

LIFETIME BRANDS, INC
Form 10-Q
August 07, 2014
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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: June 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 July 31, 2014 was 13,598,921.

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FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2014

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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 share data)

(unaudited)

	June 30, 2014	December 31, 2013
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,229	\$ 4,947
Accounts receivable, less allowances of \$6,082 at June 30, 2014 and \$5,209 at December 31, 2013	70,059	87,217
Inventory (Note A)	153,241	112,791
Prepaid expenses and other current assets	11,365	5,781
Deferred income taxes (Note H)	3,994	3,940
TOTAL CURRENT ASSETS	243,888	214,676
PROPERTY AND EQUIPMENT, net	27,127	27,698
INVESTMENTS (Note C)	37,407	36,948
INTANGIBLE ASSETS, net (Note D)	110,800	55,149
OTHER ASSETS	3,315	2,268
TOTAL ASSETS	\$ 422,537	\$ 336,739
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
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)	868	
Accounts payable	27,823	21,426
Accrued expenses	27,808	41,095
Income taxes payable (Note H)	333	3,036
TOTAL CURRENT LIABILITIES	66,832	69,494
DEFERRED RENT & OTHER LONG-TERM LIABILITIES	20,827	18,644

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DEFERRED INCOME TAXES (Note H)	10,665	1,777
REVOLVING CREDIT FACILITY (Note E)	97,481	49,231
CREDIT AGREEMENT TERM LOAN (Note E)	40,000	
SENIOR SECURED TERM LOAN (Note E)		16,688
STOCKHOLDERS EQUITY		
Preferred stock, \$.01 par value, shares authorized: 100 shares of Series A and 2,000,000 shares of Series B; none issued and outstanding		
Common stock, \$.01 par value, shares authorized: 25,000,000; shares issued and outstanding: 13,511,864 at June 30, 2014 and 12,777,407 at December 31, 2013	136	128
Paid-in capital	157,546	146,273
Retained earnings	31,058	38,224
Accumulated other comprehensive loss (Note K)	(2,008)	(3,720)
TOTAL STOCKHOLDERS EQUITY	186,732	180,905
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 422,537	\$ 336,739

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)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net sales	\$ 115,321	\$ 96,976	\$ 233,732	\$ 195,633
Cost of sales	74,469	60,620	148,548	122,965
Gross margin	40,852	36,356	85,184	72,668
Distribution expenses	12,460	10,129	24,806	20,925
Selling, general and administrative expenses	31,424	25,927	65,607	51,558
Restructuring expenses (Note A)	125	288	125	288
Income (loss) from operations	(3,157)	12	(5,354)	(103)
Interest expense (Note E)	(1,672)	(1,149)	(3,062)	(2,311)
Loss on early retirement of debt			(319)	
Loss before income taxes and equity in earnings	(4,829)	(1,137)	(8,735)	(2,414)
Income tax benefit (Note H)	1,586	477	2,771	876
Equity in earnings (losses), net of taxes (Note C)	41	92	(167)	338
NET LOSS	\$ (3,202)	\$ (568)	\$ (6,131)	\$ (1,200)
BASIC LOSS PER COMMON SHARE (NOTE G)	\$ (0.24)	\$ (0.04)	\$ (0.46)	\$ (0.09)
DILUTED LOSS PER COMMON SHARE (NOTE G)	\$ (0.24)	\$ (0.04)	\$ (0.46)	\$ (0.09)

Cash dividends declared per common share \$ 0.03750 \$ 0.03125 \$ 0.0750 \$ 0.0625

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)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net loss	\$ (3,202)	\$ (568)	\$ (6,131)	\$ (1,200)
Other comprehensive income (loss), net of taxes:				
Translation adjustment	1,042	(1,515)	1,732	(390)
Derivative fair value adjustment	(43)	231	(34)	244
Effect of retirement benefit obligations	7	13	14	26
Other comprehensive income (loss), net of taxes	1,006	(1,271)	1,712	(120)
Comprehensive loss	\$ (2,196)	\$ (1,839)	\$ (4,419)	\$ (1,320)

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)

	Six Months Ended June 30,	
	2014	2013
OPERATING ACTIVITIES		
Net loss	\$ (6,131)	\$ (1,200)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Provision for doubtful accounts	156	32
Depreciation and amortization	7,329	5,190
Amortization of financing costs	311	266
Deferred rent	(530)	(459)
Deferred income taxes		180
Stock compensation expense	1,439	1,393
Undistributed equity in earnings, net	167	234
Loss on early retirement of debt	319	
Changes in operating assets and liabilities (excluding the effects of business acquisitions)		
Accounts receivable	33,180	39,877
Inventory	(18,960)	(7,970)
Prepaid expenses, other current assets and other assets	(4,050)	(3,512)
Accounts payable, accrued expenses and other liabilities	(17,356)	(3,112)
Income taxes payable	(3,277)	(3,615)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(7,403)	27,304
INVESTING ACTIVITIES		
Purchases of property and equipment	(2,783)	(1,992)
Kitchen Craft acquisition, net of cash acquired	(61,676)	
Other acquisitions, net of cash acquired	(5,280)	
Net proceeds from sale of property	70	
NET CASH USED IN INVESTING ACTIVITIES	(69,669)	(1,992)
FINANCING ACTIVITIES		
Proceeds from Revolving Credit Facility	138,869	88,155
Repayments of Revolving Credit Facility	(90,853)	(107,208)
Repayments of Senior Secured Term Loan	(20,625)	(3,500)
Proceeds from Credit Agreement Term Loan	50,000	

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Proceeds from Short Term Loan	868	
Payment of financing costs	(1,375)	
Payments for common stock repurchases		(3,229)
Proceeds from exercise of stock options	1,460	676
Cash dividends paid (Note K)	(1,007)	(720)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	77,337	(25,826)
Effect of foreign exchange on cash	17	(175)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	282	(689)
Cash and cash equivalents at beginning of period	4,947	1,871
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 5,229	\$ 1,182

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

June 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.

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 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 six month periods ended June 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 \$312,000 and \$360,000 for the three months ended June 30, 2014 and 2013, respectively, and \$682,000 and \$809,000 for the six months ended June 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.

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(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:

	June 30, 2014	December 31, 2013
	(in thousands)	
Finished goods	\$ 149,850	\$ 108,340
Work in process	1,993	1,966
Raw materials	1,398	2,485
Total	\$ 153,241	\$ 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 and senior secured term loan approximate fair value since such borrowings bear interest at variable market rates.

Derivatives

The Company accounts for derivative instruments in accordance with 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 \$28.0 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 expire in June 2018 and the notional amounts amortize over this period. The interest rate swap agreements were designated as a cash flow hedge under ASC Topic No. 815. The effective portion of the fair value gain or loss on these agreements are recorded as a component of accumulated

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LIFETIME BRANDS, INC.

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June 30, 2014

(unaudited)

other comprehensive loss. The effect of recording these derivatives at fair value resulted in an unrealized loss of \$43,000 and an unrealized gain of \$231,000, net of taxes, for the three months ended June 30, 2014 and 2013, respectively, and an unrealized loss of \$34,000 and an unrealized gain of \$244,000, net of taxes, for the six months ended June 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 a liability of \$112,000 and \$54,000 at June 30, 2014 and December 31, 2013, respectively, and is included in accrued expenses and other long-term liabilities.

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 loss of \$0.2 million and \$0.4 million is included in selling, general and administrative expenses in the condensed consolidated statements of operations for the three and six months ended June 30, 2014, respectively.

The aggregate gross notional amount of foreign exchange contracts at June 30, 2014 was \$9.1 million. The fair value of the Company's foreign exchange contracts was a liability of \$728,000 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 counterparty 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 employee positions with this consolidation. The Company recorded \$125,000 of restructuring expenses during the three and six months ended June 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. The Company recorded \$0.3 million of restructuring expenses during the three and six months ended June 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 retrospectively for fiscal years and interim periods within those years beginning after December 15, 2016. The Company is currently assessing the potential impact of this ASU on its condensed consolidated financial statements.

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(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 ⁽¹⁾	8,382
Value of contingent consideration ⁽²⁾	2,488
Working capital adjustment ⁽³⁾	374
Total purchase price	\$ 72,546

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- (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.

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(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 ⁽¹⁾	\$ 14,267
Inventory	17,912
Other assets	1,859
Other liabilities	(8,047)
Deferred income tax	(8,805)
Goodwill and other intangibles	55,360
Total allocated value	\$ 72,546

(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).

Unaudited Pro forma Results

The six months ended June 30, 2014 includes the operations of Kitchen Craft for the period from January 15, 2014 to June 30, 2014. The condensed consolidated statements of operations for the three and six months ended June 30, 2014, include \$13.5 million and \$30.4 million of net sales, respectively, and \$0.2 million net loss and \$0.2 million of net income, respectively, contributed by Kitchen Craft.

The following table presents the Company's pro forma consolidated net sales and loss before income taxes and equity in earnings for the three and six months ended June 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, the Company consummated certain other acquisitions during the six months ended June 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		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2014	2013	2014	2013

(In thousands, except per share data)

Net Sales	\$ 115,321	\$ 110,665	\$ 233,732	\$ 224,294
Loss before income taxes and equity in earnings	(4,350)	(1,345)	(6,860)	(1,930)
Net loss	(2,910)	(783)	(4,987)	(804)
Basic and diluted loss per common share	\$ (0.21)	\$ (0.06)	\$ (0.37)	\$ (0.06)

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 \$0.4 million and \$0.9 million in the three and six months ended June 30, 2014, respectively;
- (ii) an increase in amortization expense related to the fair value of the identifiable intangible assets of \$0.8 million and \$1.7 million in the three and six months ended June 30, 2013, respectively;

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(unaudited)

- (iii) the elimination of acquisition costs recorded in the three and six months ended June 30, 2014 of \$0.9 million;
- (iv) an increase in interest expense and amortization of debt issuance costs of \$0.5 million and \$1.0 million, resulting from the refinancing of the Company's debt to finance the acquisition in the three and six months ended June 30, 2013, respectively;
- (v) an adjustment of \$5.7 million in the three and six months ended June 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 company.

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 Cafetiere (UK) Limited, together with certain assets of other subsidiaries of The Greenfield Group Limited (collectively, La Cafetiere). The La Cafetiere acquisition included the purchase of certain trademarks and other intellectual property, and certain inventory and receivables. In aggregate, the Company paid approximately \$5.3 million of primarily cash consideration for the acquisitions of Built NY, Empire Silver and La Cafetiere. 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 six month periods ended June 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 12.97 and MXN 13.06 at June 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 12.99 and MXN 12.46 during the three months ended June 30, 2014 and 2013, respectively, and 13.00 to 13.10 and 12.57 to 12.79 during the six months ended June 30, 2014 and 2013, respectively. The effect of the translation of the Company's investment resulted in an increase to the investment of \$0.6 million during the six months ended June 30, 2014 and a decrease to the investment of \$0.1 million during the six months ended June 30, 2013 (also see Note K). These translation effects are recorded in accumulated other comprehensive loss. Included within accrued expenses at June 30, 2014 and December 31, 2013 are amounts due to Vasconia of \$12,000 and \$152,000, respectively.

