LIFETIME BRANDS, INC
Form 10-Q
November 09, 2006

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, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _______ TO _______

Commission file number 0-19254

LIFETIME BRANDS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**11-2682486**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

One Merrick Avenue, Westbury, New York, 11590
(Address of principal executive offices, including Zip Code)

(Registrant s telephone number, including area code) **(516) 683-6000**

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 November 8, 2006 was 13,480,805.

LIFETIME BRANDS, INC.
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FOR THE QUARTER ENDED JUNE 30, 2006

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LIFETIME BRANDS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	September 30, 2006 (unaudited)	December 31, 2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 307	$ 786
Accounts receivable, less allowances of $6,214 at 2006 and $7,913 at 2005	76,809	49,158
Inventory	166,215	91,953
Prepaid expenses	3,852	2,668
Deferred income taxes	6,769	7,703
Other current assets	3,499	3,482
TOTAL CURRENT ASSETS	257,451	155,750
PROPERTY AND EQUIPMENT, net	36,682	23,989
GOODWILL	20,345	16,200
OTHER INTANGIBLES, net	42,051	24,064
OTHER ASSETS	5,740	2,645
TOTAL ASSETS	$ 362,269	$ 222,648
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 30,000	$ 14,500
Accounts payable	35,895	17,397
Accrued expenses	45,056	28,694
Income taxes payable	2,528	9,316
TOTAL CURRENT LIABILITIES	113,479	69,907
DEFERRED RENT AND OTHER LONG-TERM LIABILITIES	5,008	2,287
DEFERRED INCOME TAX LIABILITIES	5,621	4,967
LONG-TERM DEBT	5,000	5,000
CONVERTIBLE NOTES	75,000	
STOCKHOLDERS' EQUITY		
Common Stock, $.01 par value, shares authorized: 25,000,000; shares issued and outstanding: 13,480,805 in 2006 and 12,921,795 in 2005	134	129
Paid-in capital	116,374	101,468
Retained earnings	41,653	38,890
TOTAL STOCKHOLDERS' EQUITY	158,161	140,487
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 362,269	$ 222,648

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

LIFETIME BRANDS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Net sales	$ 141,654	$ 94,245	$ 300,126	$ 183,516
Cost of sales	83,869	53,109	173,212	104,968
Distribution expenses	14,072	11,118	35,921	23,041
Selling, general and administrative expenses	31,321	21,802	78,440	43,041
Income from operations	12,392	8,216	12,553	12,466
Interest expense	1,535	912	2,668	1,402
Other (income) expense, net	(11)	(13)	20	(39)
Income before income taxes	10,868	7,317	9,865	11,103
Tax provision	4,184	2,780	3,792	4,220
NET INCOME	$ 6,684	$ 4,537	$ 6,073	$ 6,883
BASIC INCOME PER COMMON SHARE	$ 0.50	$ 0.41	$ 0.46	$ 0.62
DILUTED INCOME PER COMMON SHARE	$ 0.45	$ 0.40	$ 0.45	$ 0.61

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

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LIFETIME BRANDS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Nine Months Ended September 30,	
	2006	**2005**
OPERATING ACTIVITIES		
Net income	$ 6,073	$ 6,883
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	5,664	3,930
Deferred income taxes	1,588	(798)
Deferred rent	185	88
Provision for losses on accounts receivable	(74)	96
Reserve for sales returns and allowances	12,103	8,414
Director stock grant	100	50
Stock compensation expense	722	
Changes in operating assets and liabilities (excluding the effects of the acquisitions of Pfaltzgraff, Salton and Syratech):		
Accounts receivable	(22,982)	(20,603)
Inventory	(49,278)	(21,195)
Prepaid expenses, other current assets and other assets	(3,605)	(672)
Accounts payable, accrued expenses and other liabilities	19,236	11,783
Income tax payable	(6,705)	961
NET CASH USED IN OPERATING ACTIVITIES	(36,973)	(11,063)
INVESTING ACTIVITIES		
Purchase of property and equipment	(8,822)	(4,752)
Acquisition of Pfaltzgraff		(33,093)
Acquisition of Salton		(13,956)
Acquisition of Syratech, net of cash acquired of $509	(43,233)	
NET CASH USED IN INVESTING ACTIVITIES	(52,055)	(51,801)
FINANCING ACTIVITIES		
Proceeds from short-term borrowings, net	18,312	62,800
Proceeds from exercise of stock options	180	741
Proceeds from issuance of convertible notes	72,188	
Excess tax benefits from stock compensation	636	
Payment of capital lease obligations	(278)	(240)
Cash dividends paid	(2,489)	(2,073)
NET CASH PROVIDED BY FINANCING ACTIVITIES	88,549	61,228
DECREASE IN CASH AND CASH EQUIVALENTS	(479)	(1,636)
Cash and cash equivalents at beginning of period	786	1,741
	$ 307	$ 105

