LIFETIME BRANDS, INC
Form 10-K
March 31, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number: **0-19254**

LIFETIME BRANDS, INC.

(Exact name of registrant as specified in its charter)

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

1000 Stewart Avenue, Garden City, New York 11530

(Address of principal executive offices, including Zip Code)

(516) 683-6000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $.01 par value	**The NASDAQ Stock Market LLC**
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

x

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 o	Accelerated filer x
Non-accelerated filer (do not check if a smaller reporting company) o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

The aggregate market value of 9,861,790 shares of the voting stock held by non-affiliates of the registrant as of June 30, 2008 was approximately $80,000,000. Directors, executive officers, and trusts controlled by said individuals are considered affiliates for the purpose of this calculation and should not necessarily be considered affiliates for any other purpose.

The number of shares of common stock, par value $.01 per share, outstanding as of March 30, 2009 was 11,989,724.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the registrant's definitive proxy statement for the 2009 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 are incorporated by reference in Part III of this Annual Report.

LIFETIME BRANDS, INC.

FORM 10-K

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements include information concerning Lifetime Brands, Inc.'s (the "Company's") plans, objectives, goals, strategies, future events, future revenues, performance, capital expenditures, financing needs and other information that is not historical information. Many of these statements appear, in particular, under the headings *Business* and *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in Item 1 of Part I and Item 7 of Part II, respectively. When used in this Annual Report on Form 10-K, the words "estimates," "expects," "anticipates," "projects," "plans," "intends," "believes" 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 Annual 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 this Annual Report, including the risk factors discussed in Part I, Item 1A under the heading *Risk Factors*. Such risks, uncertainties and other important factors include, among others:

- Risks associated with indebtedness;
- Changes in general economic and business conditions which could affect customer payment practices or consumer spending;
- Customer risks;
- The Company's dependence on third-party foreign sources of supply and foreign manufacturing;
- Changes in demand for the Company's products and the success of new products;
- The level of competition in the Company's industry;
- Industry trends;
- Fluctuations in costs of raw materials;
- Increases in costs relating to manufacturing and transportation of products;
- Complexities associated with a multi-channel and multi-brand business;
- The Company's relationship with key licensors;
- Encroachments on the Company's intellectual property;
- The Company's relationship with key customers;
- Product liability claims or product recalls;
- The timing of delivery of products to customers;
- Departure of key personnel;
- Internal development of products by the Company's customers;

- Noncompliance with applicable regulations including the Sarbanes-Oxley Act of 2002;
- Risks associated with the Company’s Internet operations;
- Future acquisitions and integration of acquired businesses;
- Technological risks;
- Network security risks; and
- The seasonal nature of the Company’s business.

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.

OTHER INFORMATION

The Company is required to file its annual reports on Forms 10-K and quarterly reports on Forms 10-Q, and other reports and documents as required from time to time with the United States Securities and Exchange Commission (the "SEC"). The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information may be obtained with respect to the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding the Company's electronic filings with the SEC at *http://www.sec.gov*. The Company also maintains a website at *http://www.lifetimebrands.com* where users can access the Company's electronic filings free of charge.

PART I

Item 1. Business

OVERVIEW

The Company is one of North America's leading resources for nationally branded Food Preparation, Tabletop and Home Décor products. The Company markets its products under some of the most well-respected and widely-recognized brand names in the U.S. housewares industry including three of the four most recognized brands of "Kitchen Tool, Cutlery and Gadgets" according to the Home Furnishing News Brand Survey for 2007 - KitchenAid®, Farberware®, and Cuisinart®. The Company primarily targets moderate to premium price points through every major level of trade and generally markets several lines within each of its product categories under more than one brand. At the heart of the Company is a strong culture of innovation and new product development. The Company introduced over 4,600 new or redesigned products in 2008 and expects to introduce approximately 5,000 new or redesigned products in 2009.

The Company's three main product categories and the products offered within the product categories are as follows:

Food Preparation	**Tabletop**	**Home Décor**
Kitchenware	Flatware	Picture Frames
Cutlery & Cutting Boards	Dinnerware	Wall Décor
Pantryware & Spices	Giftware	Non-electric Lighting
Bakeware & Cookware	Glassware	Decorative Accessories
Fondues & Tabletop Entertaining	Tabletop Accessories	Seasonal Decorations
Functional Glassware	Crystal	Lawn & Garden Décor
	Serveware	
	Barware	

The Company markets several product lines within each of the Company's product categories and under each of the Company's brands. The Company sources a majority of its products from approximately 475 suppliers located primarily in the People's Republic of China. The Company produces a majority of its sterling silver products at a leased manufacturing facility in San German, Puerto Rico and fills spices and assembles spice racks at its owned Winchendon, Massachusetts distribution facility.

The Company's top ten brands and their respective product categories are:

Farberware®	Food Preparation and Tabletop
KitchenAid®	Food Preparation
Elements®	Home Décor
Mikasa®	Tabletop and Home Décor
Melannco®	Home Décor
Cuisinart®	Food Preparation and Tabletop
Pfaltzgraff®	Tabletop and Home Décor

Kamenstein®	Food Preparation
Wallace Silversmiths®	Tabletop and Home Décor
International® Silver Company	Tabletop and Home Décor

The Company sells its products to a diverse customer base including mass merchants, specialty stores, national chains, department stores, warehouse clubs, home centers, supermarkets and off-price retailers.

BUSINESS SEGMENTS

The Company has two reportable segments; the wholesale segment which is the Company's primary business that designs, markets and distributes its products to retailers and distributors, and the direct-to-consumer segment, through its Pfaltzgraff® and Mikasa® Internet websites and the Company's Pfaltzgraff® mail-order catalogs. During 2008, the Company also operated retail stores that were included in the direct-to-consumer segment, but the operations of these stores were ceased by December 31, 2008. The Company has segmented its operations in a manner that reflects how management reviews and evaluates the results of its operations. While both segments distribute similar products, the segments are distinct due to their different types of customers and the different methods used to sell, market and distribute the products.

Additional information regarding the Company's reportable segments is included in Note L of the Notes to the Consolidated Financial Statements.

ACQUISITIONS

Since 1995 the Company has completed the following 14 acquisitions that have expanded the Company's product offerings, allowed the Company to enter new product categories, and added brands:

Year	Company or assets acquired	Product categories
2008	Mikasa®	Tabletop and Home Décor
2007	Pomerantz®	Food Preparation
	Design for Living®	Food Preparation
	Gorham®	Tabletop
	Grupo Vasconia, S.A.B (formerly, Ekco S.A.B.) (29.99%)	Food Preparation and Tabletop
2006	Syratech	Tabletop and Home Décor
2005	Pfaltzgraff®	Tabletop and Food Preparation
	Salton	Tabletop
2004	Excel Importing Corp.	Food Preparation and Tabletop
2003	:USE®—Tools for Civilization	Bath hardware and accessories
	Gemco®	Food Preparation
2000	M. Kamenstein, Inc.	Food Preparation
1998	Roshco, Inc.	Food Preparation
1995	Hoffritz®	Food Preparation

RECENT ACQUISITION

Mikasa®

In June 2008, the Company acquired the business and certain assets of Mikasa, Inc. (“Mikasa®”) from Arc International SA. Mikasa® is a leading provider of dinnerware, crystal stemware, barware, flatware and decorative accessories. Mikasa® products are distributed through department stores, specialty stores and big box chains, as well as through the Internet.

CUSTOMERS

The Company’s products are sold in North America to a diverse customer base including mass merchants (such as Wal-Mart and Target), specialty stores (such as Bed Bath & Beyond), national chains (such as JC Penney, Kohl’s, and Sears), department stores (such as Macy’s), warehouse clubs (such as Costco, BJ’s Wholesale Club and Sam’s Club), home centers (such as Lowe’s), supermarkets (such as Stop & Shop and Kroger) and off-price retailers (such as TJX and Ross Stores).

The Company also operates Internet and catalog operations that sell the Company’s products directly to the consumer.

During the years ended December 31, 2008, 2007 and 2006, Wal-Mart Stores, Inc. (including Sam’s Club) accounted for 20%, 21% and 17% of net sales, respectively. No other customer accounted for 10% or more of the Company’s net sales during these periods. For the years ended December 31, 2008, 2007 and 2006, the Company’s ten largest customers accounted for 60%, 62% and 49% of net sales, respectively.

DISTRIBUTION

The Company operates the following distribution centers:

Location	Size (square feet)
Fontana, California	753,000
Robbinsville, New Jersey	700,000
York, Pennsylvania	473,000
Winchendon, Massachusetts	210,000
Medford, Massachusetts	5,590

The Company’s principal East Coast distribution center is the Robbinsville, New Jersey facility and the Company’s principal West Coast distribution center is the Fontana, California facility. In 2008, the Company consolidated two former West Coast distribution centers into the Fontana, California facility. The Company plans to vacate its York, Pennsylvania distribution center during 2009 and transfer the distribution to the Robbinsville, New Jersey facility and Fontana, California facility.

SALES AND MARKETING

The Company’s sales and marketing staff coordinate directly with the retailers to devise marketing strategies and merchandising concepts and to furnish advice on advertising and product promotion. The Company has developed several promotional programs for use in the ordinary course of business to promote sales throughout the year.

The Company's sales and marketing efforts are supported from its principal offices and showroom in Garden City, New York as well as showrooms in New York, New York; Medford, Massachusetts; Atlanta, Georgia; Bentonville, Arkansas; and Menomonee Falls, Wisconsin. The Company's sales and marketing staff at December 31, 2008 consisted of 235 salaried employees. The Company also distributes certain products through independent sales representatives who work on a commission basis.

The Company's largest retail customers are each serviced by an in-house team that includes representatives from the Company's sales, marketing, merchandising and product development departments. The Company generally collaborates with its largest retail customers and in many instances produces specific versions of the Company's product lines with exclusive designs and packaging for their stores.

SOURCES OF SUPPLY

The Company sources its products from approximately 475 suppliers located primarily in the People's Republic of China. The Company also sources products from suppliers in Hong Kong, the United States, Taiwan, Japan, India, Thailand, Italy, Indonesia, Korea, Vietnam, Germany, Czech Republic, Malaysia, Portugal, Colombia, Poland, Turkey, and Mexico. The Company's policy is to maintain several months of supply of inventory. Accordingly, the Company orders products substantially in advance of the anticipated time of their sale. While the Company does not have any formal long-term arrangements with any of its suppliers, in certain instances the Company places purchase orders for products several months in advance of receipt of orders from its customers. The Company's arrangements with most manufacturers allow for flexibility in modifying the quantity, composition and delivery dates of orders. All purchase orders issued by the Company are cancelable.

MANUFACTURING

The Company produces a majority of its sterling silver products at its leased manufacturing facility in San German, Puerto Rico and fills spices and assembles spice racks at its owned Winchendon, Massachusetts distribution facility.

COMPETITION

The markets for food preparation, tabletop and home décor products are highly competitive and include numerous domestic and foreign competitors, some of which are larger than the Company. The primary competitive factors in selling such products to retailers are consumer brand name recognition, quality, aesthetic appeal to consumers, packaging, breadth of product line, distribution capability, prompt delivery and selling price.

PATENTS

The Company owns 131 design and utility patents on the overall design of some of its products. The Company believes that the expiration of any of its patents would not have a material adverse effect on the Company's business.

BACKLOG

Backlog is not material to the Company's business because actual confirmed orders from the Company's customers are typically not received until close to the required shipment dates.

EMPLOYEES

At December 31, 2008, the Company had a total of 1,168 employees, 156 of whom are located in China. In addition, the Company employed 414 people on a part-time basis, predominately in its distribution centers. None of the Company’s employees are represented by a labor union. The Company considers its employee relations to be good.

REGULATORY MATTERS

Certain of the products the Company manufactures are subject to the jurisdiction of the U.S. Consumer Product Safety Commission. The Company’s spice container filling operation in Winchendon, Massachusetts is regulated by the Food and Drug Administration. The Company’s products are also subject to regulation under certain state laws pertaining to product safety and liability.

Item 1A. Risk Factors

The Company's business, operations, and financial condition are subject to various risks. Some of these risks are described below in no particular order. This section does not describe all risks that may be applicable to the Company, the Company's industry, or the Company's business, and it is intended only as a summary of certain material risk factors.

Risks associated with indebtedness.

The Company has substantial indebtedness. As of December 31, 2008, the Company's total indebtedness was $164.3 million, including $89.3 million under its $150 million secured credit facility which expires in April 2011 (the "Credit Facility") and $75 million of 4.75% Convertible Senior Notes due 2011 (the "Notes"). Borrowings under the Credit Facility are secured by all of the assets of the Company. Under the terms of the Credit Facility, the Company is required to satisfy certain financial covenants. In March 2008 and September 2008, the Company amended the Credit Facility in anticipation of its declining financial performance. At December 31, 2008, the Company was not in compliance with the financial covenants required by its Credit Facility. On each of February 12, 2009 and March 6, 2009, the Company entered into a forbearance agreement and amendment to the Credit Facility. On March 31, 2009, the Company entered into a waiver and amendment to the Credit Facility.

Increased financial leverage resulting from borrowings under the Credit Facility or a decline in the Company's financial performance could have a material adverse effect on the Company, including, but not limited to the following: (i) the Company's ability to obtain additional financing, working capital, capital expenditures, and general corporate or other purposes could be impaired, or any such financing may not be available on terms favorable to the Company; (ii) a substantial portion of the Company's cash flows could be required for debt service and, as a result, might not be available for its operations or other purposes; (iii) any substantial decrease in net operating cash flows could make it difficult for the Company to meet its debt service requirements or force the Company to modify its operations or sell assets; (iv) the Company's ability to withstand competitive pressures may be decreased; and (v) the Company's level of indebtedness may make the Company more vulnerable to economic downturns, and reduce its flexibility in responding to changing business, regulatory and economic conditions. The Company's ability to repay expected borrowings under its Credit Facility and the Notes, and to meet its other debt or contractual obligations (including compliance with applicable financial covenants) will depend upon the Company's future performance and its cash flows from operations, both of which are subject to prevailing economic conditions and financial, business, and other known and unknown risks and uncertainties, certain of which are beyond the Company's control.

The Company's business depends, in part, on factors affecting consumer spending that are out of the Company's control.

The Company's business depends on consumer demand for its products and, consequently, is sensitive to a number of factors that influence consumer spending, including general economic conditions, disposable consumer income, recession and inflation, incidents and fears relating to national security, terrorism and war, hurricanes, floods and other natural disasters, inclement weather, consumer debt, unemployment rates, interest rates, sales tax rates, fuel and energy prices, consumer confidence in future economic conditions and political conditions, and consumer perceptions of personal well-being and security, generally. Adverse changes in factors affecting discretionary

consumer spending such as those that occurred during 2008, has had a significant adverse effect on, and could continue to reduce consumer demand for the Company's products, change the mix of products the Company sells to a different mix with a lower average gross margin, slow inventory turnover and result in greater markdowns on inventory, thus reducing the Company's sales and harming its business and operating results.

Customer risks.