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(unaudited)

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

	Three Months Ended June 30,			
	2014		2013	
	(in thousands)			
	USD	MXN	USD	MXN
Net Sales	\$ 48,462	\$ 629,527	\$ 38,572	\$ 480,602
Gross Profit	8,978	116,624	5,953	74,175
Income (loss) from operations	2,223	28,874	(587)	(7,310)
Net Income	1,367	17,756	1,421	17,708

	Six Months Ended June 30,			
	2014		2013	
	(in thousands)			
	USD	MXN	USD	MXN
Net Sales	\$ 91,712	\$ 1,201,723	\$ 78,811	\$ 991,481
Gross Profit	16,816	220,320	13,870	174,694
Income from operations	3,977	52,082	1,553	19,859
Net Income	1,476	19,194	2,647	33,276

The Company recorded equity in earnings of Vasconia, net of taxes, of \$0.3 million and \$0.4 million for the three months ended June 30, 2014 and 2013, respectively, and \$0.3 million and \$0.6 million for the six months ended June 30, 2014 and 2013, respectively.

As of June 30, 2014 and December 31, 2013, the fair value (based upon the quoted stock price) of the Company's investment in Vasconia was \$35.0 million and \$35.2 million, respectively. The carrying value of the Company's investment in Vasconia was \$31.5 million and \$30.5 million as of June 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. The Company recorded equity in losses of GSI of \$234,000 and \$243,000, net of taxes, for the three months ended June 30, 2014 and 2013, respectively, and \$447,000 and \$266,000, net of taxes, for the six months ended June 30, 2014 and 2013, respectively.

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 June 30, 2014. As of June 30, 2014 and December 31, 2013, the carrying value of the Company's investment in HCA was \$129,000 and \$144,000, respectively.

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 Mikas® 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

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

(unaudited)

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 in the Company's consolidated statements of operations. The Company recorded equity in losses of the joint venture of \$20,000 and \$5,000 for the three and six months ended June 30, 2014, respectively, and \$10,000 and \$37,000 for the three and six months ended June 30, 2013, respectively. As of June 30, 2014 and December 31, 2013, the carrying value of the Company's investment in Grand Venture was \$0.3 million.

The Company evaluated the disclosure requirements of ASC Topic No. 860, *Transfers and Servicing*, and determined that at June 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):

	June 30, 2014			December 31, 2013		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Goodwill	\$ 18,515	\$	\$ 18,515	\$ 5,085	\$	\$ 5,085
Indefinite-lived intangible assets:						
Trade names	18,364		18,364	18,364		18,364
Finite-lived intangible assets:						
Licenses	15,847	(7,776)	8,071	15,847	(7,551)	8,296
Trade names	22,384	(3,514)	18,870	10,056	(2,677)	7,379
Customer relationships	50,823	(4,716)	46,107	18,406	(2,736)	15,670
Patents	1,202	(329)	873	584	(229)	355
Total	\$ 127,135	\$ (16,335)	\$ 110,800	\$ 68,342	\$ (13,193)	\$ 55,149

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 (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 provides for, among other things, (i) an extension of the maturity of the \$175.0 million Revolving Credit Facility to January 11, 2019 and (ii) 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 June 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.

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LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(unaudited)

At June 30, 2014, borrowings outstanding under the Revolving Credit Facility were \$97.5 million and open letters of credit were \$4.2 million. Availability under the Revolving Credit Facility was approximately \$52.6 million, or 30% of the total loan commitment at June 30, 2014.

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 June 30, 2014, \$50.0 million was outstanding under the Term Loan.

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 period. 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 3.75 to 1.00 at each fiscal quarter end during 2014; 3.00 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 June 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) with HSBC Bank (China) Company Limited, Shanghai Branch (HSBC) for up to RMB 18.0 million (approximately \$2.9 million). The HSBC Facility is subject to annual renewal and may be used to fund general working capital and corporate 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 June 30, 2014, RMB 5.4 million (\$868,000) 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****June 30, 2014**

(unaudited)

NOTE F STOCK COMPENSATION

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

	Options	Weighted- average exercise price	Weighted- average contractual life (years)	Aggregate intrinsic value
Options outstanding, January 1, 2014	2,371,650	\$ 12.75		
Grants	394,400	18.83		
Exercises	(131,563)	11.10		
Cancellations	(31,000)	12.21		
Expirations	(12,000)	18.22		
Options outstanding, June 30, 2014	2,591,487	13.74	6.36	\$ 10,230,843
Options exercisable, June 30, 2014	1,740,362	13.06	5.25	\$ 8,507,338

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 June 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 June 30, 2014 and the exercise price.

The total intrinsic value of stock options exercised for the six months ended June 30, 2014 and 2013 was \$0.9 million and \$1.4 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 June 30, 2014, before the effect of income taxes, was \$6.2 million and is expected to be recognized over a weighted-average period of 2.95 years.

During the three months ended June 30, 2014, the Company granted an aggregate of 19,691 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 fair value of \$16.00 at the grant date that will be recognized in stock compensation expense over

the one year vesting period. Total unrecognized restricted stock compensation expense at June 30, 2014 was \$288,750 and is expected to be recognized over a weighted-average period of 0.97 years.

The Company recognized stock compensation expense of \$713,000 and \$722,000 for the three months ended June 30, 2014 and 2013, respectively, and \$1.4 million and \$1.4 million for the six months ended June 30, 2014 and 2013, respectively.

At June 30, 2014, there were 271,982 shares available for awards that could be granted under the Company's 2000 Long-Term Incentive Plan.

NOTE G LOSS PER COMMON SHARE

Basic loss per common share has been computed by dividing net loss by the weighted-average number of shares of the Company's common stock outstanding. Diluted loss per common share adjusts net loss and basic loss per common share for the effect of all potentially dilutive shares of the Company's common stock. The calculations of basic and diluted loss per common share for the three and six month periods ended June 30, 2014 and 2013 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Net loss basic and diluted	\$ (3,202)	\$ (568)	(6,131)	\$ (1,200)
Weighted-average shares outstanding basic and diluted	13,483	12,808	13,379	12,784
Basic and diluted loss per common share	\$ (0.24)	\$ (0.04)	\$ (0.46)	\$ (0.09)

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LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(unaudited)

The computation of diluted loss per common share for the three months ended June 30, 2014 and 2013 excludes options to purchase 2,591,487 shares and options to purchase 2,476,800 shares, respectively. The computation of diluted loss per common share for the six months ended June 30, 2014 and 2013 excludes options to purchase 2,476,462 shares and options to purchase 2,497,790 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 June 30, 2014 is a gross liability of \$278,000. 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 \$278,000, all of which would benefit the Company's tax provision. The Company believes that \$278,000 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 June 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 six months ended June 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 were 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.

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(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Net sales				
U.S. Wholesale	\$ 85,132	\$ 85,761	\$ 170,814	\$ 171,314
International	26,586	7,508	54,722	15,073
Retail Direct	3,603	3,707	8,196	9,246
Total net sales	\$ 115,321	\$ 96,976	\$ 233,732	\$ 195,633
Income (loss) from operations				
U.S. Wholesale	\$ 768	\$ 4,824	\$ 3,178	\$ 8,377
International	(708)	(1,404)	(915)	(2,398)
Retail Direct	(417)	(276)	(716)	(266)
Unallocated corporate expenses	(2,800)	(3,132)	(6,901)	(5,816)
Total income (loss) from operations	\$ (3,157)	\$ 12	\$ (5,354)	\$ (103)
Depreciation and amortization				
U.S. Wholesale	\$ 2,314	\$ 2,128	\$ 4,521	\$ 4,179
International	1,339	473	2,681	880
Retail Direct	63	66	127	131
Total depreciation and amortization	\$ 3,716	\$ 2,667	\$ 7,329	\$ 5,190

	June 30, 2014	December 31, 2013
	(in thousands)	
Assets		
U.S. Wholesale	\$ 283,978	\$ 291,757
International	128,870	35,365
Retail Direct	516	730
Unallocated/ Corporate/ Other	9,173	8,887

Total assets	\$ 422,537	\$ 336,739
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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.

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

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(unaudited)

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 and further EPA investigation is pending.

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

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

NOTE K OTHER**Cash dividends**

Dividends declared in the six months ended June 30, 2014 are as follows:

Dividend per share	Date declared	Date of record	Payment date
\$ 0.03750	March 11, 2014	May 1, 2014	May 15, 2014
\$ 0.03750	June 19, 2014	August 1, 2014	August 15, 2014

On February 15, 2014 and May 15, 2014, the Company paid cash dividends of \$501,000 and \$506,000, respectively, which reduced retained earnings. In the three months ended June 30, 2014, the Company reduced retained earnings for the accrual of \$507,000 relating to the dividend payable on August 15, 2014.

On July 29, 2014, the Board of Directors declared a quarterly dividend of \$0.0375 per share payable on November 14, 2014 to shareholders of record on October 31, 2014.

Dividends declared in the six months ended June 30, 2013 are as follows:

Dividend per share	Date declared	Date of record	Payment date
\$ 0.031	March 12, 2013	May 1, 2013	May 15, 2013
\$ 0.031	June 13, 2013	August 1, 2013	August 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 three months ended June 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 three and six months ended June 30, 2014.

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(unaudited)

Supplemental cash flow information

	Six Months Ended June 30,	
	2014	2013
	(in thousands)	
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 2,421	\$ 1,842
Cash paid for taxes	4,406	4,891
Non-cash investing activities:		
Translation adjustment	\$ (1,732)	\$ 390

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

(unaudited)

Components of accumulated other comprehensive loss, net

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
<i>Accumulated translation adjustment:</i>				
Balance at beginning of period	\$ (2,254)	\$ (1,679)	\$ (2,944)	\$ (2,804)
Translation gain (loss) during period	1,042	(1,515)	1,732	(390)
Balance at end of period	\$ (1,212)	\$ (3,194)	\$ (1,212)	\$ (3,194)
<i>Accumulated deferred losses on cash flow hedges:</i>				
Balance at beginning of period	\$ (22)	\$ (259)	\$ (31)	\$ (272)
Derivative fair value adjustment, net of taxes of \$29 and \$154 for the three months ended June 30, 2014 and June 30, 2013, respectively, and \$23 and \$163 for the six months ended June 30, 2014 and June 30, 2013, respectively	(43)	231	(34)	244
Balance at end of period	\$ (65)	\$ (28)	\$ (65)	\$ (28)
<i>Accumulated effect of retirement benefit obligations:</i>				
Balance at beginning of period	\$ (738)	\$ (1,147)	\$ (745)	\$ (1,160)
Amounts reclassified from accumulated other comprehensive loss: ⁽¹⁾				
Amortization of actuarial losses, net of taxes of \$5 and \$9 for the three months ended June 30, 2014 and 2013, respectively, and \$9 and \$18 for the six months ended June 30, 2014 and 2013, respectively	7	13	14	26
Balance at end of period	\$ (731)	\$ (1,134)	\$ (731)	\$ (1,134)
	\$ (2,008)	\$ (4,356)	\$ (2,008)	\$ (4,356)

Total accumulated other comprehensive loss at end of
period

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

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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 June 30, 2014, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and six-month periods ended June 30, 2014 and 2013, and the condensed consolidated statements of cash flows for the six-month periods ended June 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

August 7, 2014

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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 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 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.

