 30, 2013. As a result of the decline in operating results of GSI and the current business environment in Brazil, the Company evaluated the carrying value of its investment for other-than-temporary impairment under the equity-method of accounting, and recorded an impairment charge of \$5.2 million, net of tax, during the three months ended September 30, 2014.

---

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**NINE MONTHS ENDED SEPTEMBER 30, 2014 AS COMPARED TO THE NINE MONTHS ENDED  
SEPTEMBER 30, 2013**

**Net Sales**

Net sales for the nine months ended September 30, 2014 were \$396.0 million, an increase of \$58.1 million, or 17.2%, as compared to net sales of \$337.9 million for the corresponding period in 2013.

Net sales for the U.S. Wholesale segment for the nine months ended September 30, 2014 were \$296.2 million, a decrease of \$3.3 million, or 1.1%, as compared to net sales of \$299.5 million for the corresponding period in 2013.

Net sales for the U.S. Wholesale's Kitchenware product category were \$174.8 million for the nine months ended September 30, 2014, a decrease of \$14.6 million, or 7.7%, as compared to \$189.4 million for the corresponding period in 2013. The decrease in the U.S. Wholesale's Kitchenware product category was due to lower sales volumes, in part, due to a decrease in warehouse club programs in the current year.

Net sales for the U.S. Wholesale's Tableware product category were \$82.2 million for the nine months ended September 30, 2014, an increase of \$8.2 million, or 11.1%, as compared to \$74.0 million for the corresponding period in 2013. The Tableware product category sales increase reflects higher sales volumes in housewares and luxury tableware as well as flatware.

Net sales for the U.S. Wholesale's Home Solutions product category were \$39.2 million for the nine months ended September 30, 2014, an increase of \$3.1 million, or 8.6%, as compared to \$36.1 million for the corresponding period in 2013. The increase in the Home Solutions product category reflects the inclusion of Built NY, acquired in the first quarter of 2014, as well as successful sales programs for the pantryware product line, partially offset by lower volume for the home décor product line.

Net sales for the International segment for the nine months ended September 30, 2014 were \$88.0 million, an increase of \$62.6 million, as compared to net sales of \$25.4 million for the corresponding period in 2013. Of the increase, \$50.6 million represents sales from Kitchen Craft and La Cafetière, which were acquired during the first quarter of 2014. The balance of the increase was due to higher sales of tableware products as the impact of higher duties on ceramic products imposed by the European Union in 2013 normalized. To a lesser extent, the increase also includes the effect of a stronger Pound Sterling.

Net sales for the Retail Direct segment for the nine months ended September 30, 2014 were \$11.8 million, a decrease of \$1.2 million, or 9.2%, as compared to \$13.0 million for the corresponding period in 2013, principally as a result of reduced activity on the Company's Pfaltzgraff and Mikasa® internet websites.

**Gross margin**

Gross margin for the nine months ended September 30, 2014 was \$143.1 million, or 36.1%, as compared to \$123.9 million, or 36.7%, for the corresponding period in 2013.

Gross margin for the U.S. Wholesale segment was \$104.3 million, or 35.2%, for the nine months ended September 30, 2014, as compared to \$107.7 million or 36.0% for the corresponding period in 2013. The decrease in gross margin for

the U.S. Wholesale segment reflects actions taken to create opportunities to expand the Company's market share, an increase in the proportion of tableware product sales, which typically have lower gross margin than kitchenware products, and an increase in promotional activities to introduce new brands and products.

Gross margin for the International segment was \$30.6 million, or 34.8%, for the nine months ended September 30, 2014, as compared to \$7.1 million, or 27.9%, for the corresponding period in 2013. The increase in gross margin in the International segment is due to the inclusion of Kitchen Craft whose products carry a higher margin than other product categories in the segment and to a lesser extent, a decrease in pricing promotions for tableware products.

Gross margin for the Retail Direct segment was \$8.2 million, or 69.4%, for the nine months ended September 30, 2014, as compared to \$9.1 million, or 70.0%, for the corresponding period in 2013. The decrease in gross margin in the Retail Direct segment reflects increased promotional activities.

## **Table of Contents**

### **Distribution expenses**

Distribution expenses for the nine months ended September 30, 2014 were \$38.1 million as compared to \$31.5 million for the corresponding period in 2013. Distribution expenses as a percentage of net sales were 9.6% and 9.3% for the nine months ended September 30, 2014 and 2013, respectively.

