

LIFETIME BRANDS, INC  
Form 10-Q  
May 04, 2012  
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**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 March 31, 2012

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)

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**Delaware** **11-2682486**  
(State or other jurisdiction of **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**1000 Stewart Avenue, Garden City, New York, 11530**  
  
(Address of principal executive offices) (Zip Code)  
  
**(516) 683-6000**  
  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 May 4, 2012 was 12,438,393.

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**LIFETIME BRANDS, INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED MARCH 31, 2012**

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

(In thousands, except per share data)

(unaudited)

	March 31, 2012 (unaudited)	December 31, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,867	\$ 2,972
Accounts receivable, less allowances of \$5,051 at March 31, 2012 and \$4,602 at December 31, 2011	72,902	77,749
Inventory (Note A)	113,653	110,337
Prepaid expenses and other current assets	5,286	5,264
Income taxes receivable (Note G)	327	
Deferred income taxes (Note G)	2,568	2,475
<b>TOTAL CURRENT ASSETS</b>	<b>199,603</b>	<b>198,797</b>
PROPERTY AND EQUIPMENT, net	33,025	34,324
INVESTMENTS (Note B)	36,380	34,515
INTANGIBLE ASSETS, net (Note C)	46,537	46,937
OTHER ASSETS	3,742	4,172
<b>TOTAL ASSETS</b>	<b>\$ 319,287</b>	<b>\$ 318,745</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Revolving Credit Facility (Note D)	\$ 15,000	\$ 15,000
Accounts payable	23,534	18,985
Accrued expenses	29,562	33,877
Income taxes payable (Note G)	70	2,100
<b>TOTAL CURRENT LIABILITIES</b>	<b>68,166</b>	<b>69,962</b>
DEFERRED RENT & OTHER LONG-TERM LIABILITIES	14,450	14,598
DEFERRED INCOME TAXES (Note G)	5,427	5,385
REVOLVING CREDIT FACILITY (Note D)	41,545	42,625
TERM LOAN (Note D)	40,000	40,000
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock, \$.01 par value, shares authorized: 100 shares of Series A and 2,000,000 shares of Series B; none issued and outstanding		
Common stock, \$.01 par value, shares authorized: 25,000,000; shares issued and outstanding: 12,438,393 at March 31, 2012 and 12,430,893 at December 31, 2011	124	124
Paid-in capital	138,186	137,467
Retained earnings	15,189	14,465
Accumulated other comprehensive loss	(3,800)	(5,881)

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TOTAL STOCKHOLDERS EQUITY	149,699	146,175
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 319,287</b>	<b>\$ 318,745</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 March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net sales	\$ 109,041	\$ 91,773
Cost of sales	68,581	58,383
Gross margin	40,460	33,390
Distribution expenses	11,744	10,940
Selling, general and administrative expenses	25,484	22,473
Income (loss) from operations	3,232	(23)
Interest expense (Note D)	(1,698)	(1,979)
Income (loss) before income taxes and equity in earnings	1,534	(2,002)
Income tax (provision) benefit (Note G)	(588)	588
Equity in earnings, net of taxes (Note B)	398	465
<b>NET INCOME (LOSS)</b>	<b>\$ 1,344</b>	<b>\$ (949)</b>
<b>BASIC INCOME (LOSS) PER COMMON SHARE (NOTE F)</b>	<b>\$ 0.11</b>	<b>\$ (0.08)</b>
<b>DILUTED INCOME (LOSS) PER COMMON SHARE (NOTE F)</b>	<b>\$ 0.11</b>	<b>\$ (0.08)</b>
Cash dividends declared per common stock	\$ 0.050	\$ 0.025

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

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**LIFETIME BRANDS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

(unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net income (loss)	\$ 1,344	\$ (949)
Translation adjustment	2,081	1,225
Comprehensive income	\$ 3,425	\$ 276

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>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 1,344	\$ (949)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for doubtful accounts	(25)	(16)
Depreciation and amortization	2,207	1,995
Amortization of debt discount		229
Deferred rent	(84)	(3)
Stock compensation expense	698	748
Undistributed equity earnings	(398)	(465)
Changes in operating assets and liabilities (excluding the effects of business acquisitions)		
Accounts receivable	4,872	11,847
Inventory	(3,316)	(3,969)
Prepaid expenses, other current assets and other assets	410	(52)
Accounts payable, accrued expenses and other liabilities	(55)	(7,242)
Income taxes receivable		(745)
Income taxes payable	(2,356)	(5,036)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>3,297</b>	<b>(3,658)</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(475)	(1,047)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(475)</b>	<b>(1,047)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds (repayments) of bank borrowings, net	(1,080)	2,900
Proceeds from the exercise of stock options	22	9
Excess tax benefits from exercise of stock options		6
Payment of capital lease obligations		(27)
Cash dividend paid	(311)	
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(1,369)</b>	<b>2,888</b>
Effect of foreign exchange on cash	442	
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,895</b>	<b>(1,817)</b>
Cash and cash equivalents at beginning of year	2,972	3,351
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 4,867</b>	<b>\$ 1,534</b>