During the past several years, various retailers, including some of the Company's customers, have experienced significant changes and difficulties, including consolidation of ownership, restructurings, bankruptcies and liquidations. Consolidation of retailers or other events that eliminate the Company's customers could result in fewer stores selling the Company's products and could increase the Company's reliance on a smaller group of customers. In addition, if the Company's retailer customers experience significant problems in the future, including as a result of general weakness in the retail environment, the Company's sales may be reduced and the risk of extending credit to these retailers may increase. A significant adverse change in a customer relationship or in a customer's financial position could cause the Company to limit or discontinue business with that customer, require the Company to assume greater credit risk relating to that customer's receivables or limit the Company's ability to collect amounts related to previous purchases by that customer. These or other events related to the Company's significant customers could have an adverse effect on the Company's business, results of operations or financial condition.

Because most of the Company's vendors are located in foreign countries, the Company is subject to a variety of additional risks and uncertainties.

The Company's dependence on foreign vendors means, in part, that the Company may be affected by declines in the relative value of the U.S. dollar to other foreign currencies. Although substantially all of the Company's foreign purchases of products are negotiated and paid for in U.S. dollars, changes in currency exchange rates might negatively affect the profitability and business prospects of the Company's foreign vendors. This, in turn, might cause such foreign vendors to demand higher prices for products, hold up shipments to the Company, or discontinue selling to the Company, any of which could ultimately reduce the Company's sales or increase its costs.

The Company is also subject to other risks and uncertainties associated with changing economic and political conditions in foreign countries. These risks and uncertainties include import duties and quotas, increases in value added taxes, concerns over anti-dumping, work stoppages, economic uncertainties (including inflation), foreign government regulations, incidents and fears involving security, terrorism and wars, political unrest and other trade restrictions. The Company cannot predict whether any of the countries in which its products are currently manufactured or may be manufactured in the future will be subject to trade restrictions imposed by the U.S. or foreign governments or the likelihood, type or effect of any such restrictions. Any event causing a disruption or delay of imports from foreign vendors, including the imposition of additional import restrictions, restrictions on the transfer of funds and/or increased tariffs or quotas, or both, with respect to products for the home could increase the cost or reduce the supply of products available to the Company and adversely affect the Company's business, financial condition and operating results. Furthermore, some or all of the Company's foreign vendors' operations may be adversely affected by political and financial instability resulting in the disruption of trade from exporting countries, restrictions on the transfer of funds and/or other trade disruptions. Moreover, since the Company's vendors are typically small privately-owned businesses, the Company does not have access to its vendors' financial information to assess its vendors' liquidity. Accordingly, in light of recent economic events in the U.S. and the resulting impact on foreign economies, particularly in China, the Company is subject to the risk that the Company's vendors may become bankrupt or shut-down operations prior to fulfilling the Company's purchase requirements.

In addition, there is a risk that one or more of the Company's foreign vendors will not adhere to its compliance standards such as fair labor practices and prohibitions on child labor. Such circumstances might create an unfavorable impression of the Company's sourcing practices or the practices of some of its vendors that could harm the Company's image. Additionally, certain of the Company's major retail customers, including Wal-Mart Stores, Inc., routinely inspect its suppliers' facilities to determine their compliance with applicable labor laws. A determination by such customers that one or more of the Company's suppliers violate such standards could

jeopardize the Company's sales to such customers if the Company or the suppliers cannot effectively remedy any such violation in a timely manner. If any of these occur, the Company could lose sales, customer goodwill and favorable brand recognition, which could negatively affect the Company's business and operating results.

The Company must successfully anticipate changing consumer preferences and buying trends and manage its product line and inventory commensurate with customer demand.

The Company's success depends upon its ability to anticipate and respond to changing merchandise trends and customer demands in a timely manner. Consumer preferences cannot be predicted with certainty and may change between selling seasons. The Company must make decisions as to design, development, expansion and production of new and existing product lines. If the Company misjudges either the market for its products, the purchasing patterns of the end consumer, or the appeal of the design, functionality or variety of its product lines, the Company's sales may decline significantly, and it may be required to mark down certain products to sell the resulting excess inventory through liquidation channels at prices which can be significantly lower than the Company's normal wholesale prices, each of which would harm its business and operating results.

In addition, the Company must manage its inventory effectively and commensurate with customer demand. A substantial portion of the Company's inventory is sourced from vendors located outside the United States. The Company generally commits to purchasing products before it receives firm orders from its retail customers and frequently before trends are known. The extended lead times for many of the Company's purchases, as well as the development time for design and deployment of new products, may make it difficult for the Company to respond rapidly to new or changing trends. In addition, the seasonal nature of the Company's business requires it to carry a significant amount of inventory prior to the year-end holiday selling season. As a result, the Company is vulnerable to demand and pricing shifts and to misjudgments in the selection and timing of product purchases. If the Company does not accurately predict its customers' preferences and acceptance levels of its products, the Company's inventory levels may not be appropriate, and its business and operating results may be adversely impacted.

The Company faces intense competition from companies with similar brands or products and from companies in the retail industry.

The markets for food preparation, tabletop, and home décor products are highly competitive and include numerous domestic and foreign competitors, some of which are larger than the Company, have greater financial and other resources than the Company, and may have more established brand names in some or all of the markets the Company serves. The primary competitive factors in selling such products to retailers are consumer brand name recognition, quality, packaging, breadth of product line, distribution capability, prompt delivery in response to retail customers' order requirements, and ultimate price to the consumer.

The competitive challenges facing the Company include:

- anticipating and quickly responding to changing consumer demands better than the Company's competitors;
- maintaining favorable brand recognition and achieving end consumer perception of value;
- effectively marketing and competitively pricing the Company's products to consumers in diverse market segments and price levels; and
-

developing innovative, high-quality products in designs and styles that appeal to consumers of varying groups, tastes and price level preferences, and in ways that favorably distinguish the Company from its competitors.

In addition, the Company operates its catalog and Internet businesses under highly competitive conditions. The Company has numerous and varied competitors at the national and local levels. Competition is characterized by many factors, including product assortment, advertising, price, quality, service, location, reputation and credit availability. If the Company does not compete effectively with regard to these factors, its results of operations could be materially and adversely affected.

In light of the many competitive challenges facing the Company, the Company may not be able to compete successfully. Increased competition could adversely affect the Company's sales, operating results and business by forcing the Company to lower its prices or sell fewer units, which could reduce the Company's profitability.

The Company depends on key vendors for timely and effective sourcing of its products, and the Company is subject to various risks and uncertainties that may affect its vendors' ability to produce quality merchandise.

The Company sources most of its products from third-party suppliers with which the Company may have in many cases established long-term relationships. The Company's performance depends on its ability to have its products manufactured to the Company's designs and specifications in sufficient quantities at competitive prices. The Company has no contractual assurances of continued supply, pricing or access to products, and in general, vendors may discontinue selling to the Company at any time. The Company may not be able to acquire its products in sufficient quantities, with the quality assurance that the Company requires, and on terms acceptable to the Company.

The Company sources its products from approximately 475 suppliers located primarily in the People's Republic of China. The Company's three largest suppliers in China provided the Company with approximately 23% of the products it distributed in 2008. This concentration of sourcing is a risk to the Company's business. Furthermore, because the Company's product lines cover thousands of products, many products are produced for the Company by only one or two manufacturers. An interruption of supply from any of these manufacturers could also have an adverse impact on the Company's ability to fill orders on a timely basis.

Interruption of supply from any of the Company's suppliers, or the loss of one or more key vendors, could have a negative effect on the Company's business and operating results because the Company would be missing products that could be important to its assortment or to coordinated branded product lines, unless and until alternative supply arrangements are secured. The Company may not be able to develop relationships with new vendors, and products from alternative sources, if any, may be of a lesser quality and/or more expensive than those the Company currently purchases. Replacement of manufacturing sources would require long lead-times to assure the vendors' capability to manufacture to the Company's designs and specifications, maintain quality control and achieve the production levels the Company requires. In addition, some of the Company's customers demand a certain standard of shipping fulfillment (usually as a percentage of orders placed) and any disruption in the manufacturing of its products could result in the Company's failure to meet such standards.

The Company is also subject to certain risks, including risks relating to the availability of raw materials, labor disputes, union organizing activity, inclement weather, natural disasters, and general economic and political conditions that might limit the Company's vendors' ability to provide it with quality merchandise on a timely basis. For these or other reasons, one or more of the Company's vendors might not adhere to the Company's quality control standards and the Company might not identify the deficiency before products are shipped to its retail customers. The Company's vendors' failure to manufacture or ship quality merchandise in a timely and efficient manner could damage its reputation and that of brands offered by the Company and could lead to a loss or reduction in orders by the Company's retail customers and an increase in product liability claims or litigation.

High costs of raw materials and energy may result in increased operating expenses and adversely affect the Company's results of operations and cash flow.

Significant variations in the costs and availability of raw materials and energy may negatively affect the Company's results of operations. The Company's vendors purchase significant amounts of metals and plastics to manufacture the Company's products. They also purchase significant amounts of electricity to supply the energy required in their production processes. Rising cost of fuel may also increase transportation costs. The Company's results of operations have been and could in the future be significantly affected by increases in these costs. Price increases increase

the Company’s working capital needs and, accordingly, can adversely affect the Company’s liquidity and cash flow.

The Company must successfully manage the complexities associated with a multi-channel and multi-brand business.

The Company's business requires the development, marketing and production of a wide variety of products in its three product categories: Food Preparation, Tabletop and Home Décor. Within each of these categories, it is necessary to market several full lines of branded products targeting different price and prestige levels, and each of these branded lines must contain an assortment of products and accessories with matched designs and packaging which are often sold as sets. The Company's different product lines are sold under a variety of brand names, some of which are owned and some of which are licensed. Many of the Company's products are inherently of the type that consumers prefer to purchase as part of a branded, matched line. Accordingly, both for marketing reasons and the requirements of the Company's license agreements, the Company must maintain breadth of product lines and it must devote significant resources to developing and marketing new designs for the Company's product lines. The inability to maintain the breadth of the Company's product lines—whether due to vendor difficulties, design issues, retail orders for less than all of the products in a line, or other problems—could result in competitive disadvantages as well as the potential loss of valuable license arrangements.

In addition, the Company sells its products through several different distribution channels (mass merchants, specialty stores, national chains, department stores, warehouse clubs, home centers, supermarkets, off-price retailers, catalogs and the Internet) and the Company must manage the selective deployment of branded lines within these channels so as to achieve maximum revenue and profitability. Failure to properly align brands and product lines to the price and prestige levels associated with particular channels of distribution could result in product line failures, damage to the Company's reputation, and lost sales and profits.

Many of the Company's leading product lines are manufactured under licensed trademarks and any failure to retain such licenses on acceptable terms may have an adverse effect on the Company's business.

The Company promotes and markets some of its most successful product lines under trademarks the Company licenses from third-parties. Several of these license agreements are subject to termination by the licensor.

The Company's license agreement with Whirlpool Corporation allows it to design, manufacture and market an extensive range of food preparation products under the KitchenAid® brand name. Whirlpool Corporation may terminate this license for cause if the Company is in default or upon the occurrence of a change of control of the Company. In addition, Whirlpool Corporation may terminate the agreement if, based on certain statistical parameters, a customer survey conducted by it shows that customers are dissatisfied with the products the Company markets under the license. Products marketed under the KitchenAid® name accounted for a substantial portion of the Company's revenues in 2008. The Company may not be successful in maintaining or renewing the KitchenAid® license, which has significant commercial value to the Company, on terms that are acceptable to the Company or at all. The loss of the KitchenAid® license, or an increase in the royalties the Company pays under such license upon renewal, could have a material adverse affect on the Company's results of operations.

In addition, any of the licensors of the Company's trade names may encounter problems that would potentially diminish the prestige of the licensed trade names. In turn, this could negatively reflect on the Company's line of products that are marketed under the applicable trade name. In the event that this occurs with respect to one of the Company's leading product lines, the Company's sales and financial results may be adversely affected. In addition, certain of the Company's licenses have minimum sales requirements. If the Company is unable to achieve the minimum sales requirements under these licenses, the Company may incur a loss related to these licenses.

If the Company fails to adequately protect or enforce its intellectual property rights, competitors may produce and market products similar to the Company's. In addition, the Company may be subject to intellectual property litigation and infringement claims by third-parties.

The success of the Company's products is inherently dependent on new and original designs that appeal to consumer tastes and trends at various price and prestige levels. The Company's trademarks, service marks, patents, trade dress rights, trade secrets and other intellectual property are valuable assets that are critical to the Company's success. Although the Company attempts to protect its proprietary properties through a combination of trademark, patent and

trade secret laws and non-disclosure agreements, these laws and agreements may be insufficient. Although the Company has trademarks and certain patents issued or licensed to it for its products, the Company may not always be able to successfully protect or enforce its trademarks and patents against competitors or against challenges by others. The Company sources substantially all of its products from foreign vendors, and the ability to protect the Company's intellectual property rights in foreign countries may be far more difficult than in the United States. Many foreign jurisdictions provide less legal protection of intellectual property rights than the United States and it is difficult to even detect infringing products in such jurisdictions until they are already in widespread distribution. The costs of enforcing the Company's intellectual property may adversely affect its operating results.

In addition, the Company may be subject to intellectual property litigation and infringement claims, which could cause it to incur significant expenses or prevent the Company from selling its products. A successful claim of trademark, patent or other intellectual property infringement against the Company could adversely affect the Company's growth and profitability, in some cases materially. Others may claim that the Company's proprietary or licensed products are infringing their intellectual property rights, and the Company's products could be determined to infringe those intellectual property rights. The Company may be unaware of intellectual property rights of others that may cover some of its products. If someone claims that the Company's products infringe their intellectual property rights, any resulting litigation could be costly and time consuming and would divert the attention of management and key personnel from other business issues. The Company also may be subject to significant damages or injunctions preventing it from manufacturing, selling or using some aspect of the Company's products in the event of a successful claim of patent or other intellectual property infringement. Any of these adverse consequences could have a material adverse effect on the Company's business and profitability.

The Company has a single customer that accounted for 20% of its net sales in 2008.

During the years ended December 31, 2008, 2007 and 2006, Wal-Mart Stores, Inc. (including Sam's Club) accounted for 20%, 21% and 17% of the Company's net sales, respectively. Any material reduction of product orders by Wal-Mart Stores, Inc. could have significant adverse effects on the Company's business and operating results, including the loss of predictability and volume production efficiencies associated with such a large customer. In addition, any pressure by Wal-Mart Stores, Inc. to reduce the price of the Company's products could result in the reduction of the Company's operating margin.

If the Company's products are found to be defective, the Company's credibility and that of its brands may be harmed, market acceptance of the Company's products may decrease and the Company may be exposed to liability in excess of its product liability insurance coverage.

The marketing of certain of the Company's consumer products involve an inherent risk of product liability claims or recalls or other regulatory or enforcement actions initiated by the U.S. Consumer Product Safety Commission, by state regulatory authorities or through private causes of action. Any defects in products the Company markets could harm the Company's credibility, adversely affect its relationship with its customers and decrease market acceptance of the Company's products and the strength of the brand names under which the Company markets such products. In addition, potential product liability claims may exceed the amount of the Company's insurance coverage under the terms of the Company's policies. In the event that the Company is held liable for a product liability claim for which it is not insured, or for damages exceeding the limits of the Company's insurance coverage, such claim could materially damage the Company's business and its financial condition.

The Company's ability to deliver products to its customers in a timely manner and to satisfy its customers' fulfillment standards is subject to several factors, some of which are beyond the Company's control.