	Nine Months Ended September 30,	
CASH AND CASH EQUIVALENTS AT END OF PERIOD		

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

LIFETIME BRANDS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006
(unaudited)

Note A Basis of Presentation and Summary Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the three and nine-month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

The Company s business and working capital needs are highly seasonal, with a majority of sales occurring in the third and fourth quarters. For the years ended December 31, 2005, 2004 and 2003, net sales for the third and fourth quarters accounted for 71%, 63% and 66% of total annual net sales, respectively. Moreover, operating profits earned in the third and fourth quarters accounted for 83%, 92% and 97% of total annual operating profits, respectively. Inventory levels increase primarily in the June through October time period in anticipation of the pre-holiday shipping season.

Revenue Recognition

The Company sells products wholesale to retailers and distributors and retail direct to the consumer through Company-operated outlet stores and catalog and Internet operations. Wholesale sales are recognized when title passes to and the risks and rewards of ownership have transferred to the customer. Outlet store sales are recognized at the time of sale, while catalog and Internet sales are recognized upon receipt by the customer. Shipping and handling fees that are billed to customers in sales transactions are recorded in net sales. Included in net sales is shipping and handling fee income generated from the Company s catalog and Internet business of $1.1 million and $1.1 million for the three months ended September 30, 2006 and 2005, respectively, and $2.8 million and $ 1.1 million for the nine months ended September 30, 2006 and 2005, respectively.

Distribution Expenses

Distribution expenses consist primarily of warehousing expenses, handling costs of products sold and freight-out. Freight-out costs included in distribution expenses amounted to $2.5 million and $2.2 million for the three months ended September 30, 2006 and 2005, respectively, and $6.3 million and $4.2 million for the nine months ended September 30, 2006 and 2005, respectively.

New accounting pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48 Accounting for uncertainty in income taxes . FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes . FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of FIN No. 48 on its consolidated financial statements.

LIFETIME BRANDS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006
(unaudited)

Note A Basis of Presentation and Summary Accounting Policies (continued)

New accounting pronouncements (continued)

In June 2006, the Emerging Issues Task Force reached a consensus on EITF Issue No. 06-03, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) (EITF 06-03). EITF 06-03 provides that the presentation of taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer on either a gross basis (included in revenues and costs) or on a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. The provisions of EITF 06-03 will be effective for the Company as of January 1, 2007. The Company is currently evaluating the impact of adopting EITF 06-03 on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108. Due to diversity in practice among registrants, SAB No. 108 expresses SEC staff views regarding the process by which misstatements in financial statements are evaluated for purposes of determining whether financial statement restatement is necessary. SAB No. 108 is effective for fiscal years ending after November 15, 2006, and early application is encouraged. The Company believes SAB No. 108 will not have a material impact on the Company s operating results or financial position.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 establishes a common definition of fair value, provides a framework for measuring fair value under U.S. GAAP and expands disclosure requirements about fair value measurements. SFAS No. 157 is effective for financial statements issued in fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of SFAS No. 157 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)". Among other items, SFAS No. 158 requires recognition of the overfunded or underfunded status of an entity s defined benefit postretirement plan as an asset or liability in the financial statements, requires the measurement of defined benefit postretirement plan assets and obligations as of the end of the employer s fiscal year, and requires recognition of the funded status of defined benefit postretirement plans in other comprehensive income. SFAS No. 158 is effective for fiscal years ending after December 15, 2006, and early application is encouraged. The Company does not believe that the adoption of SFAS No.158 will have a material impact on the Company s results from operations or financial position.