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





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**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2012**

(unaudited)

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

**Organization and business**

Lifetime Brands, Inc. (the Company) designs, sources and sells branded kitchenware, tabletop and other products used in the home and markets its products under a number of brand names and trademarks, which are either owned or licensed. 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 the consumer through its Pfaltzgraff®, Mikasa®, Lifetime Sterling and Housewares Deals Internet websites.

**Basis of presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation have been included. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. Operating results for the three month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The Company's business and working capital needs are highly seasonal, with a majority of sales occurring in the third and fourth quarters. In 2011 and 2010, net sales for the third and fourth quarters accounted for 59% and 60% 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 \$353,000 and \$455,000 for the three months ended March 31, 2012 and 2011, 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.

**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, handling costs of products sold and freight-out expenses.



**Table of Contents****LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2012**

(unaudited)

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

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

The components of inventory are as follows:

	<b>March 31, 2012</b>	<b>December 31, 2011</b>
	(in thousands)	
Finished goods	\$ 109,376	\$ 107,471
Work in process	2,325	1,683
Raw materials	1,952	1,183
<b>Total</b>	<b>\$ 113,653</b>	<b>\$ 110,337</b>

**Fair value of financial instruments**

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

**Employee Healthcare**

In 2011, the Company commenced self insurance of certain portions of its health insurance plan. The Company maintains an estimated accrual for unpaid claims and claims incurred but not yet reported (IBNR). Although management believes that it uses the best information available to estimate IBNR, actual claims may vary significantly from estimated claims.

**Adoption of New Accounting Pronouncements**

Effective January 1, 2012, the Company adopted Accounting Standard Update (ASU) No. 2011-05, *Presentation of Comprehensive Income*. Under this guidance, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements in its annual financial statements. In connection with the adoption of this standard, our condensed financial statements include a separate statement of comprehensive income.

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Effective January 1, 2012, the Company adopted ASU No. 2011-08, *Intangibles - Goodwill and Other (Topic 350): Testing for Goodwill Impairment*, which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic No. 350, Intangibles - Goodwill and Other. The adoption of this standard did not have a significant impact on our condensed consolidated financial statements.

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(unaudited)

**NOTE B INVESTMENTS**

The Company owns a 30% interest in Grupo Vasconia S.A.B. ( Vasconia ). The Company accounts for its investment in Vasconia using the equity method of accounting and records its proportionate share of Vasconia's net income in the Company's statement of operations. Accordingly, the Company has recorded its proportionate share of Vasconia's net income (reduced for amortization expense related to the customer relationships acquired) for the three month periods ended March 31, 2012 and 2011 in the accompanying condensed consolidated statements of operations. The value of the Company's investment balance has been translated from Mexican Pesos ( MXN ) to U.S. Dollars ( USD ) using the spot rate of MXN 12.78 and MXN 11.89 at March 31, 2012 and 2011, respectively. The Company's proportionate share of Vasconia's net income has been translated from MXN to USD using the average exchange rate of MXN 12.98 and MXN 12.09 during the three months ended March 31, 2012 and 2011, respectively. The effect of the translation of the Company's investment resulted in a increase of the investment of \$1.7 million during the three months ended March 31, 2012 and \$1.2 million during the three months ended March 31, 2011 (also see Note J). These translation effects are recorded in accumulated other comprehensive loss. Included in prepaid expenses and other current assets at March 31, 2012 and December 31, 2011 are amounts due from Vasconia of \$0.3 million and \$0.2 million, respectively.

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

	<b>Three Months Ended</b>			
	<b>March 31,</b>			
	<b>2012</b>	<b>2011</b>		
	(in thousands)			
	USD	MXN	USD	MXN
Net Sales	\$ 28,687	\$ 372,489	\$ 28,571	\$ 345,477
Gross Profit	8,168	106,064	8,083	97,737
Income from operations	3,322	43,134	3,325	40,206
Net Income	1,965	25,511	2,131	25,768

The Company recorded equity in earnings of Vasconia, net of taxes, of \$0.5 million for the three months ended March 31, 2012 and 2011.

