LIFETIME BRANDS, INC
Form 10-Q
August 08, 2017
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: June 30, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______

Commission File Number: 0-19254

LIFETIME BRANDS, INC.

(Exact name of registrant as specified in its charter)

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

1000 Stewart Avenue, Garden City, New York, 11530

(Address of principal executive offices) (Zip Code)

(516) 683-6000

(Registrant s telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2017 was 14,798,440.

Table of Contents

LIFETIME BRANDS, INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2017

INDEX

		Page No.
Part I.	**Financial Information**	
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets June 30, 2017 (unaudited) and December 31, 2016	2
	Condensed Consolidated Statements of Operations (unaudited) Three and Six Months Ended June 30, 2017 and 2016	3
	Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited) Three and Six Months Ended June 30, 2017 and 2016	4
	Condensed Consolidated Statements of Cash Flows (unaudited) Six Months Ended June 30, 2017 and 2016	5
	Notes to Condensed Consolidated Financial Statements (unaudited)	6
	Review Report of Independent Registered Public Accounting Firm	22
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	36
Item 4.	Controls and Procedures	36
Part II.	**Other Information**	
Item 1.	Legal Proceedings	36
Item 1A.	Risk Factors	37
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 6.	Exhibits	38
Signatures		39

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LIFETIME BRANDS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,122	$ 7,883
Accounts receivable, less allowances of $4,349 at June 30, 2017 and $5,725 at December 31, 2016	67,509	104,556
Inventory (Note A)	167,428	135,212
Prepaid expenses and other current assets	8,088	8,796
Income taxes receivable (Note H)	4,279	
TOTAL CURRENT ASSETS	251,426	256,447
PROPERTY AND EQUIPMENT, net	20,650	21,131
INVESTMENTS (Note B)	25,170	22,712
INTANGIBLE ASSETS, net (Note C)	88,129	89,219
DEFERRED INCOME TAXES (Note H)	8,467	8,459
OTHER ASSETS	1,340	1,886
TOTAL ASSETS	$ 395,182	$ 399,854
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Current maturity of Credit Agreement Term Loan (Note D)	$	$ 9,343
Short term loan	121	113
Accounts payable	33,977	29,698
Accrued expenses	37,159	45,212
Income taxes payable (Note H)		6,920
TOTAL CURRENT LIABILITIES	71,257	91,286
DEFERRED RENT & OTHER LONG-TERM LIABILITIES	17,610	18,973
DEFERRED INCOME TAXES (Note H)	6,161	5,666
REVOLVING CREDIT FACILITY (Note D)	98,974	86,201
STOCKHOLDERS EQUITY		
Preferred stock, $1.00 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: 50,000,000 at June 30, 2017 and December 31, 2016; shares issued and outstanding: 14,797,690 at June 30, 2017 and 14,555,936 at December 31, 2016		148		146
Paid-in capital		176,488		173,600
Retained earnings		56,210		60,981
Accumulated other comprehensive loss (Note K)		(31,666)		(36,999)
TOTAL STOCKHOLDERS EQUITY		201,180		197,728
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	395,182	$	399,854

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

- 2 -

Table of Contents

LIFETIME BRANDS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Net sales	$ 117,393	$ 118,050	$ 230,749	$ 228,975
Cost of sales	74,596	75,056	144,011	145,430
Gross margin	42,797	42,994	86,738	83,545
Distribution expenses	12,582	12,377	26,015	25,694
Selling, general and administrative expenses	33,102	29,845	65,484	61,653
Restructuring expenses	254	1,060	254	1,701
Loss from operations	(3,141)	(288)	(5,015)	(5,503)
Interest expense (Note D)	(1,001)	(1,122)	(1,942)	(2,315)
Loss on early retirement of debt	(110)	(272)	(110)	(272)
Loss before income taxes and equity in earnings	(4,252)	(1,682)	(7,067)	(8,090)
Income tax benefit (Note H)	1,698	473	2,642	2,743
Equity in earnings (losses), net of taxes (Note B)	458	18	998	(132)
NET LOSS	$ (2,096)	$ (1,191)	$ (3,427)	$ (5,479)
BASIC LOSS PER COMMON SHARE (NOTE G)	$ (0.14)	$ (0.08)	$ (0.24)	$ (0.39)
DILUTED LOSS PER COMMON SHARE (NOTE G)	$ (0.14)	$ (0.08)	$ (0.24)	$ (0.39)
Cash dividends declared per common share	$ 0.0425	$ 0.0425	$ 0.085	$ 0.085