Distribution expenses as a percentage of sales shipped from the Company's warehouses for the U.S. Wholesale segment were 9.8% for the nine months ended September 30, 2014 and 9.4% for the nine months ended September 30, 2013. The increase reflects the effect of lower sales, increased labor costs from lower revenue per shipment and the impact of a longshoremen's work slowdown on the West Coast.

Distribution expenses as a percentage of net sales for the International segment were approximately 9.7% for the nine months ended September 30, 2014 as compared to 10.2% for the corresponding period in 2013. The increase reflects higher sales volume. Distribution expenses as a percentage of sales shipped from the Company's warehouses for the International segment were 11.9% and 17.0% for the nine months ended September 30, 2014 and 2013, respectively. The decrease in expenses as a percentage of sales shipped reflects the higher sales volume from the tableware warehouses and a more efficient use of freight lines.

Distribution expenses as a percentage of net sales for the Retail Direct segment were approximately 29.4% and 30.0% for the nine months ended September 30, 2014 and 2013.

### **Selling, general and administrative expenses**

Selling, general and administrative expenses for the nine months ended September 30, 2014 were \$98.5 million, an increase of \$18.0 million, or 22.4%, as compared to \$80.5 million for the corresponding period in 2013.

Selling, general and administrative expenses for the nine months ended September 30, 2014 for the U.S. Wholesale segment were \$61.6 million, an increase of \$3.1 million, or 5.3%, as compared to \$58.5 million for the corresponding period in 2013. During the nine months ended September 30, 2014, the Company incurred certain expenses related to its growth and acquisitions activities which were partially offset by the timing of short term incentive compensation expense. As a percentage of net sales, selling, general and administrative expenses increased to 20.8% for the nine months ended September 30, 2014 compared to 19.5% for the corresponding period in 2013.

Selling, general and administrative expenses for the nine months ended September 30, 2014 for the International segment were \$20.9 million, an increase of \$14.0 million, as compared to \$6.9 million for the corresponding period in 2013. The increase was primarily due to the inclusion of Kitchen Craft. As a percentage of net sales, selling, general and administrative expenses decreased to 23.8% for the nine months ended September 30, 2014 compared to 27.2% for the corresponding period in 2013.

Selling, general and administrative expenses for the nine months ended September 30, 2014 and 2013 for the Retail Direct segment were \$5.8 million and \$5.7 million, respectively.

Unallocated corporate expenses for the nine months ended September 30, 2014 and 2013 were \$10.2 million and \$9.4 million, respectively. The increase was primarily due to an increase in professional fees.

### **Intangible asset impairment**



The Company's home décor products category has experienced a decline in sales and profit in recent years. The Company believes the most significant factor resulting in the decline was the reduction in retail space allocated to the category which has also contributed to pricing pressure. The Company has been re-branding a portion of the home décor products under the Mikasa® and Pfaltzgraff® trade names and more recently through the Bombay® license. The Company is also taking advantage of promotional sale opportunities, such as flash sale websites and online retailers to offset the effect of a reduction in retail space for this product category and pricing pressures. As a result of these factors, the Company recorded an impairment charge of \$3.4 million, related to these brands in its condensed consolidated statement of operations for the nine months ended September 30, 2014.

### **Restructuring expenses**

Restructuring expenses for the nine months ended September 30, 2014 were \$0.1 million as compared to \$0.4 million for the corresponding period in 2013. The restructuring expenses in the nine months ended September 30, 2014 resulted from the consolidation of our customer service and call center functions which resulted in the elimination of certain employee positions. The restructuring expenses in 2013 resulted from the closure of the Fred® & Friends distribution center which included the elimination of certain employee positions.

## **Table of Contents**

### **Interest expense**

Interest expense for the nine months ended September 30, 2014 was \$4.8 million as compared to \$3.6 million for the corresponding period in 2013. The increase in interest expense was attributable to higher average borrowings attributable to the recent acquisitions which were partially offset by lower rates resulting from the debt refinancing.

### **Loss on early retirement of debt**

In January 2014, the Company repaid the Senior Secured Term Loan. In connection therewith, the Company wrote off the related debt issuance costs of \$0.3 million.