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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, 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, cookware, bakeware and novelty housewares) and Tableware (dinnerware, flatware and glassware); and one category, Home Solutions, which comprises other products used in the home (pantryware, spices, 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 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 KitchenAid®, Farberware®, Mikasa®, Pfaltzgraff®, Kamenstein®, Fred®, Towle®, Melannco®, Elements® and Wallace Silversmiths®. 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

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 were 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.

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 June 30, 2014, Vasconia's Board of Directors is comprised of ten members of which 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 leading 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 June 30, 2014, GSI's Board of Directors is comprised of six members (including two independent members) of which the Company has designated three members (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		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	64.6	62.5	63.6	62.9
Gross margin	35.4	37.5	36.4	37.1
Distribution expenses	10.8	10.4	10.6	10.7
Selling, general and administrative expenses	27.3	26.8	28.0	26.3
Restructuring expenses	0.1	0.3	0.1	0.1
Income (loss) from operations	(2.8)	0.0	(2.3)	0.0
Interest expense	(1.4)	(1.2)	(1.3)	(1.2)
Loss on early retirement of debt			(0.1)	
Loss before income taxes and equity in earnings	(4.2)	(1.2)	(3.7)	(1.2)
Income tax benefit	1.4	0.5	1.2	0.4
Equity in earnings, net of taxes		0.1	(0.1)	0.2
Net loss	(2.8)%	(0.6)%	(2.6)%	(0.6)%

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MANAGEMENT'S DISCUSSION AND ANALYSIS

THREE MONTHS ENDED JUNE 30, 2014 AS COMPARED TO THE THREE MONTHS ENDED

JUNE 30, 2013

Net Sales

Net sales for the three months ended June 30, 2014 were \$115.3 million, an increase of \$18.3 million, or 18.9%, as compared to net sales of \$97.0 million for the corresponding period in 2013.

Net sales for the U.S. Wholesale segment for the three months ended June 30, 2014 were \$85.1 million, a decrease of \$0.7 million, or 0.8%, as compared to net sales of \$85.8 million for the corresponding period in 2013.

Net sales for the U.S. Wholesale's Kitchenware product category were \$52.5 million for the three months ended June 30, 2014, a decrease of \$3.0 million, or 5.4%, as compared to \$55.5 million for the corresponding period in 2013. The decrease in the U.S. Wholesale Kitchenware product category was due to lower sales volumes, in part due to the timing of program launches versus the prior year period.

Net sales for the U.S. Wholesale's Tableware product category were \$19.6 million for the three months ended June 30, 2014, a decrease of \$1.3 million, or 6.2%, as compared to \$20.9 million for the corresponding period in 2013. The Tableware product category sales decrease was primarily attributable to lower sales volume attributable to category weakness for dinnerware products partially offset by higher flatware volume.

Net sales for U.S. Wholesale's Home Solutions product category were \$13.0 million for the three months ended June 30, 2014, an increase of \$3.6 million, or 38.3%, as compared to \$9.4 million for the three months ended June 30, 2013. The increase in the Home Solutions product category reflects the inclusion of Built, acquired in the first quarter of 2014, as well as successful programs for the Pantryware product line.

Net sales for the International segment for the three months ended June 30, 2014 were \$26.6 million, an increase of \$19.1 million, as compared to net sales of \$7.5 million for the corresponding period in 2013. Of the increase, \$14.7 million represents sales from Kitchen Craft and La Cafetière, which were acquired during the first quarter of 2014. The balance of the increase for the International segment was due to higher sales volume from tableware products and the effect of the strengthening Pound Sterling.

Net sales for the Retail Direct segment for the three months ended June 30, 2014 were \$3.6 million, a decrease of \$0.1 million, or 2.7%, as compared to \$3.7 million for the corresponding period in 2013, reflecting changes in promotional discounting.

Gross margin

Gross margin for the three months ended June 30, 2014 was \$40.9 million, or 35.4%, as compared to \$36.4 million, or 37.5%, for the corresponding period in 2013.

Gross margin for the U.S. Wholesale segment was \$29.8 million, or 35.0% for the three months ended June 30, 2014, as compared to \$32.1 million or 37.4% for the corresponding period in 2013. The decrease in U.S. Wholesale gross margin reflects actions taken to create opportunities to expand the Company's market share.

Gross margin for the International segment was \$8.5 million or 32.2% for the three months ended June 30, 2014, as compared to \$1.6 million or 21.3% for the corresponding period in 2013. The increase in gross margin in the International segment is a result of a decrease in pricing promotions for Creative Tops and the inclusion of Kitchen Craft, which is in a higher margin product category.

Gross margin for the Retail Direct segment was \$2.6 million or 69.7% for the three months ended June 30, 2014, as compared to \$2.7 million or 71.5% for the corresponding period in 2013. Gross margin decreased for the three months ended June 30, 2014 as a result of changes in promotional discounting as compared to the 2013 period.

Distribution expenses

Distribution expenses for the three months ended June 30, 2014 were \$12.5 million as compared to \$10.1 million for the corresponding period in 2013. Distribution expenses as a percentage of net sales were 10.8% for the three months ended June 30, 2014 as compared to 10.4% for the three months ended June 30, 2013.

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As a percentage of sales shipped from the Company's warehouses, distribution expenses for the U.S. Wholesale segment were 10.4% and 10.3% for the three months ended June 30, 2014 and 2013.

Distribution expenses as a percentage of net sales for the International segment were approximately 11.9% and 10.3% for the three months ended June 30, 2014 and 2013, respectively. The increase reflects the inclusion of Kitchen Craft which has a higher proportion of its sales to specialty customers than the segment's other businesses.

Distribution expenses as a percentage of net sales for the Retail Direct segment were approximately 28.6% and 29.3% for the three months ended June 30, 2014 and 2013.

Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended June 30, 2014 were \$31.4 million, an increase of \$5.5 million, or 21.2%, as compared to \$25.9 million for the corresponding period in 2013.

Selling, general and administrative expenses for the three months ended June 30, 2014 for the U.S. Wholesale segment were \$20.6 million, an increase of \$1.9 million, or 10.2%, from \$18.7 million for the corresponding period in 2013. The increase was primarily due to the acquisition of Built, initiation of sales in China and investments in talent to grow the Company's domestic business. As a percentage of net sales, selling, general and administrative expenses increased to 24.2% for the three months ended June 30, 2014 compared to 21.8% for the corresponding period in 2013, respectively.

Selling, general and administrative expenses for the three months ended June 30, 2014 for the International segment were \$6.1 million, an increase of \$3.8 million, or 165.2%, from \$2.3 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 23.0% for the three months ended June 30, 2014 compared to 29.7% for the corresponding period in 2013.

Selling, general and administrative expenses for the Retail Direct segment were \$1.9 million and \$1.8 million for the three months ended June 30, 2014 and 2013.

Unallocated corporate expenses for the three months ended June 30, 2014 were \$2.8 million as compared to \$3.1 million for the corresponding period in 2013. The decrease was primarily attributable to a decrease in employee related and professional expenses.

Restructuring expenses

Restructuring expenses for the three months ended June 30, 2014 were \$0.1 million as compared to \$0.3 million for the corresponding period in 2013. The restructuring expenses in the three months ended June 30, 2014 resulted from the consolidation of our customer service and call center functions which resulted in the elimination of certain employee positions. The expenses in the three months ended June 30, 2013 resulted from the closure of the Fred® & Friends distribution center which included the elimination of certain employee positions.

Interest expense

Interest expense for the three months ended June 30, 2014 was \$1.7 million as compared to \$1.1 million for the three months ended June 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 refinancing related to

those acquisitions.

Income tax benefit

The income tax benefit for the three months ended June 30, 2014 was \$1.6 million as compared to a \$0.5 million for the corresponding period in 2013. The Company's effective tax rate for the three months ended June 30, 2014 was 32.8% as compared to 42.0% for the 2013 period. The lower effective tax rate for the three months ended June 30, 2014 reflects income earned in the U.K. which is taxed at a rate of 21%.

Equity in earnings

Equity in earnings of Vasconia, net of taxes, was \$0.3 million for the three months ended June 30, 2014 as compared to \$0.4 million for the three months ended June 30, 2013. Vasconia reported income from operations

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of \$2.2 million for the three months ended June 30, 2014 as compared to a loss from operations of \$0.6 million for the three months ended June 30, 2013. The increase in net income is the result of an increase in sales volume from both the aluminum and kitchenware business. The three months ended June 30, 2013 includes a recovery of value-added taxes (including interest thereon) which resulted in an increase of \$0.7 million in the equity in earnings of Vasconia for the three months ended June 30, 2013. Equity in losses of GSI was \$0.2 million for the three months ended June 30, 2014 and 2013, respectively.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

SIX MONTHS ENDED JUNE 30, 2014 AS COMPARED TO THE SIX MONTHS ENDED

JUNE 30, 2013

Net Sales

Net sales for the six months ended June 30, 2014 were \$233.7 million, an increase of \$38.1 million, or 19.5%, as compared to net sales of \$195.6 million for the corresponding period in 2013.

Net sales for the U.S. Wholesale segment for the six months ended June 30, 2014 were \$170.8 million, a decrease of \$0.5 million, or 0.3%, as compared to net sales of \$171.3 million for the corresponding period in 2013.

Net sales for the U.S. Wholesale's Kitchenware product category were \$104.4 million for the six months ended June 30, 2014, a decrease of \$3.8 million, or 3.5%, as compared to \$108.2 million for the corresponding period in 2013. The decrease in the U.S. Wholesale's Kitchenware product category was primarily due to lower sales volumes, in part due to the timing of program launches versus the prior period.

Net sales for the U.S. Wholesale's Tableware product category were \$42.9 million for the six months ended June 30, 2014, an increase of \$0.3 million, or 0.7%, as compared to \$42.6 million for the corresponding period in 2013. The Tableware product category sales increase reflects an increase in dinnerware sales which was partially offset by lower flatware volume.

Net sales for the U.S. Wholesale's Home Solutions product category were \$23.5 million for the six months ended June 30, 2014, an increase of \$3.0 million, or 14.6%, as compared to \$20.5 million for the corresponding period in 2013. The increase in the Home Solutions product category reflects the inclusion of Built, acquired in the first quarter of 2014, as well as successful programs for the Pantryware product line.

Net sales for the International segment for the six months ended June 30, 2014 were \$54.7 million, an increase of \$39.6 million, as compared to net sales of \$15.1 million for the corresponding period in 2013. Of the increase, \$31.8 million represents sales from Kitchen Craft and La Cafetière, which were acquired during the first quarter of 2014. The balance of the increase for the International segment was due to higher sales volume from tableware products and the effect of the strengthening Pound Sterling.