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

- 3 -

Table of Contents

LIFETIME BRANDS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Net loss	$ (2,096)	$ (1,191)	$ (3,427)	$ (5,479)
Other comprehensive income (loss), net of taxes:				
Translation adjustment	3,312	(3,076)	5,288	(4,755)
Derivative fair value adjustment	1	(4)	14	(47)
Effect of retirement benefit obligations	16	13	31	27
Other comprehensive income (loss), net of taxes	3,329	(3,067)	5,333	(4,775)
Comprehensive income (loss)	$ 1,233	$ (4,258)	$ 1,906	$ (10,254)

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,	
	2017	**2016**
OPERATING ACTIVITIES		
Net loss	$ (3,427)	$ (5,479)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,634	7,062
Amortization of financing costs	282	333
Deferred rent	(304)	(37)
Deferred income taxes		113
Stock compensation expense	1,530	1,290
Undistributed equity in (earnings) losses, net	(970)	132
Gain on disposal of fixed assets		(17)
Loss on early retirement of debt	110	272
Changes in operating assets and liabilities (excluding the effects of business acquisitions)		
Accounts receivable	37,950	7,562
Inventory	(30,769)	(16,357)
Prepaid expenses, other current assets and other assets	1,107	(1,359)
Accounts payable, accrued expenses and other liabilities	(5,291)	(3,748)
Income taxes receivable	(4,279)	(4,311)
Income taxes payable	(6,858)	(5,031)
NET CASH USED IN OPERATING ACTIVITIES	(4,285)	(19,575)
INVESTING ACTIVITIES		
Purchases of property and equipment	(2,710)	(1,091)
Proceeds from disposition of GSI		567
Acquisitions		(614)
NET CASH USED IN INVESTING ACTIVITIES	(2,710)	(1,138)
FINANCING ACTIVITIES		
Proceeds from Revolving Credit Facility	123,534	120,334
Repayments of Revolving Credit Facility	(110,937)	(79,206)
Repayment of Credit Agreement Term Loan	(9,500)	(20,500)
Proceeds from Short Term Loan	119	
Payments on Short Term Loan	(114)	(117)

Payments of financing costs	(30)	
Payments for capital leases	(49)	(32)
Payments of tax withholding for stock based compensation	(176)	(65)
Proceeds from exercise of stock options	1,425	1,191
Cash dividends paid (Note K)	(1,235)	(1,198)
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,037	20,407
Effect of foreign exchange on cash	197	(176)
DECREASE IN CASH AND CASH EQUIVALENTS	(3,761)	(482)
Cash and cash equivalents at beginning of period	7,883	7,131
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4,122	$ 6,649

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

Table of Contents

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(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, Fred and Friends, Built NY, Lifetime Sterling and The English Table internet websites.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, which consist only of normal recurring accruals, 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, 2016. Operating results for the three and six month periods ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

The Company s business and working capital needs are highly seasonal, with a majority of sales occurring in the third and fourth quarters. In 2016 and 2015, net sales for the third and fourth quarters accounted for 61% and 59% of total annual net sales, respectively. In anticipation of the pre-holiday shipping season, inventory levels increase primarily in the June through October time period.

Revenue recognition

The Company sells products wholesale, to retailers and distributors, and retail, directly to the consumer. Wholesale sales and retail sales are recognized when title passes to the customer, which is primarily at the shipping point for wholesale sales and upon delivery to the customer for retail sales. Shipping and handling fees that are billed to customers in sales transactions are included in net sales and amounted to $431,000 and $497,000 for the three months ended June 30, 2017 and 2016, respectively, and $992,000 and $1,033,000 for the six months ended June 30, 2017 and 2016, 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 wholesale customers from time to time in the normal course of business. These incentives and promotions typically include arrangements such as cooperative

advertising, buydowns, volume rebates and discounts. These arrangements and an estimate of sales returns are reflected as reductions in net sales in the Company s condensed consolidated statements of operations.

Cost of sales

Cost of sales consists 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.

Table of Contents

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(unaudited)

Accounts receivable

The Company periodically reviews the collectability of its accounts receivable and establishes allowances for estimated losses that could result from the inability of its customers to make required payments. A considerable amount of judgment is required to assess the ultimate realization of these receivables including assessing the initial and on-going creditworthiness of the Company s customers.