### **Income tax provision**

The income tax provision for the nine months ended September 30, 2014 was \$0.4 million as compared to \$3.0 million for the corresponding period in 2013. The Company's effective tax rate for the nine months ended September 30, 2014 was (17.6%) as compared to 37.4% for the 2013 period. The Company's effective tax rate for the nine months ended September 30, 2014 reflects a benefit on the Company's losses, more than offset by a reduction in the deferred tax assets in Puerto Rico as a result of a rate change and an increase in state uncertain tax positions.

### **Equity in earnings (losses)**

Equity in earnings of Vasconia, net of taxes, was \$0.6 million for the nine months ended September 30, 2014 as compared to equity in losses of \$4.7 million (including a charge of \$5.0 million, net of tax, for the reduction in the fair value of the Company's investment in Vasconia) for the corresponding period in 2013. The 2013 reduction in fair value was based upon a decline in the quoted market price of Vasconia and the 2013 quarterly decline in the operating results of Vasconia. Vasconia reported income from operations of \$5.7 million and \$1.4 million for the nine months ended September 30, 2014 and 2013, respectively, and net income of \$2.6 million and \$1.8 million for the nine months ended September 30, 2014 and 2013, respectively.

Equity in losses of GSI was \$5.9 million (including a charge of \$5.2 million, net of tax, for the reduction in the fair value of the Company's investment in GSI) and \$0.4 million for the nine months ended September 30, 2014 and 2013, respectively. As a result of the decline in operating results of GSI and the current business environment in Brazil, the Company evaluated its carrying value of the investment for other-than-temporary impairment under the equity-method of accounting and recorded an impairment charge of \$5.2 million, net of tax, during the nine months ended September 30, 2014.

---

**Table of Contents**

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's principal sources of cash to fund liquidity needs are: (i) cash provided by operating activities and (ii) borrowings available under its revolving credit facility. The Company's primary uses of funds consist of working capital requirements, capital expenditures and payments of principal and interest on its debt.

At September 30, 2014, the Company had cash and cash equivalents of \$5.0 million compared to \$4.9 million at December 31, 2013. Working capital was \$199.1 million at September 30, 2014 compared to \$145.2 million at December 31, 2013. Liquidity, which includes cash and cash equivalents and availability under its credit facilities (subject to the financial covenants of the Second Amended and Restated Credit Agreement) was \$33.4 million.

In January 2014, the Company entered into a Second Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A. as Administrative Agent and Co-Collateral Agent, and HSBC Bank USA, National Association, as Syndication Agent and Co-Collateral Agent (as amended, the "Second Amended and Restated Credit Agreement"). The Second Amended and Restated Credit Agreement, which matures in January 2019, provides for, among other things, a Revolving Credit Facility commitment totaling \$175.0 million (\$40.0 million of which is available for multi-currency borrowings) and a new Term Loan facility of \$50.0 million.

Each borrowing under the Revolving Credit Facility bears 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 0.75% to 1.25%, or (ii) the Eurodollar Rate, defined as the Adjusted LIBO Rate plus a margin of 1.75% to 2.25%. The respective margins are based upon availability which is a function of usage and the borrowing base. Interest rates on outstanding borrowings at September 30, 2014 ranged from 2.125% to 4.25%. In addition, the Company pays a commitment fee of 0.375% on the unused portion of the Revolving Credit Facility.

At September 30, 2014, borrowings outstanding under the Revolving Credit Facility were \$113.1 million and open letters of credit were \$4.1 million. At September 30, 2014, availability under the Revolving Credit Facility was approximately \$57.7 million. The borrowing capacity under the Revolving Credit Facility depends, in part, on eligible levels of accounts receivable and inventory that fluctuate regularly and certain trademark values based upon periodic appraisals. Consequently, the \$175.0 million commitment may not represent actual borrowing capacity.

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 year. Repayments and borrowings under the facility can vary significantly from planned levels based on cash flow needs and general economic conditions.

ABR Term Loans or Eurocurrency Term Loans, provided for under the Second Amended and Restated Credit Agreement, bear interest based on the applicable Senior Leverage Ratio. The ABR Spread for Term Loans is 3.0% to 3.5% and the Eurocurrency Spread for Term Loans is 4.0% to 4.5%. As of September 30, 2014, \$47.5 million was outstanding under the Term Loan.