Net sales for the Retail Direct segment for the six months ended June 30, 2014 were \$8.2 million, a decrease of \$1.0 million, or 10.9%, as compared to \$9.2 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 six months ended June 30, 2014 was \$85.2 million, or 36.4%, as compared to \$72.7 million, or 37.1%, for the corresponding period in 2013.

Gross margin for the U.S. Wholesale segment was \$60.6 million or 35.5% for the six months ended June 30, 2014, as compared to \$62.3 million or 36.4% 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.

Gross margin for the International segment was \$18.9 million or 34.6% for the six months ended June 30, 2014, as compared to \$3.9 million or 25.9% for the corresponding period in 2013. The increase in gross margin in the International segment is due to the inclusion of Kitchen Craft, which is in a higher margin product category.

Gross margin for the Retail Direct segment was \$5.7 million or 69.5% for the six months ended June 30, 2014, as compared to \$6.5 million or 69.7% for the corresponding period in 2013.

Distribution expenses

Distribution expenses for the six months ended June 30, 2014 were \$24.8 million as compared to \$20.9 million for the corresponding period in 2013. Distribution expenses as a percentage of net sales were 10.6% and 10.7% for the six months ended June 30, 2014 and 2013, respectively.

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Distribution expenses as a percentage of sales shipped from the Company's warehouses for the U.S. Wholesale segment were 10.4% for the six months ended June 30, 2014 and 10.1% for the six months ended June 30, 2013. The increase reflects lower volume of shipments and higher expenses.

Distribution expenses as a percentage of net sales for the International segment were approximately 10.0% for the six months ended June 30, 2014 as compared to 10.5% for the corresponding period in 2013. The decrease reflects higher sales volume.

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

Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended June 30, 2014 were \$65.6 million, an increase of \$14.0 million, or 27.1% as compared to \$51.6 million for the corresponding period in 2013.

Selling, general and administrative expenses for the six months ended June 30, 2014 for the U.S. Wholesale segment were \$40.4 million, an increase of \$3.3 million, or 8.9%, as compared to \$37.1 million for the corresponding period in 2013. The increase was primarily due to the acquisition of Built, initiation of sales in China and investments to grow the Company's domestic business. As a percentage of net sales, selling, general and administrative expenses increased to 23.7% for the six months ended June 30, 2014 compared to 21.6% for the corresponding period in 2013.

Selling, general and administrative expenses for the six months ended June 30, 2014 for the International segment were \$14.3 million, an increase of \$9.6 million, or 204.3%, as compared to \$4.7 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 26.2% for the six months ended June 30, 2014 compared to 31.3% for the corresponding period in 2013.

Selling, general and administrative expenses for the six months ended June 30, 2014 and 2013 for the Retail Direct segment were \$4.0 million and \$3.9 million, respectively.

Unallocated corporate expenses for the six months ended June 30, 2014 and 2013 were \$6.9 million and \$5.9 million, respectively.

Restructuring expenses

Restructuring expenses for the six months ended June 30, 2014 were \$0.1 million as compared to \$0.3 million for the corresponding period in 2013. The restructuring expenses in the six months ended June 30, 2014 resulted from the consolidation of our customer service and call center functions which resulted in the elimination of certain employee positions. The expenses resulted from the closure of the Fred® & Friends distribution center which included the elimination of certain employee positions.

Interest expense

Interest expense for the six months ended June 30, 2014 was \$3.1 million as compared to \$2.3 million for the corresponding period in 2013. The increase in interest expense was attributable to higher average borrowings attributable to recent acquisitions which were partially offset by lower rates resulting from the refinancing related to those acquisitions.

Loss on early retirement of debt

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

Income tax benefit

The income tax benefit for the six months ended June 30, 2014 was \$2.8 million as compared to \$0.9 million for the corresponding period in 2013. The Company's effective tax rate for the six months ended June 30, 2014 was 31.7% as compared to 36.3% for the 2013 period. The Company's effective tax rate for the six months ended June 30, 2014 reflects expense recorded for uncertain tax positions as well as income earned in the U.K. which is taxed at a rate of 21%.

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Equity in earnings

Equity in earnings of Vasconia, net of taxes, was \$0.3 million for the six months ended June 30, 2014 as compared to \$0.6 million for the corresponding period in 2013. Vasconia reported income from operations of \$4.0 million and \$1.6 million for the six months ended June 30, 2014 and 2013, respectively, and net income of \$1.5 million and \$2.6 million for the six months ended June 30, 2014 and 2013, respectively. Net income for six months ended June 30, 2013 includes the recovery of value-added taxes (including interest thereon) which resulted in an increase of \$0.7 million in the equity in earnings of Vasconia for the six months ended June 30, 2013. Excluding this recovery, net income for the six months ended June 30, 2014 increased \$1.2 million, as compared to the six months ended June 30, 2013, as a result of an increase in sales volume in both the aluminum and kitchenware business. Equity in losses of GSI was \$0.4 million and \$0.3 million for the three months ended June 30, 2014 and 2013, respectively.

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.

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 (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 provides for, among other things, (i) an extension of the maturity of the \$175.0 million Revolving Credit Facility to January 11, 2019 and (ii) 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 June 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 June 30, 2014, borrowings outstanding under the Revolving Credit Facility were \$97.5 million and open letters of credit were \$4.2 million. Availability under the Revolving Credit Facility was approximately \$52.6 million, or 30% of the total loan commitment at June 30, 2014.

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 June 30, 2014, \$50.0 million was outstanding under the Term Loan.

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 period. 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 3.75 to 1.00 at each fiscal quarter end during 2014; 3.00 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.

Other Credit Agreements

A subsidiary of the Company has a credit facility (HSBC Facility) with HSBC Bank (China) Company Limited, Shanghai Branch (HSBC) for up to RMB 18.0 million (approximately \$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 June 30, 2014, RMB 5.4 million (\$868,000) was outstanding and the interest rate was 6.44% under the HSBC Facility.

Table of Contents*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 an acquisition pro forma adjustment:

	Consolidated EBITDA for the Four Quarters Ended June 30, 2014	
	(in thousands)	
Three months ended June 30, 2014	\$	1,494
Three months ended March 31, 2014		3,660
Three months ended December 31, 2013		21,011
Three months ended September 30, 2013		15,067
Total for the four quarters	\$	41,232

Capital expenditures for the six months ended June 30, 2014 were \$2.8 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 six months ended June 30, 2014 and 2013:

**Three Months Ended
June 30,**

(in thousands)

any other corporation or entity is consummated regardless of which entity is the survivor, other than a merger or consolidation which v

- (i) **“Covered Employee”** means an Eligible Person who is an employee of the Company, a Subsidiary or an Affiliate.
- (j) **“Date of Grant”** has the meaning set forth in Treasury Regulation Section 1.409A-1.
- (k) **“Disability”** means a permanent and total disability as defined in Code Section 409A.
- (l) **“Dividend Equivalent”** means a right, granted under this Plan, to receive cash, Stock, other Awards or other property equal in value to all or a portion of the dividends paid with respect to a specified number of shares of Stock.
- (m) **“Exchange Act”** means the Securities Exchange Act of 1934, as amended, and shall include any successor thereto.
- (n) **“Fair Market Value”** or **“FMV”** means the fair market value of Stock, Awards or other property as determined in good faith by the Committee or under procedures established by the Committee as follows: if on the Date of Grant or other determination date the Stock is listed on an established securities market, the Fair Market Value of a share of Stock shall be the closing price of the Stock on such exchange or in such market (if there is more than one such exchange or market the Committee shall determine the appropriate exchange or market) on the Date of Grant or such other determination date (or if there is no such reported closing price, the Fair Market Value shall be the mean between the highest bid and lowest asked prices or between the high and low sale prices on such trading day) or, if no sale of Stock is reported for such trading day, on the next preceding day on which any sale shall have been reported. If the Stock is not listed on such an exchange, quoted on such system or traded on such a market, Fair Market Value shall be the value of the Stock as determined by the Committee in good faith. Fair Market Value relating to the exercise price or base price of any Option or SAR shall at all times conform to the applicable requirements of Code Section 409A. Notwithstanding any provision of this subsection to the contrary, the Fair Market Value of an Award shall be established by the Committee immediately prior to the grant of such Award.
- (o) **“Incentive Stock Option”** or **“ISO”** means any Option intended to be, designated as, and that otherwise qualifies as an **“Incentive Stock Option”** within the meaning of Code Section 422.
 - (p) **“Non-Employee Director”** has the meaning set forth under Section 16 of the Exchange Act.
 - (q) **“Nonqualified Stock Option”** means any Option that is not an Incentive Stock Option.
 - (r) **“Option”** means a right to purchase Stock granted under Section 6(b).

- (s) “**Outside Director**” has the meaning set forth in Code Section 162(m).
- (t) “**Other Stock-Based Awards**” means Awards granted to a Participant that are valued, in whole or in part, by reference to, or otherwise based on, shares of Stock.
- (u) “**Participant**” means a person who has been granted an Award under the Plan which remains outstanding, including a person who is no longer an Eligible Person.
- (v) “**Restricted Stock**” means Stock granted under this Plan which is subject to certain restrictions and to a risk of forfeiture.
- (w) “**Section 16 Participant**” means a Participant under the Plan who is subject to Section 16 of the Exchange Act.
- (x) “**Stock**” means shares of the Company’s Common Stock, no par value per share, and any other equity securities of the Company that may be substituted or resubstituted for such Stock.
- (y) “**Stock Appreciation Rights**” or “**SARs**” means a right granted to a Participant under Section 6(c).
- (z) “**Stock Units**” means a right granted under this Plan to receive Stock or other Awards or a combination thereof at the end of a specified period. Stock Units subject to a risk of forfeiture may be designated as “**Restricted Stock Units**.”
- (aa) “**Subsidiary**” means any corporation (other than the Company or an Affiliate) in an unbroken chain of corporations beginning with the Company, if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in that chain.

Section 3. Administration.

- (a) **Authority of the Committee.** The Plan shall be administered by the Committee. Any interpretation or administration of the Plan by the Committee, and all actions and determinations of the Committee, shall be final, binding and conclusive on the Company, its stockholders, Subsidiaries, Affiliates, all Participants in the Plan, their respective legal representatives, successors and assigns, and all persons claiming under or through any of them.
- (b) **Composition of the Committee.** The Committee shall consist of not less than three directors, all of whom shall be Outside Directors and Non-Employee Directors. Those Directors shall be appointed by the Board and shall serve as the Committee at the pleasure of the Board. The function of the Committee specified in the Plan shall be exercised by the entire Board if, and to the extent that, no Committee exists that has the authority to so administer the Plan.
- (c) **Manner of Exercise of Committee Authority.** The Committee shall have the full power and authority to interpret and administer the Plan in its sole discretion, including exercising all the powers and authorities either specifically granted to it under the Plan or necessary or advisable in the administration of the Plan. The Committee’s powers and authorities include, without limitation, the sole ability to determine: eligibility criteria for Awards; persons to whom, and the time or times at which, Awards shall be granted; number of shares of Stock to be covered by each Award; interpretation of Plan provisions; amendments, rules, and regulations relating to the Plan; consideration, if any, to be paid for Awards; specific terms and conditions of individual Awards; and Awards that qualify as performance-based compensation under Code Section 162(m). The Committee shall have the power and authority to make all other determinations deemed necessary or advisable for the administration of the Plan.