The Company also maintains an allowance for anticipated customer deductions. The allowances for deductions are primarily based on contracts with customers. However, in certain cases the Company does not have a formal contract and, therefore, customer deductions are non-contractual. To evaluate the reasonableness of non-contractual customer deductions, the Company analyzes currently available information and historical trends of deductions.

Receivable purchase agreement

The Company has an uncommitted Receivables Purchase Agreement with HSBC Bank USA, National Association (HSBC), as Purchaser (the Receivables Purchase Agreement). The sale of accounts receivable, under the Company s Receivable Purchase Agreement with HSBC, are reflected as a reduction of accounts receivable in the Company s condensed consolidated balance sheet at the time of sale and any related expense is included in selling, general and administrative expenses in the Company s condensed consolidated statements of operations. Pursuant to this agreement, the Company sold to HSBC $17.6 million and $39.2 million of Receivables during the three and six month periods ended June 30, 2017, respectively. A charge of $63,000 and $130,000 related to the sale of the Receivables is included in selling, general and administrative expenses in the condensed consolidated statement of operations for the three and six month periods ended June 30, 2017, respectively.

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 net realizable value. 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. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predicable cost of completion, disposal and transportation.

The components of inventory are as follows:

	June 30, 2017	December 31, 2016
	(in thousands)	
Finished goods	$ 164,645	$ 132,564
Work in process	1,612	1,521
Raw materials	1,171	1,127
Total	$ 167,428	$ 135,212

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, term loan and short term loan approximate fair value since such borrowings bear interest at variable market rates.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(unaudited)

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.

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 2016, to reduce costs and achieve synergies, the Company began the process of integrating its legal entities operating in Europe. During the three and six months ended June 30, 2017, the Company recorded $254,000, of restructuring expense related to the execution of this plan, primarily related to severance. The Company expects to incur approximately $0.7 million of additional restructuring charges in 2017 related to this integration.

In December 2015, the Company commenced an in-depth review of its U.S. Wholesale business segment, which included the evaluation of the segment s efficiency and effectiveness. The Company expanded this restructuring plan in the first quarter of 2016 to focus on more specific actions required to achieve the plan s objectives. During the three and six months ended June 30, 2016, the Company recorded $1.1 million and $1.7 million, respectively, of restructuring expense related to the execution of this plan.

Goodwill, intangible assets and long-lived assets

Goodwill and intangible assets deemed to have indefinite lives are not amortized but, instead, are subject to an annual impairment assessment. Additionally, if events or conditions were to indicate the carrying value of a reporting unit may not be recoverable, the Company would evaluate goodwill and other intangible assets for impairment at that time. As it relates to the goodwill assessment, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment testing described in ASU Topic No. 350, *Intangibles*

Goodwill and Other. If, after assessing qualitative factors, the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary and the Company s goodwill is considered to be unimpaired. However, if based on the Company s qualitative assessment it concludes that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, or if the Company elects to bypass the qualitative assessment, an unconditional option, the Company will proceed with performing the two-step process. The first step in the two-step process compares the carrying value of each reporting unit that has goodwill with the estimated fair value of the respective reporting unit. Should the carrying value of a reporting unit be in excess of the estimated fair value of that reporting unit, the second step must be performed. The second step represents a hypothetical purchase price allocation as if the Company had acquired the reporting unit on that date. The Company also evaluates qualitative factors to determine whether or not its indefinite lived intangibles have been impaired and then performs quantitative tests if required. These tests can include the relief from royalty model or other valuation models.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(unaudited)

Long-lived assets, including intangible assets deemed to have finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment indicators include, among other conditions, cash flow deficits, historic or anticipated declines in revenue or operating profit or material adverse changes in the business climate that indicate that the carrying amount of an asset may be impaired. When impairment indicators are present, the recoverability of the asset is measured by comparing the carrying value of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Employee healthcare

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

Adoption of new accounting pronouncements

Effective January 1, 2017, the Company adopted Accounting Standard Update (ASU) 2016-09, *Improvements to Employee Share-Based Payment Accounting.* This standard requires, on a prospective basis, all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. The standard also allows an employer to repurchase more of an employee s shares than is currently allowed for tax withholding purposes without triggering liability accounting, and allows companies to make a policy election to account for forfeitures as they occur. In connection with the adoption of this standard, the Company adopted a policy to account for forfeitures as they occur on a modified retrospective basis. The change in policy of accounting for forfeitures resulted in a $46,000 decrease to retained earnings, net of tax, which the company recorded as of January 1, 2017. Upon adoption of ASU 2016-09, on a prospective basis, excess tax benefits from share-based award activity will be presented as an operating activity in the Company s statement of cash flow.