The Company's payment obligations under the Revolving Credit Facility are unconditionally guaranteed by each of its existing and future U.S. subsidiaries. Certain payment obligations under the Revolving Credit Facility are also direct obligations of its foreign subsidiary borrowers designated as such under the Second Amended and Restated Credit Agreement and, subject to limitations on such guaranty, are guaranteed by the foreign subsidiary borrowers, as well as by the Company. The obligations of the Company under the Revolving Credit Facility and any hedging arrangements and cash management services and the guarantees by its domestic subsidiaries in respect of those obligations are

secured by substantially all of the assets and stock (but in the case of foreign subsidiaries, limited to 65% of the capital stock in first-tier foreign subsidiaries and not including stock of subsidiaries of such first-tier foreign subsidiaries) owned by the Company and the U.S. subsidiary guarantors, subject to certain exceptions. Such security interest consists of a first-priority lien, subject to certain permitted liens, with respect to the assets of the Company and its domestic subsidiaries pledged as collateral in favor of lenders under the Revolving Credit Facility.

The Second Amended and Restated Credit Agreement provides for customary restrictions and events of default. Restrictions include limitations on additional indebtedness, acquisitions, investments and payment of dividends, among other things. Further, the Second Amended and Restated Credit Agreement provides that at any time any Term Loan is outstanding or at any time no Term Loan is outstanding and availability under the Revolving Credit Facility is less than \$17.5 million and continuing until availability of at least \$20.0 million is maintained for three consecutive months, the Company is required to maintain a minimum fixed charge coverage ratio of 1.10 to 1.00 for each four consecutive fiscal quarter periods. The Second Amended and Restated Credit Agreement also provides that when the Term Loan is outstanding, the Company is required to maintain a Senior Leverage Ratio within defined parameters not to exceed 4.00 to 1.00 at the fiscal quarter ending September 30, 2014; 4.25 to 1.00 at the fiscal quarter ending December 31, 2014; 3.50 to 1.00 at each fiscal quarter end in 2015; and 2.50 to 1.00 at each fiscal quarter end thereafter; provided that for any fiscal quarter ending on September 30 of any year, the maximum Senior Leverage Ratio specified above shall be increased by an additional 0.25:1.00.

In January 2014, the Company repaid the previously outstanding Senior Secured Term Loan in connection with the execution and delivery of the Second Amended and Restated Credit Agreement.

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.

**Table of Contents***Other Credit Agreements*

A subsidiary of the Company has a credit facility ( HSBC Facility or Short term loan ) with HSBC Bank (China) Company Limited, Shanghai Branch ( HSBC ) for up to RMB 18.0 million (\$2.9 million). The HSBC Facility is subject to annual renewal and may be used to fund general working capital needs of the subsidiary which is a trading company in the People's Republic of China. Borrowings under the HSBC Facility are guaranteed by the Company and are granted at the sole discretion of HSBC. At September 30, 2014, RMB 5.9 million (\$951,000) was outstanding and the interest rate was 6.44% under the HSBC Facility.

*Covenant Calculations*

Consolidated EBITDA, as provided below, is used in the calculation of covenants provided for in the Company's Second Amended and Restatement Credit Agreement. The following is the Company's Consolidated EBITDA for the last four fiscal quarters, excluding the effect of a pro forma acquisition adjustment of \$3.0 million:

	<b>Consolidated EBITDA for the Four Quarters Ended September 30, 2014</b>	
	(in thousands)	
Three months ended September 30, 2014	\$	16,470
Three months ended June 30, 2014		1,494
Three months ended March 31, 2014		3,660
Three months ended December 31, 2013		21,011
<b>Total for the four quarters</b>	<b>\$</b>	<b>42,635</b>

Capital expenditures for the nine months ended September 30, 2014 were \$4.4 million.

*Non-GAAP financial measure*

Consolidated EBITDA is a non-GAAP financial measure within the meaning of Regulation G promulgated by the Securities and Exchange Commission. The following is a reconciliation of the net income, as reported to Consolidated EBITDA, for the three and nine months ended September 30, 2014 and 2013:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	(in thousands)			
Net income (loss) as reported	\$ (1,586)	\$ 1,093	\$ (7,717)	\$ (107)
Subtract out:				
Undistributed equity in losses, net	5,193	5,452	5,360	5,686
Add back:				

Edgar Filing: LIFETIME BRANDS, INC - Form 10-Q

Income tax provision	3,123	3,869	352	2,993
Interest expense	1,698	1,280	4,760	3,591
Loss on early retirement of debt			319	
Intangible asset impairment	3,384		3,384	
Depreciation and amortization	3,299	2,517	10,628	7,707
Stock compensation expense	694	738	2,133	2,131
Contingent consideration accretion	665		665	
Permitted acquisition related expenses		39	1,615	99
Restructuring expenses		79	125	367
Consolidated EBITDA	\$ 16,470	\$ 15,067	\$ 21,624	\$ 22,467