- (d) **Delegation of Authority.** The Committee may delegate to one or more of its members or to one or more agents such administrative duties as it may deem advisable, and the Committee or any person to whom it has delegated duties as aforesaid may employ one or more persons to render advice with respect to any responsibility the Committee or such person may have under the Plan; provided, that such delegation may not include the selection or grant of Awards to Participants or Eligible Persons who are executive officers of the Company or any Subsidiary or Affiliate, or Section 16 Participants.
- (e) **Committee Vacancies.** The Board shall fill all vacancies in the Committee. The Board may from time to time appoint additional members to the Committee and may at any time remove one or more Committee members and substitute others. One member of the Committee shall be selected by the Board as chairman. The Committee shall hold its meetings at such times and places as it shall deem advisable. All determinations of the Committee shall be made by not less than a majority of its members either present in person or participating by conference telephone at a meeting or by written consent. The Committee shall keep minutes of its meetings. The Committee may appoint a secretary to keep such minutes and may make such rules and regulations for the conduct of its business as it shall deem advisable, but in accordance with the written charter prepared by the Board and which may be amended from time to time by the Board. The secretary shall not need to be a member of the Committee or a member of the Board.
- (f) **Limitation of Liability.** The Committee and each member thereof, and any person acting pursuant to authority delegated by the Committee, shall be entitled, in good faith, to rely or act upon any report or other information furnished by any executive officer, other officer or employee of the Company or a Subsidiary or Affiliate, the Company's independent auditors, consultants or any other agents assisting in the administration of the Plan. Members of the Committee, any person acting pursuant to authority delegated by the Committee, and any officer or employee of the Company or a Subsidiary or Affiliate acting at the direction or on behalf of the Committee or a delegee shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

Section 4. Stock Subject to Plan.

- (a) **Overall Number of Shares Available.** Subject to adjustment as provided under Section 11(c), the total number of shares of Stock reserved and available for delivery in connection with Awards under the Plan shall be 1,500,000. Any shares of Stock issued under the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares.
- (b) **Accounting Procedures.** The Committee may adopt reasonable accounting procedures to ensure appropriate counting of Stock subject to the Plan, avoid double counting (as, for example, in the case of tandem or substitute Awards), and make adjustments in accordance with this Section 4(b). Shares shall be counted against those reserved to the extent such shares have been delivered and are no longer subject to a risk of forfeiture. Accordingly, (i) to the extent that an Award under the Plan is canceled, expired, forfeited, settled in cash, settled by delivery of fewer shares than the number underlying the Award, or otherwise terminated without delivery of Stock to the Participant, the Stock retained by or returned to the Company will not be deemed to have been delivered under the Plan; and (ii) Stock that is withheld from such Award or separately surrendered by the Participant in payment of the exercise price or taxes relating to such Award shall be deemed to constitute Stock not delivered and will be available under the Plan. The Committee may determine that Awards may be outstanding that relate to more Stock than the aggregate shares of Stock remaining available under the Plan so long as Awards will not in fact result in delivery and vesting of shares of Stock in excess of the number then available under the Plan. In addition, in the case of any Award granted in assumption of or in substitution for an award of a company or business acquired by the Company or a Subsidiary or Affiliate or with which the Company or a Subsidiary or Affiliate combines, shares delivered or deliverable in connection with such assumed or substitute Award shall not be counted against the number of shares of Stock reserved under the Plan.

- (c) **Individual Annual Award Limits.** No Participant may be granted Options or other Awards under the Plan with respect to an aggregate of more than 75,000 shares of Stock (subject to adjustment as otherwise may be provided for throughout this Plan) during any calendar year.

Section 5. Eligibility.

- (a) **Eligibility.** Grants of Awards may be made from time to time to those officers, employees and directors of the Company or any Subsidiary or Affiliate who are designated by the Committee in its sole and exclusive discretion as eligible to receive such Awards (“**Eligible Persons**”). Eligible Persons may include, but shall not necessarily be limited to, employees, officers, and directors of the Company and any Subsidiary or Affiliate; however, Options intended to qualify as ISOs shall be granted only to Eligible Persons while actually employed by the Company, a Subsidiary or an Affiliate. The Committee may grant more than one Award to the same Eligible Person. No Award shall be granted to any Eligible Person during any period of time when such Eligible Person is on a leave of absence. Awards to be granted to directors, which may include members of the Committee, must be approved and granted by a majority of the disinterested members of the Board.
- (b) **Substitutions/Acquisitions.** Holders of awards granted by a company or business acquired by the Company or a Subsidiary or Affiliate, or with which the Company or a Subsidiary or Affiliate combines, may be eligible for substitute Awards under this Plan that will be granted in assumption of or in substitution for such outstanding awards in connection with such acquisition or combination transaction. In such cases, holders of the assumed or substituted awards will become Participants in the Plan; provided, however, that such assumption or substitution in no way causes an Award under this Plan to become subject to the terms and conditions of Code Section 409A.
- (c) **Participation.** An Eligible Person shall become a Participant in the Plan and shall perfect his or her Award only after he or she has completed the applicable Award Agreement in a manner that is satisfactory to the Committee and has delivered said Award Agreement to the Committee. A Participant shall continue his or her participation in the Plan, even if no longer an Eligible Person, until any and all of his or her interests that are held under the Plan expire or are paid.

Section 6. Specific Terms of Awards Granted Under the Plan.

- (a) **General Terms of All Awards.** All Awards granted under the Plan, including Awards of any Stock Units, shall be evidenced by individual agreements between the Company (or Subsidiary or Affiliate) and the applicable Eligible Person (an “**Award Agreement**”). Award Agreements may provide for grants of Awards on the specific terms and conditions set forth in this Section 6. Alternatively, the Committee may impose on any individual Award, as specified in the individual Award Agreement, such additional terms and conditions, not inconsistent with the provisions of the Plan, or applicable law, as the Committee shall determine, including terms requiring forfeiture of Awards in the event of termination of employment or service by the Participant and terms permitting a Participant to make elections relating to his or her Award. The Committee shall retain full power and discretion with respect to any term or condition of an Award that is not mandatory under the Plan and the terms of the Award Agreement; provided, that the exercise of such discretion shall in no event cause an Award that is not otherwise subject to the terms and conditions of Code Section 409A to become “**subject to the terms and conditions of Code Section 409A**” unless otherwise agreed upon between the Company (or Subsidiary or Affiliate) and the Eligible Person; provided further, that, to the extent an Award is subject to the terms and conditions of Code Section 409A, the Committee shall provide the Award in the form and manner required by Code Section 409A, unless otherwise agreed upon by the Company (or Subsidiary or Affiliate) and Eligible Person. For purposes of the Plan, “**subject to the terms and conditions of Code Section 409A,**” means the applicable Award or compensation subject to said Award provides for a deferral of compensation as determined under Code Section 409A. The Committee shall require the payment of lawful consideration for an Award to the extent necessary to satisfy the requirements of the Delaware General Company Law, and may otherwise require payment of consideration for an Award except as limited by the Plan and as otherwise required by applicable law.

- (b) **Option Awards.** Options granted under the Plan shall be evidenced by an agreement (“**Option Agreements**”). Options that are awarded may be of one of two types which shall be indicated on the face of the Option Agreement: (i) ISOs or (ii) Nonqualified Stock Options. The Committee is authorized to grant Options to Participants on the following terms and conditions:
- (i) Option Term: Time and Method of Exercise. The Committee shall determine the term of each Option; provided that in no event shall the term of any Option exceed a period of ten years from the Date of Grant. The Committee shall determine the time or times at which or the circumstances under which an Option may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the methods by which such exercise price may be paid or deemed to be paid and the form of such payment (including, without limitation, cash, Stock (including by withholding Stock deliverable upon exercise), other Awards or awards granted under other plans of the Company or any Subsidiary or Affiliate, or other property), and the methods by or forms in which Stock will be delivered or deemed to be delivered in satisfaction of Options to Participants.
- (ii) Exercise Price. The option price per share of Stock purchasable under a Nonqualified Stock Option or an Incentive Stock Option shall be determined by the Committee at the time of grant, shall be set forth on the applicable Option Agreement, and shall be not less than 100% of the Fair Market Value of the Stock at the Date of Grant (or, with respect to an Incentive Stock Option, 110% of the Fair Market Value of the Stock at the Date of Grant in the case of a Participant who at the Date of Grant owns Stock possessing more than 10% of the total combined voting power of all classes of Stock of the Company or its parent or subsidiary corporations (as determined under Code Sections 424(d), (e) and (f))).
- (iii) Non-Transferability of Options. No Option shall be transferable by any Participant other than by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order (as defined in the Code or the Employment Retirement Income Security Act of 1974, as amended) except that, if so provided in the Option Agreement, the Participant may transfer the Option, other than an ISO, during the Participant’s lifetime to one or more members of the Participant’s family, to one or more trusts for the benefit of one or more of the Participant’s family, or to a partnership or partnerships of members of the Participant’s family, or to a charitable organization as defined in Code Section 501(c)(3), provided that the transfer would not result in the loss of any exemption under Rule 16b-3 of the Exchange Act with respect to any Option. The transferee of an Option will be subject to all restrictions, terms and conditions applicable to the Option prior to its transfer, except that the Option will not be further transferable by the transferee other than by will or by the laws of descent and distribution.

(iv) Disposition upon Termination of Employment.

- (A) Termination by Death. Subject to Sections 6(b)(i) and 6(b)(v), if any Participant's employment with the Company or any Subsidiary or Affiliate terminates by reason of death, any Option held by that Participant shall become immediately and automatically vested and exercisable. If termination of a Participant's employment is due to death, then any Option held by that Participant may thereafter be exercised for a period of two years (or with respect to an ISO, for a period of one year) (or such other period as the Committee may specify at or after grant) from the date of death. Notwithstanding the foregoing, in no event will any Option be exercisable after the expiration of the option period of Option. The balance of the Option shall be forfeited if not exercised within two years (or one year with respect to ISOs).
- (B) Termination by Reason of Disability. Subject to Sections 6(b)(i) and 6(b)(v), if a Participant's employment with the Company or any Subsidiary or Affiliate terminates by reason of Disability, any Option held by that Participant shall become immediately and automatically vested and exercisable. If termination of a Participant's employment is due to Disability, then any Option held by that Participant may thereafter be exercised by the Participant or by the Participant's duly authorized legal representative if the Participant is unable to exercise the Option as a result of the Participant's Disability, for a period of two years (or with respect to an ISO, for a period of one year) (or such other period as the Committee may specify at or after grant) from the date of such termination of employment; and if the Participant dies within that two-year period (or such other period as the Committee may specify at or after grant), any unexercised Option held by that Participant shall thereafter be exercisable by the estate of the Participant (acting through its fiduciary) for the duration of the two-year period from the date of that termination of employment. Notwithstanding the foregoing, in no event will any Option be exercisable after the expiration of the option period of such Option. The balance of the Option shall be forfeited if not exercised within two years (or one year with respect to ISOs).
- (C) Termination for Cause. Unless otherwise determined by the Committee at or after the time of granting any Option, if a Participant's employment with the Company or any Subsidiary or Affiliate terminates for Cause, any unvested Options will be forfeited and terminated immediately upon termination and any vested Options held by that Participant shall terminate 30 days after the date employment terminates. Notwithstanding the foregoing, in no event will any Option be exercisable after the expiration of the option period of such Option. The balance of the Option shall be forfeited.
- (D) Other Termination/Retirement. Unless otherwise determined by the Committee at or after the time of granting any Option, if a Participant retires from employment with the Company (or a Subsidiary or Affiliate) or a Participant's employment with the Company (or a Subsidiary or Affiliate) terminates for any reason other than death, Disability, or for Cause, all Options held by that Participant shall terminate three months after the date employment terminates. Notwithstanding the foregoing, in no event will any Option be exercisable after the expiration of the option period (which shall be established in the Option Agreement) of such Option. The balance of the Option shall be forfeited.