Effective January 1, 2017, the Company adopted ASU 2015-11, *Inventory: Simplifying the Measurement of Inventory*, which affects reporting entities that measure inventory using either the first-in, first-out or average cost method. Specifically, the guidance requires that inventory be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. This adoption did not have a material impact on the Company s condensed consolidated financial statements.

Accounting pronouncements to be adopted in future periods

In January 2017, the Financial Accounting Standards Board (FASB) issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, to simplify the subsequent measurement of goodwill by eliminating the second step of the goodwill impairment test. Under this standard, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit s fair value. The loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This guidance is effective for interim and annual goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is evaluating the effect of adopting this pronouncement.

In January 2017, the FASB issued ASU 2017-01, *Clarifying the Definition of a Business*, to assist with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted for transactions not reported in financial statements that have been issued or made available for issuance.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(unaudited)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*, which reduces the diversity in practice on how certain transactions are classified in the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is evaluating the effect of adopting this pronouncement.

In February 2016, the FASB issued ASU 2016-02, *Leases,* which requires a lessee to initially recognize a lease liability for the obligation to make lease payments, and a right-of-use asset, for the right to use the underlying asset for the lease term, on the lessee s balance sheet. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within with those years, and is required to be applied using a modified retrospective approach at the beginning of the earliest period presented. Early adoption is permitted. The Company is in the process of evaluating the effect the guidance will have on its existing accounting policies and its consolidated financial statements, but expects there will be an increase in assets and liabilities on the consolidated balance sheets at adoption due to the recording of the right-of-use assets and corresponding lease liabilities, which may be material.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, issued as a new Topic, ASC Topic 606, to clarify the principles of recognizing revenue and create common revenue recognition guidance under U.S. GAAP and International Financial Reporting Standards. Following the FASB s finalization of a one year deferral of this standard, Topic 606 is now effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2016. Topic 606 can be adopted either retrospectively to each reporting period presented or as a cumulative effect adjustment as of the date of the adoption. The standard supersedes existing revenue recognition guidance and replaces it with a five step revenue model with a core principle that an entity recognizes revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In March 2016, the FASB issued Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* which clarifies the implementation guidance on principal versus agent considerations.

The Company intends to adopt the new guidance provided under Topic 606 on January 1, 2018, with a cumulative-effect adjustment to opening retained earnings under the modified retrospective approach. Currently, the Company recognizes revenue when title passes to customers and incentives and promotions are recognized as a reduction of revenue, which generally reflects the consideration the Company expects to receive in exchange for the goods sold. The Company s implementation of this ASU includes the evaluation of its customer agreements to identify terms or conditions that could be considered a performance obligation such that, if material to the terms of the contract, consideration would be allocated to the performance obligation and could accelerate or defer the timing of recognizing revenue. The Company continues to evaluate the presentation of certain contract costs (whether presented gross or offset against revenues) and its principal versus agent arrangements.

The Company s evaluation of the new guidance provided under Topic 606 is not yet complete; however, based on the nature of the Company s primary revenue sources and current policies, the Company does not expect a significant change in the timing and presentation of recognizing its revenue.

Table of Contents

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(unaudited)

NOTE B INVESTMENTS

The Company owns an approximately 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. 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, 2017 and 2016 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 18.05 and MXN 20.70 at June 30, 2017 and December 31, 2016, 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 18.54 and MXN 18.09 during the three months ended June 30, 2017 and 2016, respectively, and MXN 18.54 to MXN 20.30 and MXN 18.06 to MXN 18.07 during the six months ended June 30, 2017 and 2016, respectively. The effect of the translation of the Company s investment resulted in an increase to the investment of $1.8 million and a decrease to the investment of $1.7 million during the six months ended June 30, 2017 and 2016, respectively (also see Note K). These translation effects are recorded in accumulated other comprehensive income (loss). Included within prepaid expenses and other current assets at June 30, 2017 and December 31, 2016 are amounts due from Vasconia of $85,000 and $83,000, respectively. Included within accrued expenses and accounts payable at June 30, 2017 and December 31, 2016 are amounts due to Vasconia of $24,000 and $220,000, respectively.

