

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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**LIFETIME BRANDS, INC.**

**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)

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
	(unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
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
<b>TOTAL CURRENT ASSETS</b>	<b>243,888</b>	<b>214,676</b>
<b>PROPERTY AND EQUIPMENT, net</b>	<b>27,127</b>	<b>27,698</b>
<b>INVESTMENTS (Note C)</b>	<b>37,407</b>	<b>36,948</b>
<b>INTANGIBLE ASSETS, net (Note D)</b>	<b>110,800</b>	<b>55,149</b>
<b>OTHER ASSETS</b>	<b>3,315</b>	<b>2,268</b>
<b>TOTAL ASSETS</b>	<b>\$ 422,537</b>	<b>\$ 336,739</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturity of Credit Agreement Term Loan (Note E)	\$ 10,000	\$
Current maturity of Senior Secured Term Loan (Note E)		3,937
Short term loan (Note E)	868	
Accounts payable	27,823	21,426
Accrued expenses	27,808	41,095
Income taxes payable (Note H)	333	3,036
<b>TOTAL CURRENT LIABILITIES</b>	<b>66,832</b>	<b>69,494</b>
<b>DEFERRED RENT &amp; OTHER LONG-TERM LIABILITIES</b>	<b>20,827</b>	<b>18,644</b>

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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
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock, \$.01 par value, shares authorized: 100 shares of Series A and 2,000,000 shares of Series B; none issued and outstanding		
Common stock, \$.01 par value, shares authorized: 25,000,000; shares issued and outstanding: 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)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>186,732</b>	<b>180,905</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 422,537</b>	<b>\$ 336,739</b>

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

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

(In thousands, except per share data)

(unaudited)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
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
<b>NET LOSS</b>	<b>\$ (3,202)</b>	<b>\$ (568)</b>	<b>\$ (6,131)</b>	<b>\$ (1,200)</b>
<b>BASIC LOSS PER COMMON SHARE (NOTE G)</b>	<b>\$ (0.24)</b>	<b>\$ (0.04)</b>	<b>\$ (0.46)</b>	<b>\$ (0.09)</b>
<b>DILUTED LOSS PER COMMON SHARE (NOTE G)</b>	<b>\$ (0.24)</b>	<b>\$ (0.04)</b>	<b>\$ (0.46)</b>	<b>\$ (0.09)</b>

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)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
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)

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>OPERATING ACTIVITIES</b>		
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)
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(7,403)</b>	<b>27,304</b>
<b>INVESTING ACTIVITIES</b>		
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	
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(69,669)</b>	<b>(1,992)</b>
<b>FINANCING ACTIVITIES</b>		
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)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>77,337</b>	<b>(25,826)</b>
Effect of foreign exchange on cash	17	(175)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>282</b>	<b>(689)</b>
Cash and cash equivalents at beginning of period	4,947	1,871
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 5,229</b>	<b>\$ 1,182</b>

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

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**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**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.

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

(unaudited)

**Cost of sales**

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

**Distribution expenses**

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

**Inventory**

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

The components of inventory are as follows:

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
	(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