The Company has a 40% equity interest in GS Internacional S/A ( GSI ), a leading wholesale distributor of branded housewares products in Brazil. During the three month period ended March 31, 2012, the Company recorded equity in losses of GSI of \$133,000. Of the \$7.6 million consideration payable by the Company with respect to this investment, approximately \$2.6 million remained to be paid as of March 31, 2012.

In February 2012, the Company entered into a joint venture to distribute Mikasa® products in China, for which it expects to make an initial investment of approximately \$500,000.

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(unaudited)

**NOTE C INTANGIBLE ASSETS**

Intangible assets consist of the following (in thousands):

	March 31, 2012			December 31, 2011		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
<b>Goodwill</b>	\$ 2,673	\$	\$ 2,673	\$ 2,673	\$	\$ 2,673
<b>Indefinite-lived intangible assets:</b>						
Trade names	19,433		19,433	19,433		19,433
<b>Finite-lived intangible assets:</b>						
Licenses	15,847	(6,757)	9,090	15,847	(6,641)	9,206
Trade names	6,116	(1,496)	4,620	6,116	(1,400)	4,716
Customer relationships	11,166	(860)	10,306	11,166	(681)	10,485
Patents	584	(169)	415	584	(160)	424
<b>Total</b>	\$ 55,819	\$ (9,282)	\$ 46,537	\$ 55,819	\$ (8,882)	\$ 46,937

**NOTE D DEBT***Revolving Credit Facility*

The Company has a \$150.0 million secured credit agreement (the Revolving Credit Facility), maturing on October 28, 2016, with a bank group led by JPMorgan Chase Bank, N.A.

Borrowings under the Revolving Credit Facility bear interest, at the Company's option, at one of the following rates: (i) the Alternate Base Rate, defined as the greater of the Prime Rate, Federal Funds Rate plus 0.5% or the Adjusted LIBOR rate plus 1.0%, plus a margin of 1.0% to 1.75%, or (ii) the Eurodollar Rate, defined as the Adjusted LIBOR Rate plus a margin of 2.0% to 2.75%. The respective margins are based upon availability. Interest rates on outstanding borrowings at March 31, 2012 ranged from 2.75% to 4.75%. In addition, the Company pays a commitment fee of 0.375% to 0.50% on the unused portion of the Revolving Credit Facility.

At March 31, 2012, the Company had \$1.2 million of open letters of credit and \$56.5 million of borrowings outstanding under the Revolving Credit Facility. Availability under the Revolving Credit Facility was approximately \$72.1 million, or 48%, of the total loan commitment at March 31, 2012.

Pursuant to the provisions of ASC Topic No. 470-10, *Short-term Obligations Expected to be Refinanced*, at March 31, 2012 and December 31, 2011, the Company classified a portion of the Revolving Credit Facility as a current liability based on the Company's intent and ability 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. The Company expects that it will continue to borrow and repay funds, subject to availability, under the facility based on working capital needs.

*Term Loan*

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The Company has a \$40.0 million second lien credit agreement (the Term Loan ), which matures on June 8, 2015, with Citibank, N.A.



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(unaudited)

**NOTE D DEBT (continued)**

The Term Loan bears interest, at the Company's option, at one of the following rates: (i) the Alternate Base Rate, defined as the greater of the corporate rate published by the lender and the Federal Funds Rate plus 0.50% provided that such calculated rate is a minimum of 2.50%, plus a margin of 7.50%, or (ii) the Adjusted LIBOR rate which shall be a minimum of 1.50%, plus a margin of 8.50%. The interest rate on the outstanding borrowings at March 31, 2012 was 10.0%.

The Term Loan requires the Company to have EBITDA, as defined, of not less than \$31.0 million for the trailing four fiscal quarters through March 31, 2012 and limits capital expenditures to \$8.0 million for 2012. The Company was in compliance with the financial covenants of the Term Loan and Revolving Credit Facility at March 31, 2012.

**NOTE E STOCK COMPENSATION**

A summary of the Company's stock option activity and related information for the three months ended March 31, 2012 is as follows:

	Options	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
<b>Options outstanding, January 1, 2012</b>	2,475,750	\$ 12.62		
Grants				
Exercises	(7,500)	2.99		
Cancellations	(200)	22.46		
<b>Options outstanding, March 31, 2012</b>	2,468,050	12.65	6.29	\$ 6,170,028
<b>Options exercisable, March 31, 2012</b>	1,398,050	14.03	5.13	\$ 4,089,333

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that would have been received by the option holders had all option holders exercised their stock options on March 31, 2012. The intrinsic value is calculated for each in-the-money stock option as the difference between the closing price of the Company's common stock on March 30, 2012 and the exercise price.