Retailers place great emphasis on timely delivery of the Company’s products for specific selling seasons and to fulfill consumer demand throughout the year. The Company cannot control all of the various factors that might affect product delivery to retailers. Vendor production delays, difficulties encountered in shipping from overseas as well as customs clearance are on-going risks of the Company’s business. The Company also relies upon third-party carriers for its product shipments from the Company’s warehouse facilities to customers, and it relies on the shipping arrangements the Company’s suppliers have made in the case of products shipped directly to retailers from the supplier. Accordingly, the Company is subject to risks, including labor disputes such as the West Coast port

strike of 2002; union organizing activity; inclement weather; natural disasters such as earthquakes, particularly with respect to the Company's West Coast distribution center; possible acts of terrorism; availability of shipping containers and increased security restrictions, associated with such carriers' ability to provide delivery services to meet the Company's shipping needs. Failure to deliver products in a timely and effective manner to retailers could damage the Company's reputation and brands and result in a loss of customers or reduced orders. In addition, any substantial increase in fuel costs would likely result in increased shipping expenses. Increased transportation costs and any disruption in the Company's distribution process, especially during the second half of the year, which is the Company's busiest selling period, could adversely affect the Company's business and operating results.

The Company's inability to attract and retain skilled personnel may negatively impact the Company's success.

The Company's success depends on its ability to identify, hire and retain skilled personnel. The Company's industry is characterized by a high level of employee mobility and aggressive recruiting among competitors for personnel with successful track records. The Company may not be able to attract and retain skilled personnel or may incur significant costs in order to do so. If Jeffrey Siegel, the Company's Chairman, President and Chief Executive Officer, were to leave the Company, it would have a material adverse effect on the Company.

The Company's customers' internal efforts to design and manufacture products may compete with similar products of the Company.

Some of the Company's existing and potential customers continuously evaluate whether to design and manufacture their own products or purchase them directly from outside vendors and distribute them under their own brand names. Although, based on the Company's past experience, such products usually target the lower price point portion of the market, if any of the Company's customers or potential customers pursue such options it may adversely affect the Company's business.

The Company's corporate compliance program cannot assure that it will be in complete compliance with all potentially applicable regulations, including the Sarbanes-Oxley Act of 2002.

As a publicly traded company, the Company is subject to significant regulations, including the Sarbanes-Oxley Act of 2002. In connection with the Company's and the Company's independent registered public accounting firm's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, neither the Company nor its independent registered public accounting firm identified any deficiencies in the Company's internal control over financial reporting that constituted a "material weakness" as defined by the Public Company Accounting Oversight Board. The Company cannot assure that it will not find material weaknesses in the future or that the Company's independent registered public accounting firm will conclude that the Company's internal control over financial reporting is operating effectively.

The Company experiences business risks as a result of the Company's Internet business.

The Company competes with Internet businesses that handle similar lines of merchandise. These competitors have certain advantages, including the inapplicability of sales tax. As a result, increased Internet sales by the Company's competitors could result in increased price competition and decreased margins adversely affecting the Company's Internet business as well as the Company's wholesale business. The Company's Internet operations are subject to numerous risks, including reliance on third-party providers and online security breaches and/or credit card fraud. The Company's inability to effectively address these risks and any other risks that it faces in connection with its Internet business could adversely affect the profitability of the Company's Internet business.

The Company may not be able to successfully identify, manage or integrate future acquisitions.

Since 1995 the Company has completed fourteen acquisitions. Although the Company has grown significantly through acquisitions and intends to continue to pursue additional selective acquisitions in the future, the Company may not be able to identify appropriate acquisition candidates or, if it does, it may not be able to successfully negotiate the terms of an acquisition, finance the acquisition or integrate the acquired business effectively and profitably into the Company’s existing operations. Integration of an acquired business could disrupt the Company’s business by diverting management away from day-to-day operations. Furthermore, failure to successfully integrate any acquisition may cause significant operating inefficiencies and could adversely affect the Company’s profitability.

The Company may not be able to adapt quickly enough to changing customer requirements and e-commerce industry standards.

Technology in the e-commerce industry changes rapidly. The Company may not be able to adapt quickly enough to changing customer requirements and preferences and e-commerce industry standards. These changes and the emergence of new e-commerce industry standards and practices could render the Company's existing websites obsolete.

Government regulation of the Internet and e-commerce is evolving and unfavorable changes could harm the Company's business.

The Company is subject to general business regulations and laws, as well as regulations and laws specifically governing the Internet and e-commerce. Such existing and future laws and regulations may impede the growth of the Internet or other online services. These regulations and laws may cover taxation, user privacy, data protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, the provision of online payment services, broadband residential Internet access, and the characteristics and quality of products and services. It is not clear how existing laws governing issues such as property ownership, sales and other taxes, and personal privacy apply to the Internet and e-commerce. Unfavorable resolutions of these issues would harm the Company's business. This could, in turn, diminish the demand for the Company's products on the Internet and increase the Company's cost of doing business.

The Company's business is subject to technological risks.

The Company relies on several different information technology systems for the operation of its principal business functions, including the Company's enterprise, warehouse management, inventory and re-ordering and call center systems. In the case of the Company's inventory forecast and re-ordering system, most of the Company's orders are received directly through electronic connections with the Company's largest customers. The failure of any one of these systems could have a material adverse effect on the Company's business and results of operations.

The Company's business may be adversely affected if the Company's network security is compromised.

The Company has made significant efforts to secure its computer network. However, the Company's computer network could be compromised and confidential information such as customer credit card information could be misappropriated. This could lead to adverse publicity, loss of sales and profits, or cause the Company to incur significant costs to reimburse third-parties for damages which could impact profits. Although, the Company has upgraded its systems and procedures to meet the Payment Card Industry ("PCI") data security standards, failure by the Company to maintain compliance with the PCI data security requirements or rectify a security issue may result in fines and the imposition of restrictions on the Company's ability to accept payment cards.

The Company's quarterly results of operations might fluctuate due to a variety of factors, including ordering patterns of the Company's customers and the seasonality of the Company's business.

The Company's quarterly results have fluctuated in the past and may fluctuate in the future, depending upon a variety of factors, including, but not limited to the ordering patterns and timing of promotions of the Company's major retail customers, which may differ significantly from period to period or from the Company's original forecasts. A significant portion of the Company's revenues and net earnings historically have

been realized during the second half of the calendar year, as order volume from the Company’s retail customer base reaches its peak as the Company’s customers increase their inventories for the end of year holiday season. If, for any reason, the Company were to realize significantly lower-than-expected sales during the September through December selling season, the Company’s business and results of operations would be materially adversely affected.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The following table describes the principal properties at which the Company operated its business at December 31, 2008:

Location	Description	Size (square feet)	Owned/ Leased
Fontana, California	Principal West Coast warehouse and distribution facility	753,000	Leased
Robbinsville, New Jersey	Principal East Coast warehouse and distribution facility	700,000	Leased
York, Pennsylvania (1)	Warehouse and distribution facility	473,000	Leased
Winchendon, Massachusetts	Warehouse and distribution facility, and spice packing line	210,000	Owned
Garden City, New York	Corporate headquarters/main showroom	114,000	Leased
Medford, Massachusetts	Offices, showroom, warehouse and distribution facility	69,000	Leased
York, Pennsylvania	Offices	60,000	Leased
San German, Puerto Rico	Sterling silver manufacturing facility	55,000	Leased
New York, New York (2)	Showrooms	37,000	Leased
Guangdong, China	Offices	18,000	Leased
Atlanta, Georgia	Showrooms	11,000	Leased
Shanghai, China	Offices	11,000	Leased
Bentonville, Arkansas	Showroom & offices	7,000	Leased

Note:

(1) The Company plans to vacate this facility in 2009.

(2) In early 2009, the Company vacated a New York showroom consisting of 26,000 square feet.

Item 3. Legal Proceedings

The Company has, from time to time, been involved in various legal proceedings. The Company believes that all current litigation is routine in nature and incidental to the conduct of its business, and that none of this litigation, if determined adversely to it, would have a material adverse effect on the Company’s consolidated financial position, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

None

PART II

Item 5. Market For The Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) The Company's common stock is traded under the symbol "LCUT" on The NASDAQ Global Select Market ("NASDAQ").

The following table sets forth the high and low sales prices for the common stock of the Company for the fiscal periods indicated as reported by NASDAQ.

	2008		**2007**	
	High	**Low**	**High**	**Low**
First quarter	$13.37	$ 8.51	$20.94	$16.41
Second quarter	9.95	6.70	23.43	20.00
Third quarter	10.86	6.94	21.27	17.77
Fourth quarter	10.02	3.00	21.15	11.95

At December 31, 2008, the Company estimates that there were approximately 2,290 beneficial holders of the Company's common stock.

The Company is authorized to issue 100 shares of Series A Preferred stock and 2,000,000 shares of Series B Preferred stock, none of which is issued or outstanding.

The Company paid quarterly cash dividends of $0.0625 per share, or a total annual cash dividend of $0.25 per share, on its common stock during 2008 and 2007. In February 2009, in light of current economic conditions, the Company suspended paying a cash dividend on its outstanding common shares. The Company will review this decision as circumstances may warrant.

The following table summarizes the Company's equity compensation plan as of December 31, 2008:

Plan category	**Number of shares of common stock to be issued upon exercise of outstanding options**	**Weighted-average exercise price of outstanding options**	**Number of shares of common stock remaining available for future issuance**

Equity compensation plan approved by security holders	2,036,650	$ 20.41	11,031
Equity compensation plan not approved by security holders			
Total	2,036,650	$ 20.41	11,031

PERFORMANCE GRAPH

The following chart compares the cumulative total return on the Company's common stock with the NASDAQ Market Index and the Hemscott Group Index for Housewares & Accessories. The comparisons in this chart are required by the SEC and are not intended to forecast or be indicative of the possible future performance of the Company's common stock.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN

AMONG LIFETIME BRANDS, INC.,

NASDAQ MARKET INDEX AND HEMSCOTT GROUP INDEX (1)

Date	Lifetime Brands, Inc.	Hemscott Group Index	NASDAQ Market Index
12/31/2003	$100.00	$100.00	$100.00
12/31/2004	95.66	104.52	108.41
12/31/2005	125.96	102.77	110.79
12/31/2006	101.24	127.61	122.16
12/31/2007	81.03	110.73	134.29

12/31/2008	22.88	47.21	79.25

Note:

(1) The chart assumes $100 was invested on December 31, 2003 and dividends were reinvested. Measurement points are at the last trading day of each of the fiscal years ended December 2008, 2007, 2006, 2005 and 2004. The material in this chart is not soliciting material, is not deemed filed with the Securities and Exchange Commission and is not incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether or not made before or after the date of this Annual Report on Form 10-K and irrespective of any general incorporation language in such filing. A list of the companies included in the Hemscott Group Index will be furnished by the Company to any stockholder upon written request to the Chief Financial Officer of the Company.

(c) In 2007, the Board of Directors of the Company authorized a program to repurchase up to $40.0 million of the Company's common stock through open market purchases or privately-negotiated transactions. As of December 31, 2008, the Company had purchased in the open market and retired a total of 1,362,505 shares of its common stock for a total cost of $22.7 million under the program. There were no purchases during 2008. In March 2009, the Board of Directors of the Company terminated the program.

Item 6. Selected Financial Data

The selected consolidated statement of operations data for the years ended December 31, 2008, 2007 and 2006, and the selected consolidated balance sheet data as of December 31, 2008 and 2007, have been derived from the Company's audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected consolidated statement of income data for the years ended December 31, 2005 and 2004, and the selected consolidated balance sheet data at December 31, 2006, 2005 and 2004, have been derived from the Company's audited consolidated financial statements included in the Company's Annual Reports on Form 10-K for those respective years, which are not included in this Annual Report on Form 10-K.

This information should be read together with the discussion in *Management's Discussion and Analysis of Financial Condition and Results of Operations* and the Company's consolidated financial statements and notes to those statements included elsewhere in this Annual Report on Form 10-K.

	Year ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
STATEMENT OF OPERATIONS DATA (1)	(in thousands, except per share data)				
Net sales	$487,935	$493,725	$457,400	$307,897	$189,458
Cost of sales	303,535	288,997	265,749	178,295	111,497
Distribution expenses	57,695	53,493	49,729	34,539	22,830
Selling, general and administrative expenses	131,226	128,527	112,122	69,891	40,282
Goodwill and intangible asset impairment	29,400				
Restructuring expenses	17,992	1,924			
Income (loss) from operations	(51,913)	20,784	29,800	25,172	14,849
Interest expense	(9,142)	(8,397)	(4,576)	(2,489)	(835)
Other income, net		3,935	31	73	60
Income (loss) before income taxes and equity in earnings of Grupo Vasconia, S.A.B.	(61,055)	16,322	25,255	22,756	14,074
Income tax benefit (provision)	10,540	(7,430)	(9,723)	(8,647)	(5,602)
Equity in earnings of Grupo Vasconia, S.A.B., net of taxes	1,486				
Net income (loss)	$ (49,029)	$ 8,892	$ 15,532	$ 14,109	$ 8,472
Basic income (loss) per common share	$ (4.09)	$ 0.69	$ 1.18	$ 1.25	$ 0.77
Weighted-average shares outstanding – basic	11,976	12,969	13,171	11,283	10,982
Diluted income (loss) per common share	$ (4.09)	$ 0.68	$ 1.14	$ 1.23	$ 0.75
Weighted-average shares outstanding – diluted	11,976	13,099	14,716	11,506	11,226
Cash dividends per common share	$ 0.25	$ 0.25	$ 0.25	$ 0.25	$ 0.25

	December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
BALANCE SHEET DATA (1)	(in thousands)				
Current assets	$232,678	$228,078	$231,633	$155,750	$103,425
Current liabilities	149,981	71,283	89,727	69,907	52,913
Working capital	82,697	156,795	141,906	85,843	50,512
Total assets	341,781	371,415	343,064	222,648	157,217
Short-term borrowings	89,300	13,500	21,500	14,500	19,400
Long-term debt		55,200	5,000	5,000	5,000
Convertible notes	75,000	75,000	75,000		
Stockholders' equity	90,373	147,240	161,611	140,487	92,938

Note:

(1) The Company acquired the business and certain assets of the following in the respective years noted which affects the comparability of the periods: Excel Importing Corp. in July 2004, Pfaltzgraff® in July 2005, Salton in September 2005, Syratech in April 2006, Pomerantz® and Design for Living® in April 2007, Gorham® in July 2007, 29.99% interest in Grupo Vasconia, S.A.B. in December 2007 and Mikasa® in June 2008.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements for the Company and notes thereto set forth in Item 8. This discussion contains forward-looking statements relating to future events and the future performance of the Company based on the Company's current expectations, assumptions, estimates and projections about it and the Company's industry. These forward-looking statements involve risks and uncertainties. The Company's actual results and timing of various events could differ materially from those anticipated in such forward-looking statements as a result of a variety of factors, as more fully described in this section and elsewhere in this Annual Report. The Company undertakes no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

ABOUT THE COMPANY

The Company is one of North America's leading resources for nationally branded food preparation, tabletop and home décor products. The Company's three major product categories are Food Preparation, Tabletop and Home Décor. The Company markets several product lines within each of these product categories and under each of the Company's brands, primarily targeting moderate to premium price points, through every major level of trade. The Company's competitive advantage is based on strong brands, an emphasis on innovation and new product development and excellent sourcing capabilities. The Company owns or licenses a number of the leading brands in its industry including Farberware®, KitchenAid®, Cuisinart®, Pfaltzgraff® and Mikasa®. Historically, the Company's sales growth has come from expanding product offerings within the Company's current categories by developing existing brands, and acquiring new brands and product categories. Key factors in the Company's growth strategy have been, and will continue to be, the selective use and management of the Company's strong brands, and the Company's ability to provide a steady stream of new products and designs. A significant element of this strategy is the Company's in-house design and development team that creates new products, packaging and merchandising concepts.