- (E) **Leave of Absence**. In the event a Participant is granted a leave of absence by the Company or any Subsidiary or Affiliate to enter military service or because of sickness, the Participant's employment with the Company or such Subsidiary or Affiliate will not be considered terminated, and the Participant shall be deemed an employee of the Company or such Subsidiary or Affiliate during such leave of absence or any extension thereof granted by the Company or such Subsidiary or Affiliate. Notwithstanding the foregoing, in the case of an ISO, a leave of absence of more than 90 days will be viewed as a termination of employment unless continued employment is guaranteed by contract or statute.
- (v) **Incentive Stock Options**. Notwithstanding Sections 6(b)(iii) and 6(b)(iv), an ISO shall be exercisable by (A) a Participant's authorized legal representative (if the Participant is unable to exercise the ISO as a result of the Participant's Disability) only if, and to the extent, permitted by Section 422 of the Code and (B) by the Participant's estate, in the case of death, or authorized legal representative, in the case of Disability, no later than ten years from the date the ISO was granted (in addition to any other restrictions or limitations that may apply). Anything in the Plan to the contrary notwithstanding, no term or provision of the Plan relating to ISOs shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be exercised, so as to disqualify the Plan under Code Section 422 of the Code, or, without the consent of the Participants affected, to disqualify any ISO under Code Section 422.
- (c) **Stock Appreciation Rights**. SARs granted under the Plan shall be evidenced by an agreement ("**SAR Agreements**"). The Committee is authorized to grant SARs to Participants on the following terms and conditions:
- (i) **Right to Payment**. An SAR shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one share of Stock on the date of exercise over (B) the grant price of the SAR as determined by the Committee. The grant price of each SAR shall be not less than the Fair Market Value of a share of Stock on the Date of Grant of such SAR.
- (ii) **Other Terms**. The Committee shall determine the term of each SAR, provided that in no event shall the term of an SAR exceed a period of ten years from the Date of Grant. The Committee shall determine at the Date of Grant or thereafter, the time or times at which and the circumstances under which an SAR may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which Stock will be delivered or deemed to be delivered to Participants, whether or not an SAR shall be free-standing or in tandem or combination with any other Award. The Committee may require that an outstanding Option be exchanged for an SAR exercisable for Stock having vesting, expiration, and other terms substantially the same as the Option, so long as such exchange will not result in additional accounting expense to the Company.
- (d) **Restricted Stock**. Restricted Stock granted under the Plan shall be evidenced by an agreement ("**Restricted Stock Agreements**"). The Committee is authorized to grant Restricted Stock to Participants on the following terms and conditions:

- (i) Grant and Restrictions. Restricted Stock shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, which restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise and under such other circumstances as the Committee may determine at the Date of Grant, and which shall be set forth on the applicable Restricted Stock Agreement, or thereafter. Except to the extent restricted under the terms of the Plan and any Restricted Stock Agreement, a Participant granted Restricted Stock shall have all of the rights of a stockholder, including the right to vote the Restricted Stock and the right to receive dividends thereon; provided, however, that the Committee may require mandatory reinvestment of dividends in additional Restricted Stock, may provide that no dividends will be paid on Restricted Stock or retained by the Participant, or may impose other restrictions on the rights attached to Restricted Stock.
- (ii) Forfeiture. Except as otherwise determined by the Committee, upon termination of employment or service during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited and reacquired by the Company; provided that the Committee may provide, by rule or regulation or in any Restricted Stock Agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Stock will lapse in whole or in part, including in the event of terminations resulting from specified causes.
- (iii) Certificates for Stock. Restricted Stock granted under the Plan shall be evidenced in such manner as the Committee shall determine. Certificates representing Restricted Stock shall be registered in the name of the Participant and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to the Award of such Restricted Stock. The Company shall retain physical possession of the stock certificates until the time that the restrictions thereon have lapsed, and the Participant shall have delivered a stock power to the Company, endorsed in blank, relating to the Stock covered by such Restricted Stock.
- (iv) Dividends and Splits. As a condition to the grant of an Award of Restricted Stock, the Committee may require that any dividends paid on a share of Restricted Stock shall be either (A) paid with respect to such Restricted Stock at the dividend payment date in cash, in kind, or in a number of shares of unrestricted Stock having a Fair Market Value equal to the amount of such dividends, or (B) automatically reinvested in additional Restricted Stock or held in kind, which shall be subject to the same terms as applied to the original Restricted Stock to which it relates, or (C) deferred as to payment, either as a cash deferral or with the amount or value thereof automatically deemed reinvested in Stock Units, other Awards or other investment vehicles, subject to such terms as the Committee shall determine or permit a Participant to elect. Unless otherwise determined by the Committee, Stock distributed in connection with a Stock split or Stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Stock or other property has been distributed.
- (e) Stock Units. Stock Units granted under the Plan, whether or not subject to restrictions, shall be evidenced by an agreement (“**Stock Unit Agreement**”). The Committee is authorized to grant Stock Units to Participants, subject to the following terms and conditions:
 - (i) Award and Restrictions. Issuance of Stock will occur upon expiration of the holding period, if any, specified for the Stock Units by the Committee. In addition, Stock Units shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, which restrictions may lapse at the expiration of the holding period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, and under such other circumstances as the Committee may determine at the Date of Grant or thereafter. Stock Units may be settled by delivery of Stock, other Awards, or a combination thereof, as determined by the Committee at the Date of Grant or thereafter.

- (ii) **Forfeiture.** Except as otherwise determined by the Committee, upon termination of employment or service during the applicable deferral period or portion thereof to which forfeiture conditions apply (as provided in the Award document evidencing the Stock Units), all Stock Units that are at that time subject to such forfeiture conditions shall be forfeited; provided that the Committee may provide, by rule or regulation or in any Award document, or may determine in any individual case, that restrictions or forfeiture conditions relating to Stock Units will lapse in whole or in part, including in the event of terminations resulting from specified causes. Stock Units subject to a risk of forfeiture shall be designated as “**Restricted Stock Units**” unless otherwise determined by the Committee.
- (iii) **Dividend Equivalents.** Unless otherwise determined by the Committee, Dividend Equivalents on the specified number of shares of Stock underlying Stock Units shall be either (A) paid with respect to such Stock Units at the dividend payment date in cash or in shares of unrestricted Stock having a Fair Market Value equal to the amount of such dividends, or (B) deferred with respect to such Stock Units, either as a cash deferral or as a number of additional Stock Units with a value equal to the value of the Dividend Equivalents or with such value otherwise deemed reinvested in additional Stock Units, other Awards or other investment vehicles having a Fair Market Value equal to the amount of such dividends, as the Committee shall determine or permit a Participant to elect; provided, however, that the Committee may provide that no Dividend Equivalents will be paid on a given Award of Stock Units.
- (f) **Bonus Stock and Awards in Lieu of Obligations.** The Committee is authorized to grant to Participants Stock as a bonus, or to grant Stock or other Awards in lieu of obligations of the Company or a Subsidiary or Affiliate to pay cash or deliver other property under the Plan or under other plans or compensatory arrangements, subject to such terms as shall be determined by the Committee; provided, that such grants shall not be in lieu of prior promises to pay deferrals of compensation so that any Award under this Plan that would not otherwise be subject to Code Section 409A does not become subject to Code Section 409A due to a grant in lieu of other obligation of the Company, a Subsidiary or an Affiliate; provided further, that any payment of such Stock as a bonus shall be paid or transferred to the Participant on the March 15 of the calendar year following the calendar year in which the Participant earned the bonus.
- (g) **Other Stock-Based Awards.** The Committee is authorized, subject to limitations under applicable law, to grant to Participants such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Stock or factors that may influence the value of Stock, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Stock, purchase rights for Stock, Awards with value and payment contingent upon performance of the Company or business units thereof or any other factors designated by the Committee, and Awards valued by reference to the book value of Stock or the value of securities of or the performance of specified subsidiaries or affiliates or other business units. The Committee shall determine the terms and conditions of such Awards. Stock delivered pursuant to an Award in the nature of a purchase right granted under this Section shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, cash, Stock, other Awards, or other property, as the Committee shall determine. Cash awards, as an element of or supplement to any other Award under the Plan, may also be granted pursuant to this Section.

Section 7. Additional Provisions Applicable to Awards.

- (a) ***Stand-Alone, Additional, Tandem, and Substitute Awards.*** Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any Subsidiary or Affiliate, or any business entity to be acquired by the Company or a Subsidiary or Affiliate, or any other right of a Participant to receive payment from the Company or any Subsidiary or Affiliate. Awards granted in addition to or in tandem with other Awards or awards may be granted either as of the same time as or a different time from the grant of such other Awards. Subject to the Plan's terms, the Committee may determine that, in granting a new Award, the in-the-money value or fair value of any surrendered Award or award or the value of any other right to payment surrendered by the Participant may be applied to the purchase of any other Award; provided, that such surrender does not result in a "**modification**," "**extension**," or "**renewal**," of a Stock right, as determined under Code Section 409A, so that such Stock rights thereby become subject to the terms and conditions of Code Section 409A. Any transaction otherwise authorized under this Section 7(a) remains subject to all applicable restrictions under the Plan and may not result in an Award that is not otherwise subject to the terms and conditions of Code Section 409A becoming subject to the terms and conditions of Code Section 409A by virtue of such transaction; in such event, any transaction that would otherwise be permissible under this Section 7(a) shall be prohibited unless the Participant and the Company mutually agree in writing to subject an Award to Code Section 409A under this Section 7(a).
- (b) ***Form and Timing of Payment Under Awards; Deferrals.*** Subject to the terms of the Plan and any applicable Award Agreement, payments to be made by the Company or a Subsidiary or Affiliate upon the exercise of an Option or other Award or settlement of an Award may be made in such forms as the Committee shall determine, including, without limitation, cash, Stock, other Awards or other property, and may be made in a single payment or transfer, or in installments.
- (c) ***Certain Limitations on Awards to Ensure Compliance with Code Section 409A.***
- (i) ***409A Awards and Deferrals.*** Other provisions of the Plan notwithstanding, the terms of any "**409A Award**" (which for this purpose means only such an Award held by a Participant subject to United States federal income tax and which is subject to the terms and conditions of Code Section 409A), including any authority of the Company and rights of the Participant with respect to the 409A Award, shall be limited to those terms permitted under Code Section 409A, and any terms or conditions not permitted under Code Section 409A shall be automatically modified and limited to the extent necessary to conform said Award with Code Section 409A. The following rules will apply to 409A Awards:
- (A) If a Participant is permitted to elect to defer an Award or any payment under an Award, such election shall be permitted only at times in compliance with Code Section 409A (including transition rules thereunder);
- (B) The Company shall have no authority to accelerate or delay distributions relating to 409A Awards in excess of the authority permitted under Code Section 409A;