LIFETIME BRANDS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006
(unaudited)

Note B Recent Acquisitions

Excel

On July 23, 2004, the Company acquired the business and certain assets of Excel Importing Corp., (Excel), a wholly-owned subsidiary of Mickelberry Communications Incorporated (Mickelberry). Excel marketed and distributed cutlery, tabletop, cookware and barware products under brand names, including Sabatier®, Farberware®, Retroneu®, Joseph Abboud Environments® and DBK -Daniel Boulud Kitchen.

The purchase price, subject to post closing adjustments, was approximately $8.5 million, of which $7.0 million was paid in cash at closing. The Company has not paid the balance of the purchase price of $1.5 million, as it believes the total of certain estimated post closing inventory adjustments and certain indemnification claims are in excess of this amount. The Company has been unsuccessful in its attempts to obtain resolution of these matters with Excel and Mickelberry and has commenced a lawsuit against these parties on June 8, 2005, claiming breach of contract, fraud and unjust enrichment. The lawsuit is ongoing and, as of September 30, 2006, no settlement has been reached.

Due to the uncertainty regarding the ultimate outcome of the matter, the Company believes that the amount, if any, that the Company will ultimately be required to pay cannot be reasonably estimated at September 30, 2006. Accordingly, no amount has been included in the purchase price for this contingency. Upon final resolution of the matter, the Company will reflect any further amounts due as part of the purchase price and will re-allocate the purchase price to the net assets acquired.

The purchase price has been determined as follows (In thousands):

Cash paid at closing	$ 7,000
Professional fees and other costs	83
Total purchase price	$ 7,083

The purchase price has been allocated based on management s estimate of the fair value of the assets acquired and liabilities assumed as follows (In thousands):

	Purchase Price Allocation
Assets acquired:	
Accounts receivable	$ 483
Merchandise inventories	4,769
Other assets	20
Intangibles	6,000
Goodwill	1,248
Liabilities assumed	(5,437)
Total net assets acquired	$ 7,083

The $6.0 million intangible asset consists of the Sabatier license which was determined to have a life of forty years.

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LIFETIME BRANDS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006
(unaudited)

Note B Recent Acquisitions (continued)

Pfaltzgraff (continued)

On July 11, 2005, the Company acquired the business and certain assets of The Pfaltzgraff Co. (Pfaltzgraff). Pfaltzgraff designed ceramic dinnerware and tabletop accessories for the home and distributed these products through retail chains, company-operated outlet stores and through Internet and catalog operations.

The purchase price has been determined as follows (In thousands):

Cash paid at closing	$ 32,500
Post closing working capital adjustment	4,742
Professional fees and other costs	1,061
Total purchase price	$ 38,303

The purchase price has been allocated based on management s estimate of the fair value of the assets acquired and liabilities assumed as follows (In thousands):

	Purchase Price Allocation
Assets acquired:	
Accounts receivable	$ 2,623
Merchandise inventories	26,314
Other current assets	1,489
Property and equipment	3,394
Intangible	6,898
Liabilities assumed	(2,415)
Total net assets acquired	$ 38,303

The $6.9 million intangible asset consists of the Pfaltzgraff trade name which was determined to have an indefinite life.

LIFETIME BRANDS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(unaudited)

Note B Recent Acquisitions (continued)

Salton

On September 19, 2005, the Company acquired certain components of the tabletop business and related assets of Salton, Inc. (Salton). The assets acquired include Salton s Block® brand and licenses to market Calvin Klein® and Sasaki® tabletop products. In addition, the Company entered into a new license with Salton to market tabletop products under the Stiffel® brand. The amount paid at closing was approximately $13.4 million.

The purchase price has been determined as follows (In thousands):

Cash paid at closing	$	13,442
Professional fees and other costs		514
Total purchase price	$	13,956

The purchase price has been allocated based on management s estimate of the fair value of the assets acquired and liabilities assumed as follows (In thousands):

	Purchase Price Allocation
Merchandise inventories	