EFFECTS OF THE CURRENT ECONOMIC ENVIRONMENT

The Company’s financial performance in 2008 was negatively affected by unfavorable global economic conditions. Continued or further deteriorating economic conditions would likely have an adverse impact on the Company’s sales volumes, pricing levels and profitability in 2009. As economic conditions change, trends in discretionary consumer spending also become unpredictable and subject to reductions due to uncertainties about the future. If consumers reduce discretionary spending, purchases of the Company’s products may also decline. A general reduction in consumer discretionary spending due to the recession or uncertainties regarding future economic prospects could continue to have a material adverse effect on the Company’s financial condition and results of operations.

BUSINESS SEGMENTS

The Company operates in two reportable business segments; the wholesale segment which is the Company's primary business that designs, markets and distributes its products to retailers and distributors, and the direct-to-consumer segment, through its Pfaltzgraff® and Mikasa® Internet websites and the Company's Pfaltzgraff® mail-order catalogs. During 2008, the Company also operated retail stores utilizing the Pfaltzgraff® and Farberware® names that were included in the direct-to-consumer segment. However, the Company ceased operating these retail stores by December 31, 2008.

RESTRUCTURING ACTIVITIES

In 2008, the Company recognized $18.0 million in pre-tax charges in connection with the retail store closings and other restructuring activities consisting of non-cash fixed asset impairment charges, store lease obligations, employee related expenses and other related costs.

GOODWILL AND INTANGIBLE ASSET IMPAIRMENT

The Company recognized a non-cash goodwill impairment charge of $27.4 million and a non-cash impairment charge related to certain intangible assets of $2.0 million at December 31, 2008 in accordance with Statement of Financial Accounting Standard ("SFAS") No.142, *Goodwill and Other Intangible Assets*.

MIKASA® ACQUISITION

In June 2008, the Company acquired the business and certain assets of Mikasa, Inc. ("Mikasa®") from Arc International SA. Mikasa® is a leading provider of dinnerware, crystal stemware, barware, flatware and decorative accessories. Mikasa® products are distributed through department stores, specialty stores and big box chains, as well as through the Internet. Net sales from Mikasa® in 2008 were $35.0 million.

DEBT COVENANTS

At December 31, 2008, the Company was not in compliance with the financial covenants required by the Credit Facility. On each of February 12, 2009 and March 6, 2009, the Company entered into a forbearance agreement and amendment to the Credit Facility whereby the lenders agreed to forbear from taking actions they would otherwise have been permitted to take as a result of the non-compliance. In consideration thereof, the Company agreed to further restrictions on its borrowings and an increase in the applicable margin rates.

On March 31, 2009, the Company entered into a waiver and amendment to the Credit Facility (the "Amendment"). Pursuant to the Amendment, the Company's lenders waived the Company's non-compliance with the financial covenants required by the Credit Facility at December 31, 2008. The Amendment modifies the Credit Facility in certain ways including, as follows: (i) changes the maturity date to January 31, 2011, (ii) adds certain asset categories to the borrowing base, (iii) increases the applicable margin rates (including a minimum LIBOR of 1.75%), (iv) revises the minimum EBITDA and fixed charge coverage covenants and adds both a minimum net sales and maximum capital expenditures covenant,

(v) eliminates the requirement of maximum leverage and minimum interest coverage ratios, (vi) eliminates the $50 million accordion feature, (vii) revises the minimum excess availability rates and (viii) places restrictions on dividends and acquisitions.

The Company believes that availability under the Credit Facility will be sufficient to fund the Company's operations for fiscal 2009. However, if circumstances were to change, the Company may need to refinance the Credit Facility or otherwise amend the terms of the Credit Facility. In addition, the Company would seek to engage in further activities, including efforts to lower its inventory and to reduce expenses. However, there can be no assurance that any such actions would be successful or that the results of any such actions would be adequate.

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 2008, 2007 and 2006, net sales for the third and fourth quarters accounted for 61%, 61% and 65% 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.

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 below.

	Year Ended December 31,		
	2008	**2007**	**2006**
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	62.2	58.5	58.1
Distribution expenses	11.8	10.8	10.9
Selling, general and administrative expenses	26.9	26.0	24.5
Goodwill and intangible asset impairment	6.0		
Restructuring expenses	3.7	0.4	
Income (loss) from operations	(10.6)	4.3	6.5
Interest expense	(1.9)	(1.7)	(1.0)
Other income, net		0.8	
Income (loss) before income taxes and equity in earnings for Grupo Vasconia, S.A.B.	(12.5)	3.4	5.5
Income tax benefit (provision)	2.2	(1.6)	(2.1)
Equity in earnings for Grupo Vasconia, S.A.B., net of taxes	0.3		
Net income (loss)	(10.0)%	1.8 %	3.4 %

MANAGEMENT'S DISCUSSION AND ANALYSIS

2008 COMPARED TO 2007

Net Sales

Net sales for the year were $487.9 million, a decrease of 1.2% over net sales of $493.7 million in 2007.

Net sales for the wholesale segment in 2008 were $403.6 million, a decrease of $13.3 million or 3.2% over net sales of $416.9 million for 2007. Excluding Mikasa® net sales of $32.8 million, net sales for the wholesale segment were $370.8 million for the year ended December 31, 2008, a decrease of $46.1 million or 11.1% compared to the 2007 period. The decrease is the result of volume declines in most of the Company's product categories. Management attributes these declines primarily to the economic slowdown's effect on consumer spending.

Net sales for the direct-to-consumer segment in 2008 were $84.3 million compared to $76.8 million for 2007. The increase was primarily due to the going-out-of-business sales at the Company's retail stores that were all closed by December 31, 2008 and to a lesser extent, an increase in Internet sales as a result of the acquisition of Mikasa®.

Cost of sales

Cost of sales for 2008 was $303.5 million compared to $289.0 million for 2007. Cost of sales as a percentage of net sales was 62.2% for 2008 compared to 58.5% for 2007.

Cost of sales as a percentage of net sales for the wholesale segment was 64.0% for 2008 compared to 62.1% for 2007. The reduction in gross margin was due primarily to the Company’s continued effort to reduce inventory levels.

Cost of sales as a percentage of net sales for the direct-to-consumer segment increased to 53.4% in 2008 from 39.1% in 2007. The increase was due to lower margins as a result of the going-out-of-business sales at the Company’s retail stores.

Distribution expenses

Distribution expenses for 2008 were $57.7 million compared to $53.5 million for 2007. Distribution expenses as a percentage of net sales were 11.8% in 2008 and 10.8% for 2007.

Distribution expenses as a percentage of net sales for the wholesale segment increased to 11.0% in 2008 from 9.5% for 2007. The increase in distribution expenses as a percentage of net sales was due primarily to transitional service expenses related to Mikasa® acquired in June 2008, duplicative expenses related to the consolidation of the Company’s West Coast distribution centers and lower sales volume, partially offset by improved labor efficiency.

Distribution expenses as a percentage of net sales for the direct-to-consumer segment were 15.9% for the year ended December 31, 2008 compared to 17.8% for 2007. The decrease was due primarily to reduced third-party warehouse costs as a result of planned decreases in inventory levels, improved labor efficiency and the effects of higher sales volume.

Selling, general and administrative expenses

Selling, general and administrative expenses for 2008 were $131.2 million, an increase of 2.1% over the $128.5 million in 2007.

Selling, general and administrative expenses for 2008 for the wholesale segment were $83.0 million, an increase of $7.8 million or 10.4% over the $75.2 million in 2007. As a percentage of net sales, selling, general and administrative expenses were 20.6% for 2008 compared to 18.0% for 2007. The increase was primarily due to transitional services and an increase in compensation as a result of the Mikasa® acquisition, the full-year effect of depreciation expense on 2007 capital expenditures and higher provisions for doubtful accounts.

Selling, general and administrative expenses for 2008 for the direct-to-consumer segment were $37.3 million compared to $41.2 million for 2007. The decrease was due to operating fewer stores during 2008 compared to 2007.

Unallocated corporate expenses for 2008 and 2007 were $10.9 million and $12.2 million, respectively. Higher expenses in 2007 were primarily due to a charge related to the termination of a licensing agreement in 2007.

Goodwill and intangible asset impairment

In 2008, the Company recorded a non-cash goodwill impairment charge of $27.4 million and a non-cash impairment charge related to certain of its other intangible assets of $2.0 million in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*.

Restructuring expenses

In 2008, in connection with the cessation of its retail store operations and the plans to vacate its distribution facility in York, Pennsylvania, the Company recorded a $3.9 million non-cash fixed asset impairment charge and $14.1 million in restructuring related expenses consisting of lease obligations, consulting fees, employee related expenses, and other incremental costs.

Interest expense

Interest expense for 2008 was $9.1 million compared to $8.4 million for 2007. The increase in interest expense was attributable to higher average borrowings outstanding under the Company’s Credit Facility during 2008. The increase was offset in part by lower average interest rates in 2008.

Other income, net

Other income, net was zero in 2008 and $3.9 million in 2007. In 2007, the Company recognized a gain on the sale of its former corporate headquarters and a gain on a foreign currency forward contract.

Income tax benefit (provision)

The income tax benefit for 2008 was $10.5 million, compared to a provision of $7.4 million for 2007. The Company’s effective income tax rate was 17.3% for 2008 and 45.5% for 2007. The decrease in the effective tax rate in 2008 was due to valuation allowances the Company recorded against certain deferred tax assets.

2007 COMPARED TO 2006

Net Sales

Net sales for the year were $493.7 million, an increase of 7.9% over net sales of $457.4 million in 2006.

Net sales for the wholesale segment in 2007 were $416.9 million, an increase of $42.8 million or 11.4% over net sales of $374.1 million for 2006. The increase was primarily due to the 2007 full year inclusion of Syratech which was acquired in April 2006. Excluding Syratech, net sales were $289.2 million in 2007 and $280.8 million in 2006, an increase of 3.0%. The increase was attributable to growth in the Food Preparation product category, particularly with respect to Farberware® brand products and new retail programs.

Net sales for the direct-to-consumer segment in 2007 were $76.8 million compared to $83.3 million for 2006. The decrease was primarily due to a decline in outlet store sales, slightly offset by a modest improvement in catalog and Internet volume. The decrease in outlet stores sales was due to the planned reductions in promotional events that occurred in 2006 and a reduction in the number of stores from 83 stores at year end 2006 to 78 stores at year end 2007.

Cost of sales

Cost of sales for 2007 was $289.0 million compared to $265.7 million for 2006. Cost of sales as a percentage of net sales was 58.5% for 2007 compared to 58.1% for 2006.

Cost of sales as a percentage of net sales for the wholesale segment was 62.1% for 2007 compared to 61.4% for 2006. The wholesale segment's cost of sales, excluding Syratech, was 59.0% for 2007 compared to 58.3% for 2006. The increase in cost of sales as a percentage of net sales was primarily attributable to changes in product mix and distribution strategy.

Cost of sales as a percentage of net sales for the direct-to-consumer segment decreased to 39.1% in 2007 from 43.7% in 2006. The decrease was primarily due to the planned reductions in promotional events that occurred in 2006.

Distribution expenses

Distribution expenses for 2007 were $53.5 million compared to $49.7 million for 2006. Distribution expenses as a percentage of net sales were 10.8% in 2007 and 10.9% for 2006.

Distribution expenses as a percentage of net sales for the wholesale segment improved to 9.5% in 2007 from 10.2% for 2006. The improvement resulted, in part, from the full year inclusion of Syratech which had a higher proportion of its sales shipped directly from overseas suppliers than the Company's other major product lines. The improvement also came from improved labor management and an improved warehouse management system.

Distribution expenses for the direct-to-consumer segment were approximately $13.7 million for the year ended December 31, 2007 compared to $11.7 million for 2006. The increase in distribution expenses was primarily attributable to the higher receiving and storage costs associated with higher inventory levels.

Selling, general and administrative expenses

Selling, general and administrative expenses for 2007 were $128.5 million, an increase of 14.6% over the $112.1 million in 2006.

Selling, general and administrative expenses for 2007 for the wholesale segment were $75.2 million, an increase of $15.3 million or 25.5% over the $59.9 million in 2006. As a percentage of net sales, selling, general and administrative expenses were 18.0% for 2007 compared to 16.0% for 2006. The increase resulted from the inclusion of Syratech for a full year in 2007, occupancy costs for the new leased headquarters and showroom in Garden City, consulting and depreciation expense for the new SAP business enterprise system, the costs of maintaining the Company's former headquarters until its sale in November 2007, compensation expense and additional selling expenses.

Selling, general and administrative expenses for 2007 for the direct-to-consumer segment were $41.2 million compared to $43.3 million for 2006. The decrease is primarily due to Farberware® store closings during 2007 and reductions in divisional staffing. Selling, general and administrative expenses as a percentage of net sales was 53.6% for 2007 compared to 52.0% for 2006. The increased percentage results from the decline in net sales.

Unallocated corporate expenses for 2007 and 2006 were $12.2 million and $8.9 million, respectively. The increase was primarily due to a one-time charge related to the termination of a licensing agreement, higher stock option expense and professional expenses.

Restructuring

In December 2007, the Company commenced a plan to close 30 underperforming outlet stores by the end of the first quarter of 2008. In connection with this plan, the Company recorded an asset impairment charge of $1.6 million for fixed assets in the stores to be closed and a restructuring charge of $289,000 for liquidation expenses.

Interest expense

Interest expense for 2007 was $8.4 million compared to $4.6 million for 2006. The increase in interest expense was primarily attributable to an increase in the amount outstanding under the Company's Credit Facility in 2007 compared to 2006 and interest on the Company's 4.75% Convertible Senior Notes issued in June 2006. The additional borrowings under the Company's Credit Facility were in support of capital expenditures, repurchases of the Company's common stock and business acquisitions. The Company used the proceeds from the 4.75% Convertible Senior Notes to repay outstanding borrowings under the Company's Credit Facility.

Other income, net

Other income, net for 2007 was $3.9 million compared to $31,000 for 2006. The increase in other income, net was primarily attributable to the gain that the Company recognized on the sale of its former corporate headquarters and to a lesser extent the gain on the sale of a foreign currency forward during 2007.

Income tax provision

The income tax provision for 2007 was $7.4 million, compared to $9.7 million for 2006. The Company's effective income tax rate was 45.5% for 2007 and 38.5% for 2006. The increase is attributable principally to stock option expense that is not deductible for income tax purposes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements which have been prepared in accordance with U.S. generally accepted accounting principles and with the instructions to Form 10-K and Article 10 of Regulation S-X. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments based on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company evaluates these estimates including those related to revenue recognition, allowances for doubtful accounts, reserves for sales returns and allowances and customer chargebacks, inventory mark-down provisions, impairment of tangible and intangible assets, including goodwill, stock option expense and accruals related to the Company's tax positions. Actual results may differ from these estimates using different assumptions and under different conditions. The Company's significant accounting policies are more fully described in Note A to the consolidated financial statements. The Company believes that the following discussion addresses its most critical accounting policies, which are those that are most important to the portrayal of the Company's consolidated financial condition and results of operations and require management's most difficult, subjective and complex judgments.