The total intrinsic value of stock options exercised for the three months ended March 31, 2012 and 2011 was \$56,889 and \$16,990, respectively. The intrinsic value of a stock option that is exercised is calculated at the date of exercise.

The Company recognized stock compensation expense of \$698,000 and \$748,000 for the three months ended March 31, 2012 and 2011, respectively.

Total unrecognized compensation cost related to unvested stock options at March 31, 2012, before the effect of income taxes, was \$3.8 million and is expected to be recognized over a weighted-average period of 1.27 years.

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At March 31, 2012, there were 332,676 shares available for awards that could be granted under the Company's 2000 Long-Term Incentive Plan, as amended. On May 1, 2012, the Company granted stock options to purchase a total of 303,000 shares of common stock with an exercise price of \$11.64 per share. The aggregate grant date unrecognized compensation cost of \$2.0 million for these options will be recognized over their vesting period of 4 years.

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## LIFETIME BRANDS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(unaudited)

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

Basic income per common share has been computed by dividing net income by the weighted-average number of shares of the Company's common stock outstanding. Diluted income per common share adjusts net income and basic income per common share for the effect of all potentially dilutive shares of the Company's common stock. The calculations of basic and diluted income per common share for the three month periods ended March 31, 2012 and 2011 are as follows:

	Three Months Ended March 31,	
	2012	2011
	(in thousands, except per share amounts)	
<b>Net income (loss) basic and diluted</b>	\$ 1,344	\$ (949)
<b>Weighted-average shares outstanding basic</b>	12,432	12,066
Effect of dilutive securities:		
Stock options	333	
<b>Weighted-average shares outstanding diluted</b>	12,765	12,066
<b>Basic income (loss) per common share</b>	\$ 0.11	\$ (0.08)
<b>Diluted income (loss) per common share</b>	\$ 0.11	\$ (0.08)

The computation of diluted income per common share for the three months ended March 31, 2012 and 2011 excludes options to purchase 1,188,800 shares and 2,366,000 shares, respectively. These shares were excluded due to their antidilutive effects.

**NOTE G INCOME TAXES**

As of December 31, 2010, the Company had fully utilized the Federal net operating loss and other credit carryforwards generated in previous years. The Company has generated various state net operating loss carryforwards of \$22.0 million that will begin to expire in 2014. The Company has net operating losses in foreign jurisdictions of \$2.5 million that will begin to expire in 2016. As of December 31, 2011, management had determined that it was more likely than not that its deferred tax assets would be realized and the corresponding valuation allowances were released based on the Company's ability to utilize deferred tax assets currently and the expected future use of temporary differences in the carryback period. The valuation allowance which remains at March 31, 2012 relates to certain state net operating losses and foreign currency translation adjustments.

The estimated value of the Company's tax positions at March 31, 2012 is a gross liability of \$134,000. 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 \$134,000, all of which would impact the Company's tax provision. On a quarterly basis, the Company evaluates its tax positions and revises its estimates accordingly. The Company believes that \$134,000 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 Jersey, New York and Pennsylvania. The Company is no longer subject to U.S. Federal income tax examinations for the years prior to 2009. The periods

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subject to examination for the Company's major state jurisdictions are the years ended 2007 through 2011.

**Table of Contents****LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2012**

(unaudited)

**NOTE G INCOME TAXES (continued)**

The Company's policy for recording interest and penalties is to record such items as a component of income taxes. Interest and penalties were not material to the Company's financial position, results of operations or cash flows as of and for the three months ended March 31, 2012 and 2011.

**NOTE H BUSINESS SEGMENTS**

The Company operates in two reportable business segments; the Wholesale segment, the Company's primary business, in which the Company designs, markets and distributes products to retailers and distributors, and the Retail Direct segment, in which the Company markets and sells a limited selection of its products directly to consumers through its Pfaltzgraff®, Mikasa®, Housewares Deals and Lifetime Sterling Internet websites.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
	(in thousands)	
<b>Net sales</b>		
Wholesale	\$ 103,340	\$ 84,903
Retail Direct	5,701	6,870
Total net sales	\$ 109,041	\$ 91,773
<b>Income (loss) from operations</b>		
Wholesale	\$ 6,160	\$ 2,914
Retail Direct	(8)	(104)
Unallocated corporate expenses	(2,920)	(2,833)
Total income (loss) from operations	\$ 3,232	\$ (23)
<b>Depreciation and amortization</b>		
Wholesale	\$ (2,150)	\$ (1,975)
Retail Direct	(57)	(20)
Total depreciation and amortization	\$ (2,207)	\$ (1,995)



**Table of Contents****LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2012**

(unaudited)

**NOTE I CONTINGENCIES**

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

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

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

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

**NOTE J OTHER****Cash dividends**

On January 11, 2012, the Board of Directors declared a quarterly dividend of \$0.025 payable on February 15, 2012 to shareholders of record on February 1, 2012. On March 6, 2012, the Board of Directors declared a quarterly dividend of \$0.025 per share payable on May 15, 2012 to shareholders of record on May 1, 2012. As of March 31, 2012, the Company had accrued \$311,000 for the payment of the dividend.