- 35 -

## **Table of Contents**

### **Derivatives**

The Company is a party to interest rate swap agreements with an aggregate notional amount of \$26.7 million to manage interest rate exposure in connection with its variable interest rate borrowings. The hedge periods in these agreements commenced in March 2013 and will expire in September 2018, and the notional amounts amortize over this period. The hedge provides for a fixed payment of interest at an annual rate of 1.05% in exchange for the Adjusted LIBO Rate.

The Company has also entered into certain foreign exchange contracts, to primarily offset the earnings impact related to fluctuations in foreign currency exchange rates associated with inventory purchases denominated in foreign currencies. Although these foreign exchange contracts have not been designated as hedges as required in order to apply hedge accounting, the contracts are effective from an economic perspective.

### **Operating activities**

Cash used in operating activities was \$21.5 million for the nine months ended September 30, 2014 as compared to cash provided by operating activities of \$5.8 million for the 2013 period. The decrease in cash provided by operating activities was primarily attributable to a larger increase in inventory in 2014 as compared to 2013 and an increase in accounts receivable in the 2014 period as compared to the 2013 period.

### **Investing activities**

Cash used in investing activities was \$69.6 million and \$2.8 million for the nine months ended September 30, 2014 and 2013, respectively. The increase in cash used in investing activities primarily related to the cash consideration paid in the 2014 acquisition of Kitchen Craft.

### **Financing activities**

Cash provided by financing activities was \$91.2 million for the nine months ended September 30, 2014 as compared to cash used in financing activities of \$2.8 million for the 2013 period. The proceeds from the 2014 borrowings were principally used to finance the 2014 acquisition of Kitchen Craft.

### **Stock repurchase program**

On April 30, 2013, the Company's Board of Directors authorized the repurchase of up to \$10.0 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. During the nine months ended September 30, 2013, the Company repurchased 245,575 shares under the April 2013 authorization at a total cost of \$3.2 million and thereafter retired the shares. No shares were repurchased during the nine months ended September 30, 2014.

## **Table of Contents**

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There were no material changes in market risk for changes in foreign currency exchange rates and interest rates from the information provided in Item 7A Quantitative and Qualitative Disclosures About Market Risk in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, except as follows:

On January 15, 2014, the Company acquired 100% of the share capital of Kitchen Craft, as described in Note B of this Quarterly Report on Form 10-Q. Kitchen Craft's operations are in the United Kingdom. As a result of this acquisition, and combined with the Company's other foreign operations, investments and strategic alliances, the Company is subject to exchange rate risk.

In connection with this acquisition, the Company entered into an amendment and restatement of its existing amended and restated credit agreement (as amended, the "Second Amended and Restated Credit Agreement"). As of September 30, 2014, the Company's Second Amended and Restated Credit Agreement requires interest to be paid at variable rates. The Company partially mitigates this interest rate exposure through the use of interest rate swap agreements with the aggregate gross notional amount which was \$26.7 million as of September 30, 2014.

The Company has entered into certain foreign exchange contracts, primarily to offset the earnings impact related to fluctuations in foreign currency exchange rates associated with inventory purchases denominated in foreign currencies. The aggregate gross notional amount of the foreign exchange contracts at September 30, 2014 was \$6.0 million. These contracts do not offset the Company's exposure to counterparty credit risk for nonperformance. The Company manages its exposure to counterparty credit risk by dealing with counterparties who are international financial institutions with investment grade credit ratings. The Company believes that the risk of incurring credit risk losses is remote.

### **Item 4. Controls and Procedures**

#### **(a) Evaluation of Disclosure Controls and Procedures**

The Chief Executive Officer and the Chief Financial Officer of the Company (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of September 30, 2014, that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed by it under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer of the Company, as appropriate to allow timely decisions regarding required disclosure.

#### **(b) Changes in Internal Controls**

On January 15, 2014, the Company acquired 100% of the share capital of Kitchen Craft. The Company has begun to integrate policies, processes, people, technology and operations of Kitchen Craft with those of the Company and is evaluating and will continue to evaluate the impact of any changes to internal control over financial reporting. Except for any changes in internal controls related to the integration of Kitchen Craft into the post-acquisition combined company, during the quarter ended on September 30, 2014, there has been no change in the Company's internal control



over financial reporting that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

---

**Table of Contents**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

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, and 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. The Company granted such access.