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

	Three Months Ended June 30,			
	2017		2016	
	(in thousands)			
	USD	MXN	USD	MXN
Net sales	$ 41,736	$ 773,825	$ 37,854	$ 684,771
Gross profit	7,755	143,790	7,446	134,700
Income from operations	1,686	31,258	2,073	37,502
Net income	1,168	21,663	516	9,335

Six Months Ended
June 30,

	2017		2016	
	(in thousands)			
	USD	MXN	USD	MXN
Net Sales	$ 78,558	$ 1,521,320	$ 75,178	$ 1,357,349
Gross Profit	15,609	303,211	12,864	232,334
Income from operations	4,116	80,587	2,996	54,135
Net Income	2,402	46,706	736	13,294

The Company recorded equity in earnings of Vasconia of $458,000 and $998,000, net of taxes, for the three and six months ended June 30, 2017, respectively. The Company recorded equity in losses of Vasconia of $171,000 and $321,000, net of taxes, for the three and six months ended June 30, 2016, respectively. Due to the requirement to record tax benefits/expenses for foreign currency translation losses/gains through other comprehensive income (loss), with a corresponding adjustment to deferred tax liabilities, equity in earnings for the three and six months ended June 30, 2017 includes a deferred tax benefit of $0.1 million and $0.4 million, respectively. Equity in losses for the three and six months ended June 30, 2016 includes deferred tax expense of $0.3 million and $0.5 million, respectively.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(unaudited)

As of June 30, 2017 and December 31, 2016, the fair value (based upon Vasconia s quoted stock price) of the Company s investment in Vasconia was $34.0 million and $29.0 million, respectively. The carrying value of the Company s investment in Vasconia was $24.9 million and $22.5 million as of June 30, 2017 and December 31, 2016, respectively.

The Company evaluated the disclosure requirements of ASC Topic No. 860, *Transfers and Servicing*, and determined that at June 30, 2017, 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 C INTANGIBLE ASSETS

Intangible assets consist of the following (in thousands):

	June 30, 2017			December 31, 2016		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Goodwill	$ 14,839	$	$ 14,839	$ 14,201	$	$ 14,201
Indefinite-lived intangible assets:						
Trade names	7,616		7,616	7,616		7,616
Finite-lived intangible assets:						
Licenses	15,847	(9,149)	6,698	15,847	(8,919)	6,928
Trade names	31,763	(9,679)	22,084	31,150	(8,286)	22,864
Customer relationships	51,073	(14,569)	36,504	49,372	(12,188)	37,184
Other	1,150	(762)	388	1,266	(840)	426
Total	$ 122,288	$ (34,159)	$ 88,129	$ 119,452	$ (30,233)	$ 89,219

NOTE D DEBT

The Company s 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, and the other Lenders and Loan Parties party thereto, as amended, (the Credit Agreement), which expires in January 2019, provides for, among other things, a revolving credit facility commitment totaling $175.0 million, $40.0 million of which is available for multi-currency borrowings (the Revolving Credit Facility) and a term loan facility (the Term Loan).

At June 30, 2017 and December 31, 2016, borrowings outstanding under the Revolving Credit Facility were $99.0 million and $86.2 million, respectively, and open letters of credit were $2.8 million and $2.4 million, respectively. In April 2017, the Company repaid the $7.0 million outstanding balance under the Term Loan. As of June 30, 2017 and December 31, 2016, $0 and $9.5 million was outstanding under the Term Loan, respectively. At June 30, 2017 and December 31, 2016, unamortized debt issuance costs were $0 and $157,000, respectively.

At June 30, 2017, availability under the Revolving Credit Facility was approximately $62.8 million. The borrowing capacity under the Revolving Credit Facility depends, in part, on eligible levels of accounts receivable and inventory that fluctuate regularly, and certain trademark values based upon periodic appraisals, and may be lower in the first and second quarters when the Company s inventory level is lower due to seasonality.

The Company s payment obligations under the Revolving Credit Facility are unconditionally guaranteed by each of its existing U.S. subsidiaries and will be unconditionally guaranteed by each of its future U.S. subsidiaries.