Inventory

Inventory consists principally of finished goods sourced from third-party suppliers. Inventory also includes finished goods, work in process and raw materials related to the Company’s manufacture of sterling silver products. Inventory is priced by the lower of cost (first-in, first-out basis) or market method. Consistent with the seasonality of the Company’s business, inventory generally increases, beginning late in the second quarter of the year, and reaches a peak at the end of the third quarter or early in the fourth quarter, and declines thereafter. The Company periodically reviews and analyzes inventory based on a number of factors including, but not limited to, future product demand for items and estimated profitability of merchandise. When appropriate, the Company writes down inventory to net realizable value.

Revenue recognition

The Company sells products wholesale to retailers and distributors and retail, direct to the consumer through the Company's factory and outlet store, catalog and Internet operations. Wholesale sales are recognized when title passes and the risks and rewards of ownership have transferred to the customer. Store sales are recognized at the time of sale. Catalog and Internet sales are recognized upon receipt by the customer. Shipping and handling fees that are billed to customers in sales transactions are recorded in net sales. Net sales exclude taxes that are collected from customers and remitted to the taxing authorities.

Receivables

The Company periodically reviews the collectibility 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 credit-worthiness of each wholesale customer. The Company also maintains an allowance for sales returns and customer chargebacks. To evaluate the adequacy of the sales returns and customer chargeback allowances the Company analyzes currently available information and historical trends. If the financial conditions of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, or the Company's estimate of sales returns was determined to be inadequate, additional allowances may be required.

Goodwill, other intangible assets and long-lived assets

Goodwill and intangible assets deemed to have indefinite lives are not amortized but instead are subject to annual impairment tests in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*.

Long-lived assets, including intangible assets deemed to have finite lives are reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets,* whenever events or changes in circumstances indicate that such assets may have been impaired. 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 Company compares the carrying value of the assets to the estimated undiscounted future cash flows expected to be generated by the assets. If the assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Employee stock options

The Company accounts for its stock options in accordance with SFAS No. 123(R), *Share-Based Payment*. SFAS 123(R) requires the measurement of compensation expense for all share-based compensation granted to employees and non-employee directors at fair value on the date of grant and recognition of compensation expense over the related service period for awards expected to vest. The Company uses the Black-Scholes option valuation model to estimate the fair value of its stock options. The Black-Scholes option valuation model requires the input of highly subjective assumptions including the expected stock price volatility of the Company's common stock. Changes in these subjective input assumptions can materially affect the fair value estimate of the Company's stock options.

Income taxes

The Company applies the provisions of Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes,* for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the Company's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* Tax positions must meet a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken upon the adoption of FIN No. 48 or in subsequent periods. The Company adopted FIN No. 48 on January 1, 2007.

Derivatives

The Company accounts for derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and subsequent amendments. SFAS No. 133 requires that all derivative instruments be recognized on the balance sheet at fair value as either an asset or a 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 perfectly 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. For derivatives that do not qualify or are not designated as hedging instruments for accounting purposes, changes in fair value are recorded in current period earnings.

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 Credit Facility. The Company's primary uses of funds consist of working capital requirements, capital expenditures, payment of principal and interest on its debt, payment of cash dividends and business acquisitions.

At December 31, 2008, the Company had cash and cash equivalents of $3.5 million, compared to $4.2 million at December 31, 2007, working capital was $82.7 million at December 31, 2008 compared to $156.8 million at December 31, 2007 and the current ratio was 1.55 to 1 at December 31, 2008 compared to 3.20 to 1 at December 31, 2007.

Borrowings under the Company's Credit Facility increased to $89.3 million at December 31, 2008 compared to $68.7 million at December 31, 2007. The increase was primarily due to the acquisition of Mikasa®. The Company believes that its cash and cash equivalents plus internally generated funds and its new credit arrangement will be sufficient to finance its operations for the next twelve months.

Share repurchase program

In 2007, the Board of Directors of the Company authorized a program to repurchase up to $40.0 million of the Company's common stock through open market purchases or privately-negotiated transactions. As of December 31, 2008, the Company had purchased in the open market and retired a total of 1,362,505 shares of its common stock for a total cost of $22.7 million under the program. There were no purchases during 2008. In March 2009, the Board of Directors of the Company terminated the program.

Credit facility

The Company has a $150 million secured credit facility, which until March 31, 2009, had an accordion feature for an additional $50 million and matures in April 2011 (the "Credit Facility"). Borrowings under the Credit Facility are secured by all assets of the Company. Under the terms of the Credit Facility (until March 31, 2009), the Company was required to satisfy certain financial covenants, including maximum leverage and capital expenditures and a minimum interest coverage ratio. Borrowings under the Credit Facility have different interest rate options that are based either on, (i) an alternate base rate, (ii) LIBOR, or (iii) the lender's cost of funds rate, plus in each case a margin based on the applicable

leverage ratio.

In March 2008, the Credit Facility was amended to: (i) establish a borrowing base (comprised of a percentage of each of eligible accounts receivable, inventory and trademarks) calculation to determine availability under the Credit Facility, (ii) increase the applicable margin rates and (iii) revise certain financial covenants. In September 2008, the Credit Facility was further amended to: (i) establish a minimum excess availability amount, (ii) include a minimum fixed charge ratio and a minimum EBITDA covenants, (iii) revised the leverage and interest coverage covenants and (iv) increased the applicable margin rates.

At December 31, 2008, the Company was not in compliance with the financial covenants required by the Credit Facility. On each of February 12, 2009 and March 6, 2009, the Company entered into a forbearance agreement and amendment to the Credit Facility whereby the lenders agreed to forbear from taking actions they would otherwise have been permitted to take as a result of the non-compliance. In consideration thereof, the Company agreed to further restrictions on its borrowings and an increase in the applicable margin rates. At December 31, 2008, the Company had $2.1 million of open letters of credit and $89.3 million of borrowings outstanding under the Credit Facility. Interest rates on outstanding borrowings at December 31, 2008 ranged from 2.50% to 7.07%. The Company has interest rate swap and collar agreements with an aggregate notional amount of $55.2 million. The Company entered into these agreements to effectively fix the interest rate on a portion of its borrowings under the Credit Facility.

On March 31, 2009, the Company entered into a waiver and amendment to the Credit Facility (the “Amendment”). Pursuant to the Amendment, the Company’s lenders waived the Company’s non-compliance with the financial covenants required by the Credit Facility at December 31, 2008. The Amendment modifies the Credit Facility in certain ways including, as follows: (i) changes the maturity date to January 31, 2011, (ii) adds certain asset categories to the borrowing base, (iii) increases the applicable margin rates (including a minimum LIBOR of 1.75%), (iv) revises the minimum EBITDA and fixed charge coverage covenants and adds both a minimum net sales and maximum capital expenditures covenant, (v) eliminates the requirement of maximum leverage and minimum interest coverage ratios, (vi) eliminates the $50 million accordion feature, (vii) revises the minimum excess availability amount and (viii) places restrictions on dividends and acquisitions. As of March 31, 2009 (on a *pro forma* basis after giving effect to the terms of the Amendment), the Company had available liquidity of $29.7 million under the Credit Facility. The Amendment also provides for a lock-box arrangement with the collateral agent. Pursuant to the Amendment, although the Credit Agreement matures on January 31, 2011, Emerging Issues Task Force 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Arrangements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement*, requires the indebtedness to be classified as a current liability on the consolidated balance sheet as of December 31, 2008.

During 2008 and continuing in 2009, the Company has implemented certain actions in an effort to improve its future financial performance. Such actions include closing its retail outlet stores, consolidating distribution centers and in 2009 paring certain selling, general and administrative expenses.

The Company believes that availability under the Credit Facility will be sufficient to fund the Company’s operations for fiscal 2009. However, if circumstances were to change, the Company may need to refinance the Credit Facility or otherwise amend the terms of the Credit Facility. In addition, the Company would seek to engage in further activities, including efforts to lower its inventory and to reduce expenses. However, there can be no assurance that any such actions would be successful or that the results of any such actions would be adequate.

Convertible Notes

The Company has outstanding $75 million aggregate principal amount of 4.75% Convertible Senior Notes due 2011 (the “Notes”). The Notes are convertible into shares of the Company’s common stock at a conversion price of $28.00 per share, subject to adjustment in certain events. The Notes bear interest at 4.75% *per annum*, payable semiannually in arrears on January 15 and July 15 of each year and are unsubordinated except with respect to the Company’s debt to the extent secured by the Company’s assets. The Notes mature on July 15, 2011. The Notes are convertible at the option of the holder anytime prior to the close of business on the business day prior to the maturity date. Upon conversion, the Company may elect to deliver either shares of the Company’s common stock, cash or a combination of cash and shares of the Company’s common stock in satisfaction of the Company’s obligations upon conversion of the Notes. If the Notes are not converted prior to the maturity date the Company is required to pay the holders of the Notes the principal amount of the Notes in cash upon maturity.

Dividends

The Company has declared and paid the following dividends in 2008:

Dividend	Date declared	Date of record	Payment date
$0.0625	January 23, 2008	February 8, 2008	February 15, 2008
$0.0625	March 4, 2008	May 2, 2008	May 16, 2008
$0.0625	June 5, 2008	August 1, 2008	August 15, 2008
$0.0625	October 30, 2008	November 14, 2008	November 28, 2008

In February 2009, in light of current economic conditions, the Company suspended paying a cash dividend on its outstanding shares of common stock. The Company will review this decision as circumstances may warrant.

Operating activities

Cash provided by operating activities was $6.9 million in 2008 compared to $31.6 million in 2007. The decrease was primarily attributable to the operating loss incurred in 2008 compared to operating income generated in 2007. A reduction in working capital in 2008, most notably from lower inventory levels, partially mitigated the effect of the lower operating performance.

Investing activities

Cash used in investing activities was $24.8 million in 2008 compared to $43.7 million in 2007. 2008 investing activities include cash paid by the Company of $16.3 million to acquire the business and certain assets of Mikasa® and capital expenditures of $8.9 million related primarily to the Company's new West Coast distribution center located in Fontana, California and the Company's new office space in Medford, Massachusetts. In 2007, investing activities include cash paid by the Company of $1.9 million to acquire Pomerantz® and Design for Living®, $8.3 million paid to acquire Gorham® and $23.0 million to acquire a 29.99% interest in Grupo Vasconia S.A.B. In 2007, capital expenditures included amounts related to leasehold improvements at the Company's then new corporate headquarters, costs related to the implementation of the Company's SAP business enterprise system and costs related to the Company's new West Coast distribution center in Fontana, California. The Company's 2009 planned capital expenditures are estimated not to exceed $6.0 million.

Financing activities

Cash provided by financing activities was $17.2 million in 2008 compared to $16.1 million in 2007. In 2008, the Company received net cash proceeds from borrowings under the Credit Facility of $20.6 million. In 2007, of the Company received net cash proceeds from borrowings under the Credit Facility of $42.2 million and used $22.7 million for repurchases of shares of its common stock.

Contractual obligations

As of December 31, 2008, the Company's contractual obligations were as follows (in thousands):

	Payment due by period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating leases	$ 129,957	$ 12,899	$ 24,035	$ 24,517	$ 68,506
Long-term debt	75,000		75,000		
Minimum royalty payments	14,357	11,252	1,577	312	1,216
Interest on long-term debt	10,689	3,563	7,126		
Post retirement benefits	3,151	148	296	296	2,411
Capitalized leases	516	258	258		
Total	$ 233,670	$ 28,120	$ 108,292	$ 25,125	$ 72,133

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact the consolidated financial position, results of operations or cash flows of the Company. The Company is exposed to market risk associated with changes in interest rates. The Company's Credit Facility bears interest at variable rates and, therefore, the Company is subject to increases and decreases in interest expense resulting from fluctuations in interest rates. The Company has entered into interest rate swap agreements with an aggregate notional amount of $50 million and interest rate collar agreements with an aggregate notional amount of $40.2 million to manage interest rate exposure in connection with these variable interest rate borrowings. There have been no changes in interest rates that would have a material impact on the consolidated financial position, results of operations or cash flows of the Company for the year ended December 31, 2008.

Item 8. Financial Statements and Supplementary Data

The Company's Consolidated Financial Statements as of and for the year ended December 31, 2008 commencing on page F-1 are incorporated herein by reference.

The following table sets forth certain unaudited consolidated quarterly statement of operations data for the eight quarters ended December 31, 2008. This information is unaudited, but in the opinion of management, it has been prepared substantially on the same basis as the audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited consolidated quarterly results of operations. The consolidated quarterly data should be read in conjunction with the Company's audited consolidated financial statements and the notes to such statements appearing elsewhere in this Annual Report. The results of operations for any quarter are not necessarily indicative of the results of operations for any future period:

	Year ended December 31, 2008			
	First quarter(1)	**Second quarter**	**Third quarter**(1)	**Fourth quarter** (1)
	(in thousands, except per share data)			
Net sales	$ 98,194	$ 92,399	$ 140,624	$ 156,718
Gross profit	38,589	37,111	54,528	54,172
Income (loss) from operations	(8,784)	(6,945)	3,365	(39,549)
Net loss	(5,997)	(3,183)	(674)	(39,175)
Basic and diluted loss per common share	$ (0.50)	$ (0.27)	$ (0.06)	$ (3.27)

	Year ended December 31, 2007			
	First quarter	**Second quarter**	**Third quarter**	**Fourth quarter**
	(in thousands, except per share data)			
Net sales	$ 103,787	$ 91,371	$ 143,470	$ 155,097
Gross profit	42,690	39,465	58,936	63,637
Income (loss) from operations	(552)	(1,750)	13,752	9,334
Net income (loss)	(1,283)	(2,026)	6,795	5,406

Basic income (loss) per common share	$ (0.10)	$ (0.15)	$ 0.52	$ 0.44
Diluted income (loss) per common share	$ (0.10)	$ (0.15)	$ 0.47	$ 0.40

Note:

(1) The Company recognized restructuring expenses of $2.9 million, $4.6 million and $10.5 million in the first, third and fourth quarter of 2008, respectively, and a non-cash goodwill and intangible asset impairment of $29.4 million in the fourth quarter of 2008.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

(a) **Evaluation of Disclosure Controls and Procedures**

The Chief Executive Officer and the Chief Financial Officer of the Company (its principal executive officer and principal financial and accounting officer, respectively) have concluded, based on their evaluation as of December 31, 2008, that the Company's controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed by it under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer of the Company, as appropriate to allow timely decisions regarding required disclosure.

(b) **Changes in Internal Controls**

There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2008. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principle executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management performed an assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2008 using the criteria set forth in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that the Company’s internal control over financial reporting as of December 31, 2008 is effective.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2008 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Lifetime Brands, Inc.