- (C) Any distribution of a 409A Award triggered by a Participant's termination of employment shall be made only at the time that the Participant has had a "*Separation from Service*" within the meaning of Code Section 409A (or at such earlier time preceding a termination of employment that there occurs another event triggering a distribution under the Plan or the applicable Award Agreement in compliance with Code Section 409A);
- (D) Any distribution of a 409A Award to a "**Specified Employee**," as determined under Code Section 409A, after Separation from Service, shall occur at the expiration of the six-month period following said Specified Employee's Separation from Service. In the case of installment payments, this six-month delay shall not affect the timing of any installment otherwise payable after the six-month delay period;
- (E) In the case of any distribution of a 409A Award, the time and form of payment for such distribution will be specified in the Award Agreement, which will be provided to the Participant in the manner provided for under Code Section 409A; provided that, if the time and form of payment for such distribution is not otherwise specified in the Plan or an Award Agreement or other governing document, the distribution shall be made in one lump sum amount on March 15 in the calendar year following the calendar year at which the settlement of the Award is specified to occur, any applicable restriction lapses, or there is no longer a substantial risk of forfeiture applicable to such amounts;
- (ii) Distribution upon Vesting. In the case of any Award providing for a distribution upon the lapse of a substantial risk of forfeiture, the time and form of payment for such distribution will be specified in the Award Agreement, which will be provided to the Participant in the manner provided for under Code Section 409A; provided that, if the timing and form of payment of such distribution is not otherwise specified in the Plan or an Award Agreement or other governing document, the distribution shall be made in one lump sum amount on March 15 of the calendar year following the calendar year in which the substantial risk of forfeiture lapses.
- (iii) Scope and Application of This Provision. For purposes of the Plan, references to a term or event (including any authority or right of the Company or a Participant) being "**permitted**" under Code Section 409A mean that the term or event will not cause the Participant to be deemed to be in constructive receipt of compensation relating to the 409A Award prior to the distribution of cash, shares or other property or to be liable for payment of interest or a tax penalty under Code Section 409A.

Section 8. Corporate Transactions.

- (a) **Corporate Transaction in which Awards are not Assumed**. Upon the occurrence of a Corporate Transaction in which outstanding Options, Share Appreciation Rights, Restricted Stock Awards, Stock Units, and Other Stock-Based Awards are not being assumed or continued:
 - (i) All outstanding shares of Restricted Stock shall be deemed to have vested, and all Stock Units shall be deemed to have vested and the shares of Stock subject thereto shall be delivered, immediately prior to the occurrence of such Corporate Transaction, and
 - (ii) Either of the following two actions shall be taken:

- (A) fifteen days prior to the scheduled consummation of a Corporate Transaction, all Options and Share Appreciation Rights outstanding hereunder shall become immediately exercisable and shall remain exercisable for a period of fifteen days, or
- (B) the Committee may elect, in its sole discretion, to cancel any outstanding Awards of Options, Restricted Stock, Stock Units, and/or Share Appreciation Rights and pay or deliver, or cause to be paid or delivered, to the holder thereof an amount in cash or securities having a value (as determined by the Committee acting in good faith), in the case of Restricted Stock or Stock Units, equal to the formula or fixed price per share paid to holders of shares of Stock and, in the case of Options or Share Appreciation Rights, equal to the product of the number of shares of Stock subject to the Option or Share Appreciation Right (the “**Award Shares**”) multiplied by the amount, if any, by which (I) the formula or fixed price per share paid to holders of shares of Stock pursuant to such transaction exceeds (II) the Option Price or Share Appreciation Right Exercise Price applicable to such Award Shares.

With respect to the Company’s establishment of an exercise window, (i) any exercise of an Option or Share Appreciation Right during such fifteen-day period shall be conditioned upon the consummation of the event and shall be effective only immediately before the consummation of the event, and (ii) upon consummation of any Corporate Transaction, the Plan and all outstanding but unexercised Options and Share Appreciation Rights shall terminate. The Committee shall send notice of an event that will result in such a termination to all individuals who hold Options and Share Appreciation Rights not later than the time at which the Company gives notice thereof to its stockholders.

- (b) **Corporate Transaction in which Awards are Assumed.** The Plan, Options, Share Appreciation Rights, Restricted Stock Awards, Stock Units, and Other Stock-Based Awards theretofore granted shall continue in the manner and under the terms so provided in the event of any Corporate Transaction to the extent that provision is made in writing in connection with such Corporate Transaction for the assumption or continuation of the Options, Share Appreciation Rights, Restricted Stock Awards, Stock Units, and Other Stock-Based Awards theretofore granted, or for the substitution for such Options, Share Appreciation Rights, Restricted Stock Awards, Stock Units, and Other Stock-Based Awards for new common stock options and stock appreciation rights and new common stock units and restricted stock relating to the stock of a successor entity, or a parent or subsidiary thereof, with appropriate adjustments as to the number of shares (disregarding any consideration that is not common stock) and option and stock appreciation right exercise prices in accordance with the provisions of Sections 5(b) and 10(c).

Section 9. Additional Award Forfeiture Provisions.

The Committee may condition a Participant’s right to receive a grant of an Award, to exercise the Award, to receive a settlement or distribution with respect to the Award or to retain cash, Stock, other Awards, or other property acquired in connection with an Award, upon compliance by the Participant with specified conditions that protect the business interests of the Company and its Subsidiaries and Affiliates from harmful actions of the Participant, including conditions relating to non-competition, confidentiality of information relating to or possessed by the Company, non-solicitation of customers, suppliers, and employees of the Company, cooperation in litigation, non-disparagement of the Company and its Subsidiaries and Affiliates and the officers and directors of the Company and its Subsidiaries and Affiliates, and other restrictions upon or covenants of the Participant, including during specified periods following termination of employment or service to the Company. Accordingly, an Award Agreement may include terms providing for a “**clawback**” or forfeiture from the Participant of the profit or gain realized by a Participant in connection with an Award, including cash or other proceeds received upon sale of Stock acquired in connection with an Award.

Section 10. General Provisions.

(a) *Compliance with Legal and Other Requirements.*

- (i) The Company may, to the extent deemed necessary or advisable by the Committee, postpone the issuance or delivery of Stock or payment of other benefits under any Award until completion of such registration or qualification of such Stock or other required action under any federal or state law, rule or regulation, listing or other required action with respect to any stock exchange or automated quotation system upon which the Stock or other securities of the Company are listed or quoted, or compliance with any other obligation of the Company, as the Committee may consider appropriate, and may require any Participant to make such representations, furnish such information and comply with or be subject to such other conditions as it may consider appropriate in connection with the issuance or delivery of Stock or payment of other benefits in compliance with applicable laws, rules, and regulations, listing requirements, or other obligations. The foregoing notwithstanding, in connection with a Corporate Transaction, the Company shall take or cause to be taken no action, and shall undertake or permit to arise no legal or contractual obligation, that results or would result in any postponement of the issuance or delivery of Stock or payment of benefits under any Award or the imposition of any other conditions on such issuance, delivery or payment, to the extent that such postponement or other condition would represent a greater burden on a Participant than existed on the 90th day preceding the Corporate Transaction.
- (ii) If the Participant is subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended, the grant of this Option shall not be effective until such person complies with the reporting requirement of Section 16(a).

(b) *Limits on Transferability; Beneficiaries.*

- (i) Awards granted under the Plan shall not be transferable other than by will or by the laws of descent, and Options may be exercised as provided for under Section 6(b). A Beneficiary, transferee, or other person claiming any rights under the Plan from or through any Participant (except in the case of an Option which is governed by Section 6(b)) shall be subject to all terms and conditions of the Plan and any Award Agreement applicable to such Participant, except as otherwise determined by the Committee, and to any additional terms and conditions deemed necessary or appropriate by the Committee. Any attempted sale, pledge, assignment, hypothecation or other transfer of an Award contrary to the provisions hereof and the levy of any execution, attachment or similar process upon an Award shall be null and void and without force or effect and shall result in automatic termination of the Award.
- (ii) (A) As a condition to the transfer of any shares of Stock issued upon exercise of an Award granted under this Plan, the Company may require an opinion of counsel, satisfactory to the Company, to the effect that such transfer will not be in violation of the Securities Act of 1933 or any other applicable securities laws or that such transfer has been registered under federal and all applicable state securities laws; (B) further, the Company shall be authorized to refrain from delivering or transferring shares of Stock issued under this Plan until the Board determines that such delivery or transfer will not violate applicable securities laws and the Participant has tendered to the Company any federal, state or local tax owed by the Participant as a result of exercising the Award, or disposing of any Stock, when the Company has a legal liability to satisfy such tax; (C) the Company shall not be liable for damages due to delay in the delivery or issuance of any stock certificate for any reason whatsoever, including, but not limited to, a delay caused by listing requirements of any securities exchange or any registration requirements under the Securities Act of 1933, the Securities Exchange Act of 1934, or under any other state or federal law, rule or regulations; (D) the Company is under no obligation to take any action or incur any expense in order to register or qualify the delivery or transfer of shares of Stock under applicable securities laws or to perfect any exemption from such registration or qualification; and (E) furthermore, the Company will

have no liability to any Participant for refusing to deliver or transfer shares of Stock if such refusal is based upon the foregoing provisions of this Paragraph.

(c) ***Effect of Certain Changes.*** In the event of any merger, reorganization, consolidation, recapitalization, share dividend, share split, combination of shares or other change in corporate structure of the Company affecting the Stock, such substitution or adjustment shall be made in the aggregate number of Stock reserved for issuance under the Plan, in the number and option price of Stock subject to outstanding Options granted under the Plan, in the number and purchase price of Stock subject to outstanding Award Agreements granted under the Plan, including the number of SARs, the number of shares of Restricted Stock, and any other outstanding Awards granted under the Plan as may be approved by the Committee, in its sole discretion, but the number of Stock subject to any Award shall always be a whole number. Any fractional shares shall be eliminated. Notwithstanding the foregoing, any event that results in a reorganization, consolidation, recapitalization, share dividend, share split, combination of shares or other change in corporate structure of the Company that affects the Company's Stock, any substitution or adjustment of the number of shares of Stock underlying the applicable Award shall be done in accordance with Treasury Regulation Section 1.409A-1(b)(5), so that such Award does not result in an extension, modification, or renewal, as such terms are defined under Code Section 409A.