Table of Contents

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(unaudited)

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

Interest rates on outstanding borrowings at June 30, 2017 ranged from 2.25% to 5.25%. In addition, the Company pays a commitment fee of 0.375% on the unused portion of the Revolving Credit Facility.

The 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 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 1.20 to 1.00 for each of four consecutive fiscal quarter periods. The Company was in compliance with the financial covenants of the Credit Agreement as of June 30, 2017.

NOTE E- DERIVATIVES

The Company is a party to interest rate swap agreements with an aggregate notional value of $10.5 million and $14.0 million, at June 30, 2017 and December 31, 2016, respectively, to manage interest rate exposure in connection with its variable interest rate borrowings. The hedge periods of these agreements commenced in March 2013 and expire in June 2018 and the notional amounts amortize over these periods. The interest rate swap agreements were designated as cash flow hedges under ASC Topic No. 815. The effective portion of the fair value gain or loss on these agreements is recorded as a component of accumulated other comprehensive income (loss).

The Company has also entered into certain foreign exchange contracts, primarily to offset the earnings impact related to fluctuations in foreign currency exchange rates associated with sales and inventory purchases denominated in foreign currencies. The aggregate gross notional value of foreign exchange contracts at June 30, 2017 and December 31, 2016 were $44.6 million and $38.3 million, respectively. These foreign exchange contracts have not been designated as hedges as required in order to apply hedge accounting. The changes in the fair value of these contracts are recorded in earnings immediately.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(unaudited)

The fair values of the Company s derivative financial instruments included in the condensed consolidated balance sheets are presented as follows (in thousands):

Derivatives designated as hedging instruments	Balance Sheet Location	June 30, 2017	December 31, 2016
Interest rate swaps	Prepaid expenses	$ 18	$
	Accrued expenses		4
	Deferred rent & other long-term liability		3

Derivatives not designated as hedging instruments	Balance Sheet Location	June 30, 2017	December 31, 2016
Foreign exchange contracts	Prepaid expenses and other current assets	$	$ 924
	Accrued expenses	814	

The fair value of the derivatives have been obtained from the counterparties to the agreements and were based on Level 2 observable inputs using proprietary models and estimates about relevant future market conditions.

The amounts of the gains and losses related to the Company s derivative financial instruments designated as hedging instruments are recognized in other comprehensive income (loss) as follows (in thousands):

Derivatives designated as hedging instruments	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Interest rate swaps	$ 1	$ (4)	$ 14	$ (47)

No amounts recorded in accumulated other comprehensive income (loss) are expected to be reclassified to interest expense in the next twelve months.

The amounts of the gains and losses related to the Company s derivative financial instruments not designated as hedging instruments are recognized in earnings as follows (in thousands):

Derivatives not designated as hedging instruments	Location of Gain (Loss) Recognized in Earnings on Derivatives	Three Months Ended June 30,		Six Months Ended June 30,	
		2017	2016	2017	2016
Foreign exchange contracts	Selling, general and administrative expense	$ (1,377)	$ 433	$ (1,566)	$ 867

NOTE F STOCK COMPENSATION

On June 22, 2017, the shareholders of the Company approved an amendment to the Company s Amended and Restated 2000 Long-Term Incentive Plan (the Plan). The Plan revised the terms and conditions of the Amended and Restated 2000 Long-Term Incentive Plan to increase the shares available for grant under the plan by 437,500 shares, permit certain awards under the Plan to continue to qualify for the exemption from the $1.0 million deduction limit under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), and include and clarify several features that promote good governance.

At June 30, 2017, there were 499,577 shares available for awards that could be granted under the Company s Amended and Restated 2000 Long-Term Incentive Plan.

Table of Contents

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(unaudited)

Option Awards

A summary of the Company s stock option activity and related information for the six months ended June 30, 2017 is as follows:

	Options	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
Options outstanding, January 1, 2017	1,775,400	$ 13.44		
Grants	125,750	17.38		
Exercises	(130,250)	12.12		
Cancellations	(24,700)	15.98		
Expirations	(7,000)	22.66		
Options outstanding, June 30, 2017	1,739,200	13.75	4.6	$ 8,114,000
Options exercisable, June 30, 2017	1,468,506	$ 13.17	4.0	$ 7,694,000

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, 2017. 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, 2017 and the exercise price.