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 such other current litigation is routine in nature and incidental to the conduct of the Company's business and that none such litigation, individually or collectively, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

**Item 1A. Risk Factors**

The following is an update to the corresponding risk factor set forth in the Company's 2013 Annual Report on Form 10-K. Except as modified below, there have been no other material changes in the Company's risk factors from those disclosed in the Company's 2013 Annual Report on Form 10-K.

***The loss of certain licenses or material changes in royalty rates could materially adversely affect the Company's operating margins and cash flow.***

Significant portions of the Company's business are dependent on trade names, trademarks and patents, some of which are licensed from third parties. In 2013, sales of licensed brands accounted for approximately 47% of the Company's gross sales. The Company's licenses for many of these brands require it to pay royalties based on sales. Many of these license agreements are subject to termination by the licensor, for example if the Company fails to satisfy certain minimum sales obligations or if the Company breaches the terms of the license. The loss of significant licenses or a material increase in the royalty rates the Company pays or other new terms negotiated upon renewal of such licenses could result in a reduction of the Company's operating margins and cash flow from operations or otherwise adversely affect its business. In particular, the Company's license to use the KitchenAid brand, which represents a material portion of its sales, is subject to a license agreement that has a three-year term that will expire in December 2015. The Company originally entered into a licensing arrangement for use of the KitchenAid brand in 2000, and has renewed the license, typically for three-year periods, since that time. Although it expects to be able to renew its current KitchenAid license prior to its expiration, there is no assurance that the Company will be able to do so on reasonable terms, or at all, and any failure to do so could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company also holds certain rights to use the Farberware brand for kitchen tools and gadgets, cutlery, cutting boards, shears and certain other products which together represent a material portion of its sales, through a fully-paid, royalty-free license for a term that expires in 2195, subject to earlier termination under certain circumstances. The licensor is a joint venture of which the Company is a 50% owner. The other 50% owner of the joint venture has the right to terminate the Company's license if the Company materially breaches any of the material terms of the license and fails to cure the material breach within 180 days of notice of the breach, if it is determined in an arbitration proceeding that money damages alone would not be sufficient compensation to the licensor and that the breach is so egregious as to warrant termination of the license and forfeiture of its rights to use the brand under that license agreement. If the Company were to lose the Farberware license for kitchen tools and gadgets, cutlery, cutting boards and shears products through termination as a result of an uncured breach, its business, results of operations and financial condition would be materially adversely affected.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

<b>Period</b>	<b>Total number of shares purchased<sup>(1)</sup></b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of publicly announced plans or programs<sup>(2)</sup></b>	<b>Maximum approximate dollar value of shares that may yet be purchased under the plans or programs subsequent to end of period <sup>(2)</sup></b>
July 1- July 31, 2014	40,263	\$ 16.52		\$ 6,771,467

- (1) 40,263 shares were acquired in satisfaction of their exercise price and tax withholding obligations by holders of employee stock options (granted under the 2000 Long-Term Incentive Plan) who exercised options.
- (2) On April 30, 2013, the Board of Directors of Lifetime Brands, Inc. authorized the repurchase of up to \$10.0 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. No repurchases occurred during the three months ended September 30, 2014.

---

**Table of Contents**

**Item 6. Exhibits**

**Exhibit No.**

10.1	Amendment No. 1 to the Second Amended and Restated Credit Agreement, dated as of September 23, 2014, among the Company, the financial institutions party thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 26, 2014)
31.1	Certification by Jeffrey Siegel, Chief Executive Officer and Chairman of the Board of Directors, pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Laurence Winoker, Senior Vice President Finance, Treasurer and Chief Financial Officer, pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by Jeffrey Siegel, Chief Executive Officer and Chairman of the Board of Directors, and Laurence Winoker, Senior Vice President Finance, Treasurer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Lifetime Brands, Inc.

/s/ Jeffrey Siegel

November 10, 2014

Jeffrey Siegel

Chief Executive Officer and Director

(Principal Executive Officer)

/s/ Laurence Winoker

November 10, 2014

Laurence Winoker

Senior Vice President Finance, Treasurer and Chief Financial Officer

(Principal Financial and Accounting Officer)