(d) ***Tax Provisions.***

(i) **Withholding.** The Committee shall so require, as a condition of exercise, each Participant to agree that: (A) no later than the date of exercise of any Option granted hereunder, the optionee will pay to the Company or make arrangements satisfactory to the Committee regarding payment of any federal, state or local taxes of any kind required by law to be withheld upon the exercise of such Option; and (B) the Company shall, to the extent permitted or required by law, have the right to deduct federal, state and local taxes of any kind required by law to be withheld upon the exercise of such Option from any payment of any kind otherwise due to the optionee. For withholding tax purposes, the shares of Stock shall be valued on the date the withholding obligations are incurred. The Company shall not be obligated to advise any optionee of the existence of any such tax or the amount that the Company will be so required to withhold.

(ii) **Required Consent to and Notification of Code Section 83(b) Election.** No election under Code Section 83(b) or under a similar provision of the laws of a jurisdiction outside the United States may be made unless expressly permitted by the terms of the Award Agreement or by action of the Committee in writing prior to the making of such election. In any case in which a Participant is permitted to make such an election in connection with an Award, the Participant shall notify the Company of such election within ten days of filing notice of the election with the Internal Revenue Service or other governmental authority, in addition to any filing and notification required pursuant to regulations issued under Code Section 83(b) or other applicable provision.

- (iii) Requirement of Notification upon Disqualifying Disposition under Code Section 421(b). If any Participant shall make any disposition of shares of Stock delivered pursuant to the exercise of an ISO under the circumstances described in Code Section 421(b) (i.e., a disqualifying disposition), such Participant shall notify the Company of such disposition within ten days thereof.
- (iv) Right to Contest. The Company shall have the right, but not the obligation, to contest, at its expense, any tax ruling or decision, administrative or judicial, on any issue which is related to the Plan and which the Board believes to be important to holders of Options issued under the Plan and to conduct any such contest or any litigation arising therefrom to a final decision.
- (e) ***Changes to the Plan***. The Board at any time and from time to time may suspend, terminate, modify or amend the Plan; provided, however, that any amendment that would: (i) materially increase the benefits accruing to Participants under the Plan, or (ii) increase the number of shares of Stock as to which Awards may be granted under the Plan or materially modify the requirements as to eligibility for participation in the Plan shall be subject to the approval of a majority of the stockholders of the Company presented or represented and entitled to vote at a duly constituted and held meeting of stockholders. Any such increase or modification that may result from adjustments authorized by Section 10(c) hereof shall not require such approval. Except as otherwise provided, no suspension, termination, modification or amendment of the Plan may adversely affect any Award previously granted, unless the written consent of the Participant is obtained.
- (f) ***Unfunded Status of Awards, Creation of Trusts***. The Plan is intended to constitute an “**unfunded**” plan for equity incentive compensation. With respect to any payments not yet made to a Participant or obligations to deliver Stock pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided that the Committee may authorize the creation of trusts and deposit therein cash, Stock, other Awards or other property, or make other arrangements to meet the Company’s obligations under the Plan. Such trusts or other arrangements shall be consistent with the “**unfunded**” status of the Plan unless the Committee otherwise determines.
- (g) ***Nonexclusivity of the Plan***. Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board or a committee thereof to adopt such other incentive or compensation arrangements, apart from the Plan, as it may deem desirable, including incentive or compensation arrangements and awards that do not qualify under Code Section 162(m) or to which Code Section 409A does apply, and such other arrangements may be either applicable generally or only in specific cases.
- (h) ***Payments in the Event of Forfeitures; Fractional Shares***. Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash consideration, the Participant shall be repaid the amount of such cash consideration. No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(i) ***Compliance with Code Section 162(m).***

- (i) It is the intent of the Company that Options and SARs granted to Covered Employees and other Awards designated as Awards to Covered Employees shall constitute qualified “**performance-based compensation**” within the meaning of Code Section 162(m) unless otherwise determined by the Committee at the time of the Award grant. The foregoing notwithstanding, because the Committee cannot determine with certainty whether a given Participant will be a Covered Employee with respect to a fiscal year that has not yet been completed, the term Covered Employee as used herein shall mean only a person designated by the Committee as likely to be a Covered Employee with respect to a specified fiscal year. If any provision of the Plan or any Award Agreement relating to an Award that is designated as intended to comply with Code Section 162(m) does not comply or is inconsistent with the requirements of Code Section 162(m), such provision shall be construed or deemed amended to the extent necessary to conform to such requirements, and no provision shall be deemed to confer upon the Committee or any other person discretion to increase the amount of compensation otherwise payable in connection with any such Award upon attainment of the applicable performance objectives.
- (ii) Notwithstanding any other provision of this Plan to the contrary, the Company may delay the payment of any amount otherwise due to the Participant under this Plan if the Company reasonably anticipates that its deduction resulting from such payment, either alone or in combination with any other amounts to be paid or provided to under any section of this Plan or any Award Agreement associated with the Plan, would be reduced or eliminated by the Code Section 162(m) deduction limitation; provided, however, that the Company shall make payments to the Participant at the earliest date at which the Company believes the Code Section 162(m) deduction limitation will no longer reduce or eliminate the Company’s deduction for such payments.
- (j) ***Governing Law.*** The validity, construction, and effect of the Plan, any rules and regulations relating to the Plan and any Award Agreement shall be determined in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of laws, and applicable provisions of federal law.
- (k) ***Limitation on Rights Conferred Under Plan.*** Neither the Plan nor any action taken hereunder shall be construed as (i) giving any Eligible Person or Participant the right to continue as an Eligible Person or Participant or in the employ or service of the Company or a Subsidiary or Affiliate, (ii) interfering in any way with the right of the Company or a Subsidiary or Affiliate to terminate any Eligible Person’s or Participant’s employment or service at any time (subject to the terms and provisions of any separate written agreements), (iii) giving an Eligible Person or Participant any claim to be granted any Award under the Plan or to be treated uniformly with other Participants and employees, or (iv) conferring on a Participant any of the rights of a stockholder of the Company unless and until the Participant is duly issued or transferred shares of Stock in accordance with the terms of an Award. Any Award shall not be deemed compensation for purposes of computing benefits under any retirement plan of the Company or any Subsidiary or Affiliate and shall not affect any benefits under any other benefit plan under which the availability or amount of benefits is related to the level of compensation (unless required by any such other plan or arrangement with specific reference to Awards under this Plan).
- (l) ***Termination of Right of Action.*** Every right of action arising out of or in connection with the Plan by or on behalf of the Company or of any Subsidiary or Affiliate, or by any stockholder of the Company or of any Subsidiary or Affiliate against any past, present or future member of the Board, or against any employer, or by an employee (past, present or future) against the Company or any Subsidiary or Affiliate will, irrespective of the place where an action may be brought and irrespective of the place of residence of any such stockholder, director or employee, cease and be barred as of the expiration of three years from the date of the act or omission in respect of which such right of action is alleged to have arisen.

- (m) **Assumption.** The terms and conditions of any outstanding Awards granted pursuant to this Plan shall be assumed by, be binding upon and inure to the benefit of any successor company to the Company and shall continue to be governed by, to the extent applicable, the terms and conditions of this Plan. Such successor Company shall not be otherwise obligated to assume this Plan.
- (n) **Severability; Entire Agreement.** If any of the provisions of this Plan or any Award document is finally held to be invalid, illegal or unenforceable (whether in whole or in part), such provision shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability, and the remaining provisions shall not be affected thereby; provided, that, if any of such provisions is finally held to be invalid, illegal, or unenforceable because it exceeds the maximum scope determined to be acceptable to permit such provision to be enforceable, such provision shall be deemed to be modified to the minimum extent necessary to modify such scope in order to make such provision enforceable hereunder. The Plan and any Award Agreements contain the entire agreement of the parties with respect to the subject matter thereof and supersede all prior agreements, promises, covenants, arrangements, communications, representations and warranties between them, whether written or oral with respect to the subject matter thereof. No rule of strict construction shall be applied against the Company, the Committee, or any other person in the interpretation of any terms of the Plan, Award, or agreement or other document relating thereto.
- (o) **Plan Effective Date.** The Plan will become effective if, and at such time as, the stockholders of the Company have approved it by the affirmative votes of the holders of a majority of the voting securities of the Company present, or represented, and entitled to vote on the subject matter at a duly held meeting of stockholders, provided that the total vote cast on the proposal represents over 50 percent in interest of all securities entitled to vote on the proposal. The date of such stockholder approval will be the Effective Date. Unless earlier terminated by action of the Board, the authority of the Committee to make grants under the Plan will terminate on the date that is ten years after the latest date upon which stockholders of the Company have approved the Plan and the Plan will remain in effect until such time as the Company has no further rights or obligations with respect to outstanding Awards or otherwise under the Plan.

(p) **Adoption.**

- (i) This Plan was approved by the Board of Directors of the Company at a meeting on October 9, 2007.
- (ii) This Plan was approved by the stockholders of the Company at a meeting on _____, 2007.

REEDS, INC.

By: _____
Christopher J. Reed
Chief Executive Officer

PROXY

**REED'S, INC.
ANNUAL MEETING
NOVEMBER 19, 2007**

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Christopher J. Reed and Judy Holloway Reed, and each or either of them, as proxyholders of the undersigned, with the full power to appoint their substitute, and hereby authorizes them to represent and vote, as designated on the reverse side hereof, all of the shares of the common stock of Reed's, Inc. held of record by the undersigned, which the undersigned may be entitled to vote, at the close of business on October 12, 2007, at the Annual Meeting of Stockholders of Reed's, Inc. to be held on November 19, 2007, and any continuation(s), postponement(s) or adjournment(s) thereof.

(Continued, and to be marked, dated and signed, on the other side.)

THIS PROXY, WHEN PROPERLY EXECUTED AND DATED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE FIVE DIRECTOR NOMINEES UNDER PROPOSAL 1, AND FOR PROPOSALS 2 AND 3, AND AT THE DISCRETION OF THE PROXIES WITH RESPECT TO ANY OTHER MATTERS THAT PROPERLY COME BEFORE THE MEETING. THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF THE NOMINEES UNDER PROPOSAL 1. TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK, AS FOLLOWS:

- (1) (INSTRUCTIONS: To withhold authority to vote for **FOR** all nominees **WITHHOLD** any individual nominee, strike a line through the listed herein (except **AUTHORITY** to nominee's name listed below) as marked up to the vote for all nominees contrary below). listed below.

01-Christopher J. Reed

02-Judy Holloway Reed

03-Mark Harris

04-Dr. D.S.J. Muffoletto, N.D.

05-Michael Fischman

- (2) To consider and vote upon an amendment to our certificate of incorporation to increase the authorized number of shares of common stock from 11,500,000 shares to 19,500,000 shares.
 FOR AGAINST ABSTAIN
- (3) To adopt our 2007 Stock Incentive Plan (the "2007 Plan") and to reserve up to 1,500,000 shares of common stock for issuance under the 2007 Plan.
 FOR AGAINST ABSTAIN

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY PROMPTLY USING THE ENCLOSED, PRE-PAID ENVELOPE.

Please date and execute this Proxy exactly as your name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by the president or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Dated: _____, 2007

Signature

Signature, if held jointly