We have audited Lifetime Brands Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Lifetime Brands Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Lifetime Brands, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008 based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Lifetime Brands, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 of Lifetime Brands, Inc. and our report dated March 31, 2009 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Melville, New York

March 31, 2009

Item 9B. Other Information

Not applicable

PART III

Items 10, 11, 12, 13 and 14

The information required under these items is contained in the Company's 2009 Proxy Statement, which will be filed with the Securities and Exchange Commission within 120 days after the close of the Company's fiscal year covered by this Annual Report on Form 10-K and is herein incorporated by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) See list of Financial Statements and Financial Statement Schedule on page F-1.

(b) Exhibits*:

Exhibit No.	**Description**
3.1	Second Restated Certificate of Incorporation of the Company (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005)**
3.2	Amended and Restated By-Laws of the Company (incorporated by reference to the Registrant's Form 8-K dated November 1, 2007)**
4.1	Indenture dated as of June 27, 2006, Lifetime Brands, Inc. as issuer, and HSBC Bank USA, National Association as trustee, $75,000,000 4.75% Convertible Senior Notes due 2011 (incorporated by reference to the Registrant's registration statement No. 333-137575 on Form S-3)**
10.1	License agreement dated December 14, 1989 between the Company and Farberware, Inc. (incorporated by reference to the Registrant's registration statement No. 33-40154 on Form S-1)**
10.2	Evan Miller employment agreement dated July 1, 2003 (incorporated by reference to the Registrant's Form 10-Q dated September 30, 2003)**
10.3	Employment agreement dated October 17, 2005 between Lifetime Brands, Inc. and Ronald Shiftan (incorporated by reference to the Registrant's Form 8-K dated October 17, 2005)**
10.4	Employment agreement dated May 2, 2006 between Lifetime Brands, Inc. and Jeffrey Siegel (incorporated by reference to the Registrant's Form 8-K dated May 2, 2006)**
10.5	Employment agreement dated April 18, 2006 between Lifetime Brands, Inc. and Alan Kanter (incorporated by reference to the Registrant's Form 8-K dated May 2, 2006)**
10.6	Lease agreement dated as of May 10, 2006 between AG Metropolitan Endo, L.L.C and Lifetime Brands, Inc. for the property located at 1000 Stewart Avenue in Garden City, New York (incorporated by reference to the Registrant's Form 8-K dated May 10, 2006)**

10.7	Amended 2000 Long-Term Incentive Plan (incorporated by reference to the Registrant's Form 8-K dated June 8, 2006)**
10.8	Amended 2000 Incentive Bonus Compensation Plan (incorporated by reference to the Registrant's Form 8-K dated June 8, 2006)**
10.9	Second Amended and Restated Credit Agreement among Lifetime Brands, Inc., Lenders party thereto, Citibank, N.A. and Wachovia Bank, National Association, as Co-Documentation Agents, JP Morgan Chase Bank, N.A., as Syndication Agent, and HSBC Bank USA, National Association, as Administrative Agent (incorporated by reference to the Registrant's Form 8-K dated October 31, 2006)**
10.10	First Amendment to the Lease Agreement dated as of May 10, 2006 between AG Metropolitan Endo, L.L.C and Lifetime Brands, Inc. for the property located at 1000 Stewart Avenue in Garden City, New York (incorporated by reference to the Registrant's Form 10-Q dated September 30, 2006)**
10.11	Amendment of Employment Agreement dated June 7, 2007 by and between Lifetime Brands, Inc. and Ronald Shiftan (incorporated by reference to the Registrant's Form 8-K dated June 7, 2007)**

10.12	Employment agreement dated June 28, 2007 between Lifetime Brands, Inc. and Laurence Winoker (incorporated by reference to the Registrant's Form 8-K dated July 3, 2007)**
10.13	Shares Subscription Agreement by and among Lifetime Brands, Inc., Ekco, S.A.B. and Mr. José Ramón Elizondo Anaya and Mr. Miguel Ángel Huerta Pando, dated as of June 8, 2007 (incorporated by reference to the Registrant's Form 8-K dated June 11, 2007)**
10.14	Lease Agreement between Granite Sierra Park LP and Lifetime Brands, Inc. dated June 29, 2007 (incorporated by reference to the Registrant's Form 8-K dated June 29, 2007)**
10.15	Evan Miller Amendment of Employment Agreement dated June 29, 2007 (incorporated by reference to the Registrant's Form 8-K dated June 29, 2007)**
10.16	Robert McNally Amendment of Employment Agreement dated July 2, 2007 (incorporated by reference to the Registrant's Form 8-K dated June 28, 2007)**
10.17	Amendment No.1 dated September 5, 2007 to the Shares Subscription Agreement by and among Lifetime Brands, Inc., Ekco, S.A.B. and Mr. José Ramón Elizondo Anaya and Mr. Miguel Ángel Huerta Pando, dated as of June 8, 2007***
10.18	Amendment to the Lifetime Brands, Inc. 2000 Long-Term Incentive Plan dated November 1, 2007 (incorporated by reference to the Registrant's Form 8-K dated November 1, 2007)**
10.19	Amendment No. 2 to Second Amended and Restated Credit Agreement by and among Lifetime Brands, Inc., Lenders party hereto, Citibank, N.A. and Wachovia Bank, National Association, as Co-Documentation Agents, JP Morgan Chase Bank, N.A., as Syndication Agent and HSBC Bank USA, National Association, as Administrative Agent. (incorporated by reference to the Registrant's Form 8-K/A dated April 17, 2008)**
10.20	Asset Purchase Agreement between Mikasa, Inc. and Lifetime Brands, Inc. dated June, 6 2008 (incorporated by reference to the Registrant's Form 10-Q dated June 30, 2008**
10.21	Amendment No. 2 dated September 25, 2008 to the Shares Subscription Agreement by and among Lifetime Brands, Inc., Ekco, S.A.B. and Mr. José Ramón Elizondo Anaya and Mr. Miguel Ángel Huerta Pando, dated as of June 8, 2007***
10.22	Amendment to the Company's Second Amended and Restated Credit Agreement, Amendment No. 3, dated September 29, 2008 (incorporated by reference to the Registrant's Form 8-K dated September 29, 2008)**
10.23	Forbearance Agreement and Amendment No. 4, dated as of February 12, 2009, by and among Lifetime Brands, Inc., the several financial institutions party hereto and HSBC Bank USA, National Association, as Administrative Agent for the Lenders. (incorporated by reference to the Registrant's Form 8-K dated February 12, 2009)**
10.24	Amendment to Forbearance Agreement and Amendment No. 4, dated as of March 6, 2009, by and among Lifetime Brands, Inc., the several financial institutions party hereto and HSBC Bank USA, National Association, as Administrative Agent for the Lenders. (incorporated by reference to the Registrant's Form 8-K dated March 6, 2009)**
10.25	Waiver and Amendment No. 5 to Second Amended and Restated Credit Agreement, dated as of March 31, 2009, by and among Lifetime Brands, Inc., the several financial institutions party hereto and HSBC Bank USA, National Association, as Administrative Agent for the Lenders.***

14.1 Code of Conduct dated March 25, 2004, as amended on June 7, 2007 (incorporated by reference to the Registrant's Form 8-K dated June 7, 2007)**

18.1 Letter from Ernst & Young LLP stating an acceptable change in accounting method for the impairment of goodwill dated October 28, 2008 (incorporated by reference to the Registrant's Form 10-Q dated September, 30 2008)**

21.1 Subsidiaries of the registrant***

23.1 Consent of Ernst & Young LLP***

31.1 Certification by Jeffrey Siegel, Chief Executive Officer and President, pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002***

31.2 Certification by Laurence Winoker, Senior Vice President – Finance, Treasurer and Chief Financial Officer, pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002***

32.1 Certification by Jeffrey Siegel, Chief Executive Officer and President, and Laurence Winoker, Senior Vice President – Finance, Treasurer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002****

99.1 Grupo Vasconia, S.A.B. (formerly Ekco, S.A.B.), Report of Independent Registered Accounting Firm.***

Notes to exhibits:

*	The Company will furnish a copy of any of the exhibits listed above upon payment of $5.00 per exhibit to cover the cost of the Company furnishing the exhibit.
**	Incorporated by reference.
***	Filed herewith.
****	This exhibit is being “furnished” pursuant to Item 601(b)(32) of SEC Regulation S-K and is not deemed “filed” with the Securities and Exchange Commission and is not incorporated by reference in any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934.

(c) Financial Statement Schedules — the response to this portion of Item 15 is submitted as a separate section of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Lifetime Brands, Inc.

/s/ Jeffrey Siegel
Jeffrey Siegel
Chairman of the Board of Directors,
Chief Executive Officer, President
and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jeffrey Siegel Jeffrey Siegel	Chairman of the Board of Directors, Chief Executive Officer, President and Director	March 31, 2009
/s/ Ronald Shiftan Ronald Shiftan	Vice Chairman of the Board of Directors, Chief Operating Officer and Director	March 31, 2009
/s/ Laurence Winoker Laurence Winoker	Senior Vice President – Finance, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2009
/s/ Craig Phillips Craig Phillips	Senior Vice-President – Distribution and Director	March 31, 2009
s/ David Dangoor David Dangoor	Director	March 31, 2009
/s/ Michael Jeary Michael Jeary	Director	March 31, 2009
/s/ John Koegel John Koegel	Director	March 31, 2009
/s/ Sheldon Misher Sheldon Misher	Director	March 31, 2009
/s/ Cherrie Nanninga Cherrie Nanninga	Director	March 31, 2009

/s/ William Westerfield William Westerfield	Director	March 31, 2009

Item 15

LIFETIME BRANDS, INC.

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

The following consolidated financial statements of Lifetime Brands, Inc. are filed as part of this report under Item 8 – *Financial Statements and Supplementary Data.*

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2008 and 2007	F-3
Consolidated Statements of Operations for the Years ended December 31, 2008, 2007 and 2006	F-4
Consolidated Statements of Stockholders' Equity for the Years ended December 31, 2008, 2007 and 2006	F-5
Consolidated Statements of Cash Flows for the Years ended December 31, 2008, 2007 and 2006	F-6
Notes to Consolidated Financial Statements	F-7

The following consolidated financial statement schedule of Lifetime Brands, Inc. required pursuant to Item 15(a) is submitted herewith:

Schedule II – Valuation and Qualifying Accounts	S-1

All other financial schedules are not required under the related instructions or are inapplicable, and therefore have been omitted.

The unaudited supplementary data regarding quarterly results of operations are incorporated by reference to the information set forth in Item 8, *Financial Statements and Supplementary Data*.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Lifetime Brands, Inc.

We have audited the accompanying consolidated balance sheets of Lifetime Brands, Inc. (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. The financial statements of Grupo Vasconia, S.A.B. and Subsidiaries (a corporation in which the Company has a 29.99% interest), 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 $17.8 million at December 31, 2008 and the Company's equity in the net income of Grupo Vasconia, S.A.B. and Subsidiaries is stated at $1.5 million for the year then ended.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lifetime Brands, Inc. at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note A to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, effective January 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lifetime Brands, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2009 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Melville, New York

March 31, 2009

LIFETIME BRANDS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands-except share data)

	December 31,	
ASSETS	**2008**	**2007**
CURRENT ASSETS		
Cash and cash equivalents	$3,478	$4,172
Accounts receivable, less allowances of $14,651 at 2008 and $16,400 at 2007	67,562	65,030
Inventory	141,612	143,684
Deferred income taxes		7,925
Income taxes receivable	11,597	
Prepaid expenses and other current assets	8,429	7,267
TOTAL CURRENT ASSETS	232,678	228,078
PROPERTY AND EQUIPMENT, net	49,908	54,332
GOODWILL		27,432
OTHER INTANGIBLES, net	38,420	35,383
INVESTMENT IN GRUPO VASCONIA, S.A.B.	17,784	22,950
OTHER ASSETS	2,991	3,240
TOTAL ASSETS	$341,781	$371,415
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$89,300	$13,500
Accounts payable	24,151	21,759
Accrued expenses	35,902	31,504
Deferred income tax liabilities	403	
Income taxes payable	225	4,520
TOTAL CURRENT LIABILITIES	149,981	71,283
DEFERRED RENT & OTHER LONG-TERM LIABILITIES	23,054	14,481
DEFERRED INCOME TAXES	3,373	8,211
LONG-TERM DEBT	—	55,200
CONVERTIBLE NOTES	75,000	75,000
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value, shares authorized: 25,000,000; shares issued and outstanding: 11,989,724 in 2008 and 11,964,388 in 2007	120	120
Paid-in capital	116,869	113,995
Retained earnings (accumulated deficit)	(18,023)	33,250
Accumulated other comprehensive loss	(8,593)	(125)
TOTAL STOCKHOLDERS' EQUITY	90,373	147,240

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$341,781	$371,415

See notes to consolidated financial statements.

LIFETIME BRANDS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands – except per share data)

	Year ended December 31,		
	2008	**2007**	**2006**
Net sales	$487,935	$493,725	$457,400
Cost of sales	303,535	288,997	265,749
Distribution expenses	57,695	53,493	49,729
Selling, general and administrative expenses	131,226	128,527	112,122
Goodwill and intangible asset impairment	29,400		
Restructuring expenses	17,992	1,924	
Income (loss) from operations	(51,913)	20,784	29,800
Interest expense	(9,142)	(8,397)	(4,576)
Other income, net		3,935	31
Income (loss) before income taxes and equity in earnings of Grupo Vasconia, S.A.B.	(61,055)	16,322	25,255
Income tax benefit (provision)	10,540	(7,430)	(9,723)
Equity in earnings of Grupo Vasconia, S.A.B., net of taxes	1,486		
NET INCOME (LOSS)	$(49,029)	$8,892	$15,532
BASIC INCOME (LOSS) PER COMMON SHARE	$(4.09)	$0.69	$1.18
DILUTED INCOME (LOSS) PER COMMON SHARE	$(4.09)	$0.68	$1.14

See notes to consolidated financial statements.

LIFETIME BRANDS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Common Stock		Paid-in	Retained earnings (accumulated	Accumulated other comprehensive	
	Shares	**Amount**	**capital**	**deficit)**	**income (loss)**	**Total**
BALANCE AT DECEMBER 31, 2005	12,922	$129	$101,468	$38,890	$	$140,487
Comprehensive income:						
Net income				15,532		15,532
Foreign currency translation adjustment					78	78
Total comprehensive income						15,610
Tax benefit on exercise of stock options			725			725
Stock option expense			1,155			1,155
Costs of public offering			(131)			(131)
Exercise of stock options	116	2	1,014	(820)		196
Stock issued for acquisition	240	2	6,819			6,821
Shares issued to directors	5		115			115
Dividends				(3,367)		(3,367)
BALANCE AT DECEMBER 31, 2006	13,283	133	111,165	50,235	78	161,611
Comprehensive income:						
Net income				8,892		8,892
Derivative fair value adjustment, net of taxes of $170					(203)	(203)
Total comprehensive income						8,689
Tax benefit on exercise of stock options			161			161
Stock option expense			2,197			2,197
Purchase and retirement of common stock	(1,363)	(14)		(22,658)		(22,672)
Exercise of stock options	32	1	244			245
Stock issued for acquisition	5		133			133
Shares issued to directors	7		95			95
Dividends				(3,219)		(3,219)
BALANCE AT DECEMBER 31, 2007	11,964	120	113,995	33,250	(125)	147,240
Comprehensive loss:						
Net loss				(49,029)		(49,029)
Grupo Vasconia, S.A.B. translation adjustment					(6,587)	(6,587)
Derivative fair value adjustment					(1,881)	(1,881)
Total comprehensive loss						(57,497)
			7			7

Tax benefit on exercise of stock options						
Stock option expense			2,800			2,800
Exercise of stock options	2		10			10
Shares issued to directors	24		57			57
Dividends				(2,244)		(2,244)
BALANCE AT DECEMBER 31, 2008	11,990	$ 120	$116,869	$(18,023)	$(8,593)	$90,373

See notes to consolidated financial statements.