The total intrinsic value of stock options exercised for the six month periods ended June 30, 2017 and 2016 was $0.9 million and $0.9 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, 2017, before the effect of income taxes, was $1.6 million and is expected to be recognized over a weighted-average period of 2.3 years.

Restricted Stock

A summary of the Company s restricted stock activity and related information for the six months ended June 30, 2017 is as follows:

	Restricted Shares	Weighted-average grant date fair value
Non-vested restricted shares, January 1, 2017	161,824	$ 15.35
Grants	130,352	18.33
Vested	(63,129)	15.40
Cancellations	(1,439)	15.14
Non-vested restricted shares, June 30, 2017	227,608	$ 17.05
Total unrecognized compensation expense remaining	$ 3,748,000	
Weighted-average years expected to be recognized over	3.0	

The total fair value of restricted stock that vested during the six months ended June 30, 2017 was $1.2 million.

Table of Contents

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(unaudited)

Performance shares

Each performance award represents the right to receive up to 150% of the target number of shares of common stock. The number of shares of common stock earned will be determined based on the attainment of specified performance goals by the end of the performance periods, as determined by the Compensation Committee. The shares are subject to the terms and conditions of the Plan.

A summary of the Company s performance-based award activity and related information for the six months ended June 30, 2017 is as follows:

	Performance-based awards (1)	Weighted-average grant date fair value
Non-vested performance-based awards, January 1, 2017	145,962	$ 15.32
Grants	87,000	18.45
Cancellations	(792)	15.17
Non-vested performance-based awards, June 30, 2017	232,170	$ 16.49
Total unrecognized compensation expense remaining	$ 2,511,000	
Weighted-average years expected to be recognized over	2.1	

(1) Represents the target number of shares to be issued for each performance-based award.

The Company recognized total stock compensation expense of $0.7 million for the three months ended June 30, 2017, of which $0.2 million represents stock option compensation expense and $0.5 million represents restricted stock and performance based compensation expense. For the six months ended June 30, 2017 the Company recognized total stock compensation expense of $1.5 million, of which $0.6 million represents stock option compensation expense, $0.9 million represents restricted stock and performance based compensation expense.

The Company recognized total stock compensation expense of $0.5 million for the three months ended June 30, 2016, of which $0.2 million represents stock option compensation expense and $0.3 million represents restricted stock and performance based compensation expense. For the six months ended June 30, 2016 the Company recognized total stock compensation expense of $1.3 million, of which $0.7 million represents stock option compensation expense, $0.6 million represents restricted stock and performance based compensation expense and $32,000 represents stock awards granted in 2016.

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 during the relevant period. 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, 2017 and 2016 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
	(in thousands, except per share amounts)			
Net loss basic and diluted	$ (2,096)	$ (1,191)	$ (3,427)	$ (5,479)
Weighted-average shares outstanding basic and diluted	14,456	14,155	14,426	14,059
Basic and diluted loss per common share	$ (0.14)	$ (0.08)	$ (0.24)	$ (0.39)

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(unaudited)

The computation of diluted loss per common share for the three and six months ended June 30, 2017 excludes 1,990,982 shares and 1,997,072 shares, respectively, related to options to purchase shares and other stock awards. The computation of diluted loss per common share for the three and six months ended June 30, 2016 excludes 2,084,767 shares and 2,187,139 shares, respectively, related to options to purchase shares and other stock awards. These shares, in each case, were excluded due to their antidilutive effect.

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, 2017 is a gross liability of tax and interest of $115,000. The Company believes that $54,000 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 2014. At June 30, 2017, the periods subject to examination for the Company s major state jurisdictions are the years ended 2013 through 2016.

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 month periods ended June 30, 2017 and 2016.

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. The Retail Direct segment is where the Company markets and sells a limited selection of its products directly to consumers through its Pfaltzgraff, Mikasa, Fred and Friends, Built NY and Lifetime Sterling internet websites.

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

Table of Contents

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
	(in thousands)			
Net sales				
U.S. Wholesale	$ 94,770	$ 92,738	$ 182,162	$ 175,006
International	19,365	21,560	40,593	45,233
Retail Direct	3,258	3,752	7,994	8,736
Total net sales	$ 117,393	$ 118,050	$ 230,749	$ 228,975
Loss from operations				
U.S. Wholesale	$ 3,712	$ 3,268	$ 5,947	$ 1,479
International	(3,743)	(382)&nbs		