**Supplemental cash flow information**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
	(in thousands)	
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 1,476	\$ 1,233
Cash paid for taxes	1,760	4,526
<b>Non-cash investing activities:</b>		
Translation adjustment	\$ (2,081)	\$ (1,225)

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**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. and Subsidiaries (the Company) as of March 31, 2012, and the related condensed consolidated statements of operations, comprehensive income and cash flows for the three month periods ended March 31, 2012 and 2011. 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, 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 US 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 the Company as of December 31, 2011 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein) and in our report dated March 9, 2012, we expressed an unqualified opinion on those consolidated financial statements. The consolidated balance sheet of Grupo Vasconia, S.A.B. and Subsidiaries (a corporation in which the Company has a 30% interest) as of December 31, 2011 and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein) were audited by other auditors whose report dated February 29, 2012 expressed an unqualified opinion on those statements, and our opinion, 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 \$26.3 million at December 31, 2011 and the Company's equity in the net income of Grupo Vasconia, S.A.B. and Subsidiaries is stated at \$2.9 million for the year then ended.

/s/ ERNST & YOUNG LLP

Jericho, New York

May 4, 2012



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

This Quarterly Report on Form 10-Q contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements include information concerning Lifetime Brands, Inc. and its subsidiaries (the 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, 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 the Company's 2011 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:

General economic factors and political conditions, including risks related to recent acquisitions and investments;

Liquidity;

Supply chain;

Competition;

Customers;

Intellectual property;

Personnel;

Regulatory matters; and

Technology.

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.

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### **ABOUT THE COMPANY**

The Company designs, sources and sells branded kitchenware, tabletop 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, bakeware and cookware) and Tabletop (dinnerware, flatware and glassware); and one category, Home Solutions, which comprises other products used in the home (food storage, pantryware, spices and home décor). Net sales of Kitchenware products and Tabletop products accounted for approximately 79% of the Company's net sales in 2011. Creative Tops, acquired in November 2011, is a UK-based company through which the Company will manage its European business. The Company markets several product lines within each of its product categories and under most of the Company's brands, primarily targeting moderate to premium price points through 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 the leading brands in its industry including Farberware®, Mikasa®, KitchenAid®, Pfaltzgraff®, Elements®, Cuisinart®, Melannco® and V&A®. 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.

### **BUSINESS SEGMENTS**

The Company operates in two reportable business segments; the Wholesale segment, which is the Company's primary business that designs, markets and distributes its products to retailers and distributors, and the Retail Direct segment in which the Company markets and sells a limited selection of its products to consumers through its Pfaltzgraff®, Mikasa®, Housewares Deals and Lifetime Sterling Internet websites.

### **INVESTMENTS**

The Company owns approximately 30% of the outstanding capital stock of Vasconia, a leading Mexican housewares company. 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. The Agreement also provides a mechanism whereby, through December 2012, the Company is able to acquire from certain shareholders of Vasconia a controlling interest in Vasconia; subject to such shareholders electing not to sell their interest and, instead, acquiring the Company's shares or Vasconia repurchasing the Company's shares. Shares of Vasconia's capital stock are traded on the Bolsa Mexicana de Valores, the Mexican Stock Exchange ([www.bmv.com.mx](http://www.bmv.com.mx)). The Quotation Key is VASCONI.

In December 2011, the Company acquired a 40% equity interest in GSI. GSI is a leading wholesale distributor of branded housewares products in Brazil. The company markets dinnerware, glassware, home décor, kitchenware and barware to customers including: major department stores, housewares retailers and independent shops throughout 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 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 appointed as members of GSI's Board of Directors. GSI's Board of Directors is comprised of seven members (including two independent members).

**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 2011 and 2010 net sales for the third and fourth quarters accounted for 59% and 60% 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, 2011.

**RESULTS OF OPERATIONS**

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net sales	100.0%	100.0%
Cost of sales	62.9	63.6
Gross margin	37.1	36.4
Distribution expenses	10.8	11.9
Selling, general and administrative expenses	23.4	