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LIFETIME BRANDS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year ended December 31,		
	2008	**2007**	**2006**
OPERATING ACTIVITIES			
Net income (loss)	$(49,029)	$8,892	$15,532
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Provision for doubtful accounts	1,458	79	81
Depreciation and amortization	10,782	9,659	8,380
Deferred rent	1,999	1,060	440
Deferred income taxes	155	2,771	421
Stock compensation expense	2,857	2,292	1,270
Undistributed earnings of Grupo Vasconia, S.A.B.	(1,132)		
Gain on sale of property		(3,760)	
Goodwill and intangible asset impairment	29,400		
Fixed asset impairment	3,912	1,635	
Changes in operating assets and liabilities (excluding the effects of business acquisitions)			
Accounts receivable	(3,990)	(4,593)	5,336
Inventory	26,154	19,925	(36,410)
Prepaid expenses, other current assets and other assets	(908)	1,220	251
Accounts payable, accrued expenses and other liabilities	1,142	(5,270)	(4,422)
Income taxes receivable	(11,597)		
Income taxes payable	(4,295)	(2,343)	(2,330)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	6,908	31,567	(11,451)
INVESTING ACTIVITIES			
Purchases of property and equipment, net	(8,859)	(19,023)	(21,144)
Business acquisitions	(16,312)	(10,543)	(43,763)
Investment in Grupo Vasconia, S.A.B.		(22,950)	
Net proceeds from sale of property	362	8,832	
NET CASH USED IN INVESTING ACTIVITIES	(24,809)	(43,684)	(64,907)
FINANCING ACTIVITIES			
Proceeds from borrowings, net	20,600	42,200	7,000
Cash dividends paid	(2,995)	(3,303)	(3,332)
Payment of capital lease obligations	(414)	(456)	(387)
Proceeds from the exercise of stock options	10	245	196
Excess tax benefits from stock option expense	6	125	638
Purchases of common stock		(22,672)	
Proceeds from issuance of convertible notes, net			71,938
Other			(331)
NET CASH PROVIDED BY FINANCING ACTIVITIES	17,207	16,139	75,722

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(694)	4,022	(636)
Cash and cash equivalents at beginning of year	4,172	150	786
CASH AND CASH EQUIVALENTS AT END OF YEAR	$3,478	$4,172	$150

See notes to consolidated financial statements.

LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE A — SIGNIFICANT ACCOUNTING POLICIES

Organization and business

Lifetime Brands, Inc. (the “Company”) designs, markets and distributes a broad range of consumer products used in the home, including food preparation, tabletop and home décor products and markets its products under a number of brand names and trademarks, which are either owned or licensed. The Company sells its products wholesale to retailers throughout North America and directly to the consumer through the Internet and mail order catalogs. During 2008 the Company also sold its products through Company-operated factory, outlet and clearance stores. However, as more fully described in Note B, the Company ceased operating its retail stores by December 31, 2008.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Lifetime Brands, Inc. and its wholly-owned subsidiaries (collectively, the “Company”). All intercompany accounts and transactions have been eliminated in consolidation.

Revenue recognition

Wholesale sales are recognized when title of merchandise passes and the risks and rewards of ownership have transferred to the customer. Retail store sales were recognized at the time of sale. Catalog and Internet sales are recognized upon receipt by the customer. Shipping and handling fees that are billed to customers in sales transactions are included in net sales and amounted to $4.4 million, $4.8 million and $4.8 million for the years ended December 31, 2008, 2007 and 2006, respectively. Net sales exclude taxes that are collected from customers and remitted to the taxing authorities.

Distribution expenses

Distribution expenses consist primarily of warehousing expenses, handling costs of products sold and freight-out expenses. Freight-out costs amounted to $8.7 million, $8.4 million and $8.9 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Advertising expenses

Advertising expenses are expensed as incurred and are included in selling, general and administrative expenses. Advertising expenses were $1.6 million, $1.6 million and $2.0 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Accounts receivable

The Company periodically reviews the collectibility 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 credit-worthiness of each wholesale customer. The Company also establishes allowances for sales returns and customer chargebacks. To evaluate the adequacy of the sales returns and customer chargeback allowances, the Company analyzes currently available information and historical trends. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, or the Company’s estimate of returns is determined to be inadequate, additional allowances may be required.

LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE A — SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Inventory consists principally of finished goods sourced from third-party suppliers. Inventory also includes finished goods, work in process and raw materials related to the Company's manufacture of sterling silver products. Inventory is priced by the lower of cost (first-in, first-out basis) or market method. Consistent with the seasonality of the Company's business, inventory generally increases, beginning late in the second quarter of the year, and reaches a peak at the end of the third quarter or early in the fourth quarter, and declines thereafter. The Company periodically reviews and analyzes inventory based on a number of factors including, but not limited to, future product demand for items and estimated profitability of merchandise. When appropriate, the Company writes down inventory to net realizable value.

Property and equipment

Property and equipment is stated at cost. Property and equipment, other than leasehold improvements, is depreciated using the straight-line method over the estimated useful lives of the assets. Building and improvements are being depreciated over 30 years and machinery, furniture, and equipment over periods ranging from 3 to 10 years. Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter. Advances paid towards the acquisition of property and equipment and the cost of property and equipment not ready for use before the end of the period are classified as construction in progress.

Cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Concentration of credit risk

The Company maintains cash with various financial institutions.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of entities comprising the Company's customer base and their dispersion across North America.

During the years ended December 31, 2008, 2007 and 2006, Wal-Mart Stores, Inc. (including Sam's Clubs) accounted for 20%, 21% and 17% of net sales, respectively. No other customer accounted for 10% or more of the Company's net sales during the periods. For the years ended December 31, 2008, 2007 and 2006, the Company's ten largest customers accounted for 60%, 62% and 49% of net sales, respectively.

LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE A — SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments

The Company estimated that the carrying amounts of cash and cash equivalents, accounts receivable and accounts payable are a reasonable estimate of their fair value because of their short-term nature. The Company estimated that the carrying amounts of borrowings outstanding under its revolving Credit Facility approximate fair value since such borrowings bear interest at variable market rates. The fair value of the Company’s $75 million 4.75% Convertible Senior Notes at December 31, 2008 and 2007 was $39.4 million and $66.1 million, respectively, based on the most recent quoted price of the Company’s 4.75% Convertible Senior Notes at December 31, 2008 and 2007.

Fair value measurements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, *Fair Value Measurements*, which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 establishes a common definition of fair value, provides a framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosure requirements about fair value measurements. In February 2008, the FASB issued FASB Staff Position (“FSP”) 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* and FSP 157-2, *Effective Date of FASB Statement No. 157*. FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 157-2, *Effective Date of FASB Statement No. 157*, delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis until January 1, 2009. The Company adopted SFAS No. 157, except as it applies to nonfinancial assets and liabilities as noted in FSP 157-2, on January 1, 2008. Fair value measurements included in the Company’s consolidated financial statements are disclosed in Notes E and H.

Derivatives

The Company accounts for derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and subsequent amendments. SFAS No. 133 requires that all derivative instruments be recognized on the balance sheet at fair value as either an asset or a 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 perfectly 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. For derivatives that do not qualify or are not designated as hedging instruments for accounting purposes, changes in fair value are recorded in current period earnings.

LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE A — SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill, other intangible assets and long-lived assets

Goodwill, and intangible assets deemed to have indefinite lives, are not amortized but instead are subject to annual impairment assessment in accordance with the provisions of SFAS No.142, *Goodwill and Other Intangible Assets*.

During 2008, the Company changed the date of its annual goodwill impairment assessment from December 31 to October 1. This change was performed to better support the completion of the assessment prior to the Company's filing requirement for its Annual Report on Form 10-K as an accelerated filer, and in order to better align the timing of this assessment with the Company's normal process for updating its strategic plan and forecasts. The Company determined that the change in accounting principle related to the annual testing date is preferable under the circumstances and does not result in adjustments to the financial statements when applied retrospectively.

As more fully described in Note E, at December 31, 2008, the Company has recognized a non-cash goodwill impairment charge and a non-cash impairment charge related to certain indefinite-lived intangible assets in accordance with the provisions of SFAS No.142, *Goodwill and Other Intangible Assets*.

Long-lived assets, including intangible assets deemed to have finite lives, are reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, whenever events or changes in circumstances indicate that such amounts may have been impaired. 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 Company compares the carrying value of the asset to the estimated undiscounted future cash flows expected to be generated by the assets. If the assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. As more fully described in Note B, during 2008, the Company recognized fixed asset impairment charges in connection with its restructuring activities in 2008.

Income taxes

The Company accounts for income taxes using the asset and liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

The Company applies the provisions of Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes*, for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the Company's financial statements. In accordance with FIN No. 48, tax positions must meet a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position.

LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE A — SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock options

The Company accounts for its stock options in accordance with SFAS No. 123(R), *Share-Based Payment*. SFAS 123(R) requires the measurement of compensation expense for all share-based compensation granted to employees and non-employee directors at fair value on the date of grant and recognition of compensation expense over the related service period for awards expected to vest. The Company uses the Black-Scholes option valuation model to estimate the fair value of its stock options. The Black-Scholes option valuation model requires the input of highly subjective assumptions including the expected stock price volatility of the Company's common stock. Changes in these subjective input assumptions can materially affect the fair value estimate of the Company's stock options.

New accounting pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS 141(R)"). Under SFAS 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141(R) will change the accounting treatment for certain specific acquisition-related items, including expensing acquisition-related costs as incurred and expensing restructuring costs associated with an acquired business. SFAS 141(R) applies prospectively, with limited exceptions, to business combinations for which the acquisition date is on or after the first fiscal period beginning on or after December 15, 2008. Early adoption is not permitted. Generally, the effect of SFAS 141(R) will depend on future acquisitions and, as such, the Company does not currently expect the adoption of SFAS 141(R) to have a material impact on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*, which enhances the disclosure requirements for derivatives and hedging activities. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. SFAS No. 161 will only affect the Company's derivatives disclosures beginning January 1, 2009 and will not have any impact on the Company's consolidated financial statements.

In May 2008, the FASB issued FASB Staff Position Accounting Principles Board ("APB") No. 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash, or other assets, on conversion (including partial cash settlement), to separately account for the liability (debt) and equity (conversion option) components in a manner that reflects the issuer's non-convertible debt borrowing rate. The resulting debt discount (equity portion) is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. The provisions of FSP APB 14-1 will be required to be applied to the Company's 4.75% Convertible Senior Notes and are effective for the Company on January 1, 2009 on a retrospective basis. The Company expects that upon adoption of FSP APB 14-1 on January 1, 2009, interest expense for 2008, 2007 and 2006 will be increased by $2.4 million, $2.2 million and $1.0 million, respectively, and the Company will record an unamortized debt discount of $12.8 million, which will be amortized over a period of five years from the date the Company's 4.75% Convertible Senior Notes were issued. The Company expects to record additional interest expense of approximately $2.7 million, $2.9 million and $1.6 million in 2009, 2010 and 2011, respectively, due to the adoption of FSP APB 14-1.

Reclassifications

Certain amounts in the 2007 and 2006 consolidated statement of cash flows were reclassified to conform to the presentation in 2008. These reclassifications had no material effect on the Company's previously reported consolidated financial statements.

LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE B — RESTRUCTURING

December 2007 store closings

In December 2007, management of the Company commenced a plan to close 27 underperforming Farberware® outlet stores and 3 underperforming Pfaltzgraff® factory stores. All 30 stores were closed by the end of the first quarter of 2008. In connection with these store closings, the Company incurred restructuring related costs of $3.0 million and $289,000 during the years ended December 31, 2008 and 2007, respectively, consisting of the following:

	Year Ended December 31, 2008	Year Ended December 31, 2007
	(in thousands)	
Store lease obligations	$2,300	$
Consulting fees	393	289
Employee related expenses	141	
Other related costs	153	
Total	$2,987	$289

The following is a roll-forward of the amounts included in accrued expenses related to the December 2007 restructuring initiative (there were no amounts accrued related to this restructuring at December 31, 2007):

	Balance March 31, 2008	Charges	Payments	Balance December 31, 2008
	(in thousands)			
Store lease obligations	$2,300	$	$(1,734)	$566
Consulting fees	192		(192)	
Employee related expenses	141		(141)	
Other related costs	96	107	(203)	
Total	$2,729	$107	$(2,270)	$566

Due to the change in circumstances with respect to the stores that were closed, the Company reviewed the related fixed assets of the stores for impairment and determined that the net book value of the fixed assets would not be recoverable. Accordingly, the Company recorded a non-cash fixed asset impairment charge of $1.6 million at December 31, 2007.

September 2008 restructuring initiative

In September 2008, management of the Company commenced a plan to close all 53 of its remaining Pfaltzgraff® factory and clearance stores and Farberware® outlet stores and vacate its York, PA distribution center. In connection with this restructuring initiative, the Company incurred restructuring related costs of $11.1 million during the year ended December 31, 2008 consisting of the following:

	Year Ended December 31, 2008
	(in thousands)
Store lease obligations	$7,662
Consulting fees	1,766
Employee related expenses	1,354
Other related costs	318
Total	$11,100

LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE B — RESTRUCTURING (continued)

September 2008 restructuring initiative (continued)

The following is a roll-forward of the amounts included in accrued expenses related to the September 2008 restructuring initiative:

	Balance September 30, 2008	Charges	Payments	Balance December 31, 2008
	(in thousands)			
Store lease obligations	$	$7,662	$(84)	$7,578
Consulting fees		1,766	(1,412)	354
Employee related expenses	195	1,159	(186)	1,168
Other related costs	142	176	(94)	224
Total	$337	$10,763	$(1,776)	$9,324

Due to the change in circumstances as a result of the September 2008 restructuring initiative, the Company reviewed the fixed assets related to the stores and the York, PA distribution center for impairment and determined that the net book value of certain fixed assets would not be recoverable. Accordingly, the Company recorded a non-cash fixed asset impairment charge of $3.9 million during the year ended December 31, 2008.

The above restructuring related costs and non-cash fixed asset impairment charges are included within restructuring expenses in the accompanying consolidated statement of operations for the years ended December 31, 2008 and 2007.

NOTE C — MIKASA® ACQUISITION

In June 2008, the Company acquired the business and certain assets of Mikasa, Inc. (“Mikasa®”) from Arc International SA (“ARC”). Mikasa® is a leading provider of dinnerware, crystal stemware, barware, flatware and decorative accessories. Mikasa® products are distributed through department stores, specialty stores and big box chains, as well as through the Internet. The preliminary purchase price was $20.7 million, consisting of (i) $17.3 million of cash, (ii) $3.3 million of certain liabilities assumed at closing, and (iii) acquisition related costs of $142,000. The agreement also requires the Company to pay ARC an amount by which the sum of 5% of the annual net sales of Mikasa® products for 2009, 2010 and 2011, exceeds $5.0 million.

The Company accounted for its acquisition of the business and certain assets of Mikasa® under the purchase method of accounting in accordance with SFAS No. 141. Accordingly, the results of operations of Mikasa® have been included in the Company's consolidated statement of operations from the date of acquisition. The purchase price was funded by borrowings under the Company's Credit Facility. The Mikasa® acquisition was not deemed material; accordingly, summary *pro forma* financial information has not been presented.

LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE C — MIKASA® ACQUISITION (continued)

A valuation of the assets acquired from Mikasa® resulted in an excess of the fair value of the assets acquired from Mikasa®, which consisted of inventory, the Mikasa® tradename and tools and molds, over the preliminary purchase price in the amount of $6.2 million. In accordance with SFAS No. 141, as the Company is subject to potential contingent consideration that could result in an addition to the preliminary purchase price, the excess value (negative goodwill) has been recorded as a long-term liability in the accompanying balance sheet pending resolution of the contingencies. To the extent that the fair value of the assets acquired exceeds the total purchase price, after a reduction to the carrying value of the non-current assets acquired, at the end of the contingency period, the Company will recognize the excess value as an extraordinary gain. To the extent that the additional purchase price, if any, at the end of the contingency period exceeds the excess value, the Company will record additional purchase price related to the Mikasa® acquisition.

NOTE D — INVESTMENT IN GRUPO VASCONIA, S.A.B.

In December 2007, the Company acquired approximately 29.99% of the capital stock of Grupo Vasconia, S.A.B. (“Vasconia”), (formerly known as, Ekco, S.A.B.), a manufacturer and distributor of aluminum disks, cookware and related items. Shares of Vasconia’s capital stock are traded on the Bolsa Mexicana de Valores, S.A. de C.V., the Mexico Stock Exchange, under the symbol VASCONI.MX. The Company, based upon a third-party valuation, allocated the purchase price of Vasconia as follows (in thousands):

Investment	$16,036
Goodwill	5,166
Customer relationships (estimated life of 16 years)	1,748
Total	$22,950

The Company accounts for its investment in Vasconia using the equity method of accounting. 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 year ended December 31, 2008 in the accompanying consolidated statement of operations and its share of Vasconia’s translation adjustment in the accompanying consolidated statement of Stockholders’ Equity at December 31, 2008. During the year ended December 31, 2008 the Company received a cash dividend in the amount of $263,000 from Vasconia.

Summarized financial statement information for Vasconia as of and for the year ended December 31, 2008 is as follows (in thousands):

Balance sheet	
Current assets	$46,320
Non-current assets	22,371

Current liabilities	17,583
Non-current liabilities	3,981
Income statement	
Net sales	$110,026
Gross profit	28,212
Income from operations	11,662
Net income	6,270

LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE E — GOODWILL AND INTANGIBLE ASSETS

Goodwill was included as an asset in the wholesale segment. There were no additions to goodwill during the year ended December 31, 2008.

The Company initially performed its annual impairment tests for its goodwill and indefinite-lived intangible assets in accordance with SFAS No. 142 as of October 1, 2008, but due primarily to a continued decline in the market value of the Company's common stock, updated the tests at December 31, 2008. The goodwill test involved the assessment of the fair market value of the Company as a single reporting unit. In connection with these tests, the Company calculated the Company's implied goodwill and determined the fair value of its indefinite-lived intangible assets at December 31, 2008. The fair value measurements were based on Level 2 observable inputs using a combination of market capitalization, discounted cash flow and market approach. As a result of the goodwill impairment test, due primarily to the significant decline in the market value of its common stock, the Company recorded a non-cash goodwill impairment charge of approximately $26.9 million. The Company also recorded a non-cash indefinite-lived intangible impairment charge of $1.7 million due to the fair value of certain indefinite-lived assets being less than the carrying amount of the assets. These impairment charges are included within goodwill and intangible asset impairment in the accompanying consolidated statement of operations for 2008.

In January 2009, the Company disposed of its USE: business. As a result of the disposal, the Company recognized a non-cash impairment charge related to USE: goodwill of $579,000 and USE: intangible assets of $247,000 at December 31, 2008.

Intangible assets, all of which are included in the wholesale segment, consist of the following (in thousands):

	Year Ended December 31,					
	2008			**2007**		
	Gross	**Accumulated Amortization**	**Net**	**Gross**	**Accumulated Amortization**	**Net**
Indefinite-lived intangible assets:						
Trade names	$25,530	$	$25,530	$21,443	$	$21,443
Finite-lived intangible assets:						
Licenses	15,847	(5,123)	10,724	15,847	(4,490)	11,357
Trade names	2,477	(1,103)	1,374	2,477	(1,020)	1,457
Customer relationships	586	(321)	265	886	(451)	435
Designs				460	(330)	130
Patents	584	(57)	527	584	(23)	561

Total	$45,024	$(6,604)	$38,420	$41,697	$(6,314)	$35,383

The weighted-average amortization periods for the Company's finite-lived intangible assets as of December 31, 2008 are as follows:

	Years
Trade names	30
Licenses	33
Customer relationships	3
Patents	17

LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE E — GOODWILL AND INTANGIBLE ASSETS (continued)

Intangible assets (continued)

Estimated amortization expense for each of the five succeeding fiscal years is as follows (in thousands):

Year ending December 31	
2009	$779
2010	717
2011	631
2012	591
2013	591

Amortization expense for the years ended December 31, 2008, 2007 and 2006 was $978,000, $915,000, and $855,000, respectively.

NOTE F — CREDIT FACILITY

The Company has a $150 million secured credit facility, which until March 31, 2009, had an accordion feature for an additional $50 million and matures in April 2011 (the “Credit Facility”). Borrowings under the Credit Facility are secured by all assets of the Company. Under the terms of the Credit Facility (until March 31, 2009), the Company was required to satisfy certain financial covenants, including maximum leverage and capital expenditures and a minimum interest coverage ratio. Borrowings under the Credit Facility have different interest rate options that are based either on, (i) an alternate base rate, (ii) LIBOR, or (iii) the lender’s cost of funds rate, plus in each case a margin based on the applicable leverage ratio.

In March 2008, the Credit Facility was amended to: (i) establish a borrowing base (comprised of a percentage of each of eligible accounts receivable, inventory and trademarks) calculation to determine availability under the Credit Facility, (ii) increase the applicable margin rates and (iii) revised certain financial covenants. In September 2008, the Credit Facility was further amended to: (i) establish a minimum excess availability amount, (ii) include a minimum fixed charge ratio and a minimum EBITDA covenants, (iii) revised the leverage and interest coverage covenants and (iv) increased the applicable margin rates.

LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE F — CREDIT FACILITY (continued)

At December 31, 2008, the Company was not in compliance with the financial covenants required by the Credit Facility. On each of February 12, 2009 and March 6, 2009, the Company entered into a forbearance agreement and amendment to the Credit Facility whereby the lenders agreed to forbear from taking actions they would otherwise have been permitted to take as a result of the non-compliance. In consideration thereof, the Company agreed to further restrictions on its borrowings and an increase in the applicable margin rates.

On March 31, 2009, the Company entered into a waiver and amendment to the Credit Facility (the "Amendment"). Pursuant to the Amendment, the Company's lenders waived the Company's non-compliance with the financial covenants required by the Credit Facility at December 31, 2008. The Amendment modifies the Credit Facility in certain ways including, as follows: (i) changes the maturity date to January 31, 2011, (ii) adds certain asset categories to the borrowing base, (iii) increases the applicable margin rates (including a minimum LIBOR of 1.75%), (iv) revises the minimum EBITDA and fixed charge coverage covenants and adds both a minimum net sales and maximum capital expenditures covenant, (v) eliminates the requirement of maximum leverage and minimum interest coverage ratios, (vi) eliminates the $50 million accordion feature, (vii) revises the minimum excess availability amount and (viii) places restrictions on dividends and acquisitions. The Amendment also provides for a lock-box arrangement with the collateral agent. Pursuant to the Amendment, although the Credit Agreement matures on January 31, 2011, Emerging Issues Task Force 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Arrangements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement*, requires the indebtedness to be classified as a current liability on the consolidated balance sheet as of December 31, 2008.

At December 31, 2008, the Company had $2.1 million of open letters of credit and $89.3 million of borrowings outstanding under the Credit Facility. Interest rates on outstanding borrowings at December 31, 2008 ranged from 2.50% to 7.07%. The Company has interest rate swap and collar agreements (see Note H) with an aggregate notional amount of $55.2 million. The Company entered into these agreements to effectively fix the interest rate on a portion of its borrowings under the Credit Facility.

The Company believes that availability under the Credit Facility will be sufficient to fund the Company's operations for fiscal 2009. However, if circumstances were to change, the Company may need to refinance the Credit Facility or otherwise amend the terms of the Credit Facility. In addition, the Company would seek to engage in further activities, including efforts to lower its inventory and to reduce expenses. However, there can be no assurance that any such actions would be successful or that the results of any such actions would be adequate.

NOTE G — CONVERTIBLE NOTES

The Company has outstanding $75 million aggregate principal amount of 4.75% Convertible Senior Notes due 2011 (the "Notes"). The Notes are convertible into shares of the Company's common stock at a conversion price of $28.00 per share, subject to adjustment in certain events. The Notes bear interest at 4.75% *per annum*, payable semiannually in arrears on January 15th and July 15th of each year and are unsubordinated except with respect to the Company's debt to the extent secured by the Company's assets. The Notes mature on July 15, 2011. The Company may not redeem the Notes at any time prior to maturity.

The Notes are convertible at the option of the holder anytime prior to the close of business on the business day prior to the maturity date. Upon conversion, the Company may elect to deliver either shares of the Company's common stock, cash or a combination of cash and shares of the Company's common stock in satisfaction of the Company's obligations upon conversion of the Notes. At any time prior to the 26th trading day preceding the maturity date, the Company may irrevocably elect to satisfy in cash the Company's conversion obligation with respect to the principal amount of the Notes to be converted after the date of such election, with any remaining amount to be satisfied in shares of the Company's common stock. The election would be in the Company's sole discretion without the consent of the holders of the Notes. The conversion rate of the Notes may be adjusted upon the occurrence of certain events that would dilute the Company's outstanding common stock. In addition, holders that convert their Notes in connection with certain fundamental changes, such as a change in control, may be entitled to a make whole premium in the form of an increase in the conversion rate. If the Notes are not converted prior to the maturity date the Company is required to pay the holders of the Notes the principal amount of the Notes in cash upon maturity. The Company has reserved 2,678,571 shares of common stock for issuance upon conversion of the Notes.

As part of the issuance of the Notes, the Company incurred $3.1 million in underwriter's discounts and other offering expenses. The offering costs are being amortized to interest expense over the term of the Notes. At December 31, 2008 the unamortized balance of these costs is $1.5 million and is included in other assets in the consolidated balance sheet.

As more fully described in Note A, on January 1, 2009, the Company will be required to retrospectively adopt FSP APB 14-1. The Company expects that upon adoption of FSP APB 14-1 on January 1, 2009, interest expense for 2008, 2007 and 2006 will be increased by $2.4 million, $2.2 million and $1.0 million, respectively, and the Company will record an unamortized debt discount of $12.8 million, which will be amortized over a period of five years from the date the Company's 4.75% Convertible Senior Notes were issued. The Company expects to record additional interest expense of approximately $2.7 million, $2.9 million and $1.6 million in 2009, 2010 and 2011, respectively, due to the adoption of FSP APB 14-1.

LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE H — DERIVATIVES

The Company has interest rate swap agreements with an aggregate notional amount of $50 million and interest rate collar agreements with an aggregate notional amount of $40.2 million to manage interest rate exposure in connection with its variable interest rate borrowings, and a credit default swap with a notional amount of $1 million to manage credit exposure related to certain accounts receivable. The interest rate swap and collar agreements expire in 2010 and the credit default swap expires in 2009.

Certain interest rate swap agreements with an aggregate notional amount of $35 million and the credit default swap were not designated as hedges under SFAS 133 and the fair value gains or losses from these swap agreements are recognized in earnings. The effect of recording these interest rate swap agreements at fair value resulted in an unrealized gain of $148,000 and an unrealized loss of $358,000 for the years ended December 31, 2008 and 2007, respectively, which is included in interest expense.

An interest rate swap agreement with a notional amount of $15 million and the interest rate collar agreements were designated as cash flow hedges under SFAS 133. The effective portion of the fair value gains or losses on these agreements is recorded in other comprehensive loss. The effect of recording these agreements at fair value resulted in an unrealized loss of $1.9 million for the year ended December 31, 2008 and an unrealized loss of $203,000 (net of taxes of $170,000) for the year ended December 31, 2007. No amounts recorded in other comprehensive loss are expected to be reclassified to interest expense in the next twelve months.

The fair value of the above derivatives have been obtained from the counterparties to the agreements and are based on Level 2 observable inputs using proprietary models and estimates about relevant future market conditions. The aggregate fair value of the Company’s derivative instruments was a liability of $2.5 million and $731,000 for the years ended December 31, 2008 and 2007, respectively, which is included in deferred rent & other long-term liabilities.

NOTE I — CAPITAL STOCK

Cash dividends

The Company paid regular quarterly cash dividends of $0.0625 per share on its common stock, or a total annual cash dividend of $0.25 per share, in 2008, 2007 and 2006. In February 2009, in light of current economic conditions, the Company suspended paying a cash dividend on its outstanding shares of common stock.

Share repurchase program

In 2007, the Board of Directors of the Company authorized a program to repurchase up to $40.0 million of the Company's common stock through open market purchases or privately-negotiated transactions. As of December 31, 2008, the Company had purchased in the open market and retired a total of 1,362,505 shares of its common stock for a total cost of $22.7 million under the program. There were no purchases during 2008. In March 2009, the Board of Directors of the Company terminated the program.

Preferred stock

The Company is authorized to issue 100 shares of Series A Preferred Stock and 2,000,000 shares of Series B Preferred Stock, none of which is outstanding at December 31, 2008.

LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

NOTE I — CAPITAL STOCK (continued)

Long-term incentive plan

The Company maintains the 2000 Long-Term Incentive Plan (the "Plan"), whereby up to 2,500,000 shares of the Company's common stock may be subject to outstanding awards granted to directors, officers, employees, consultants and service providers and affiliates in the form of stock options or other equity-based awards. The Plan authorizes the Board of Directors of the Company, or a duly appointed committee thereof, to issue incentive stock options, non-qualified options, and other stock-based awards. Options that have been granted under the Plan expire over a range of five to ten years from the date of grant and vest over a range of up to five years from the date of grant. As of December 31, 2008, there were 11,031 shares available for grant under the Plan. All stock options granted through December 31, 2008 under the Plan have exercise prices equal to the market values of the Company's stock on the dates of grant.

In 2009, two key executives of the Company voluntarily cancelled their options to purchase 600,000 shares of the Company's common stock, which had a nominal fair value, in order to increase the shares available for grant under the Plan.

Stock options

A summary of the Company's stock option activity and related information for the three years ended December 31, 2008 is as follows:

	Options	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
Options outstanding, December 31, 2005	875,157	$14.51		
Grants	695,500	29.96		
Exercises	(146,157)	6.95		
Cancellations	(13,600)	28.12		
Options outstanding, December 31, 2006	1,410,900	22.78		