LIFETIME BRANDS, INC
Form 10-Q
August 08, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 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)

(Registrant's telephone number, including area code) (**516) 683-6000**

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

Yes x No o

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 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	o (Do not check if smaller reporting company)	Small 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 number of shares of the registrant's common stock outstanding as of August 7, 2008 was 11,966,888.

LIFETIME BRANDS, INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2008

INDEX

Part I.	Financial Information	Page No.
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets – June 30, 2008 (unaudited) and December 31, 2007	2
	Unaudited Condensed Consolidated Statements of Operations – Three and Six Months Ended June 30, 2008 and 2007	3
	Unaudited Condensed Consolidated Statements of Cash Flows – Six Months Ended June 30, 2008 and 2007	4
	Notes to Unaudited Condensed Consolidated Financial Statements	5
	Report of Independent Registered Public Accounting Firm	18
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	27
Item 4.	Controls and Procedures	27
Part II.	**Other Information**	
Item 1A.	Risk Factors	28
Item 4.	Submission of Matters to a Vote of Security Holders	28
Item 6.	Exhibits	29
Signatures		30

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LIFETIME BRANDS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2008	**December 31, 2007**
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,150	$ 4,172
Accounts receivable, less allowances of $12,529 at 2008 and $16,400 at 2007	52,242	65,030
Inventory	160,858	143,684
Deferred income taxes	7,983	7,925
Prepaid expenses and other current assets	6,455	7,267
Prepaid income taxes	9,010	
TOTAL CURRENT ASSETS	237,698	228,078
PROPERTY AND EQUIPMENT, net	54,351	54,332
GOODWILL	27,432	27,432
OTHER INTANGIBLES, net	34,887	35,383
INVESTMENT IN GRUPO VASCONIA, S.A.B.	24,141	22,950
OTHER ASSETS	3,020	3,240
TOTAL ASSETS	$ 381,529	$ 371,415
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 40,600	$ 13,500
Accounts payable	20,761	21,759
Accrued expenses	28,042	31,504
Income taxes payable		4,520
TOTAL CURRENT LIABILITIES	89,403	71,283
DEFERRED RENT & OTHER LONG-TERM LIABILITIES	15,732	14,481
DEFERRED INCOME TAX	8,437	8,211
LONG-TERM DEBT	55,200	55,200

CONVERTIBLE NOTES	75,000	75,000
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value, shares authorized: 25,000,000; shares issued and outstanding: 11,966,888 in 2008 and 11,964,388 in 2007	120	120
Paid-in capital	115,269	113,995
Retained earnings	22,571	33,250
Accumulated other comprehensive loss	(203)	(125)
TOTAL STOCKHOLDERS' EQUITY	137,757	147,240
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 381,529	$ 371,415

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

LIFETIME BRANDS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2008	2007	June 30, 2008	2007
Net sales	$92,399	$91,371	$190,593	$195,158
Cost of sales	55,288	51,906	114,893	113,003
Distribution expenses	12,766	11,721	26,156	25,032
Selling, general and administrative expenses	31,183	29,494	62,286	59,425
Restructuring expenses	107		2,987	
Loss from operations	(6,945)	(1,750)	(15,729)	(2,302)
Interest expense	(2,053)	(1,546)	(4,146)	(3,081)
Loss before income taxes and equity in earnings of Grupo Vasconia, S.A.B.	(8,998)	(3,296)	(19,875)	(5,383)
Income tax benefit	5,108	1,270	9,731	2,074
Equity in earnings of Grupo Vasconia, S.A.B., net of taxes	707		964	
NET LOSS	$(3,183)	$(2,026)	$(9,180)	$(3,309)
BASIC AND DILUTED LOSS PER COMMON SHARE	$(0.27)	$(0.15)	$(0.77)	$(0.25)

See accompanying independent registered public accounting firm review report and notes to unaudited condensed

consolidated financial statements.

LIFETIME BRANDS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Six Months Ended June 30,	
	2008	**2007**
OPERATING ACTIVITIES		
Net loss	$ (9,180)	$ (3,309)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,396	4,301
Deferred rent	1,467	200
Deferred income taxes		1,085
Stock compensation expense	1,264	966
Equity in earnings of Grupo Vasconia, S.A.B., net of taxes	(964)	
Changes in operating assets and liabilities (excluding the effect of business acquisitions):		
Accounts receivable, net	12,788	14,556
Inventory	(4,857)	(9,875)
Prepaid expenses, other current assets and other assets	1,032	(1,131)
Accounts payable, accrued expenses and other liabilities	(4,620)	(15,178)
Prepaid income taxes	(9,010)	(3,710)
Income tax payable	(4,520)	(6,878)
NET CASH USED IN OPERATING ACTIVITIES	(11,204)	(18,973)
INVESTING ACTIVITIES		
Purchase of property and equipment	(4,924)	(11,803)
Business acquisitions	(12,317)	(2,119)
NET CASH USED IN INVESTING ACTIVITIES	(17,241)	(13,922)
FINANCING ACTIVITIES		
Proceeds of short-term borrowings, net	27,100	35,600
Proceeds from exercise of stock options	8	137
Excess tax benefits from stock compensation		69
Payment of capital lease obligations	(188)	(225)
Cash dividends paid	(1,497)	(1,686)
NET CASH PROVIDED BY FINANCING ACTIVITIES	25,423	33,895
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,022)	1,000
Cash and cash equivalents at beginning of period	4,172	150
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,150	$ 1,150

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

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

NOTE A - BASIS OF PRESENTATION AND SUMMARY 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 Company-operated factory and outlet stores, mail order catalogs, and the Internet.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation have been included. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007. Operating results for the three and six month periods ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

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 2007, 2006 and 2005, net sales for the third and fourth quarters accounted for 61%, 65% and 71% of total annual net sales, respectively. Operating profits earned in the third and fourth quarters of 2007, 2006 and 2005 accounted for 111%, 99% and 83% of total annual operating profits, respectively. In anticipation of the pre-holiday shipping season, inventory levels increase primarily in the June through October time period.

Revenue recognition

Wholesale sales are recognized when title of merchandise passes and the risks and rewards of ownership have transferred to the customer. Factory and outlet 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 included in net sales and amounted to $970,000 and $824,000 for the three months ended June 30, 2008 and 2007, respectively, and $2.1 million and $1.8 million for the six months ended June 30, 2008 and 2007, 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 expenses amounted to $1.8 million and $1.5 million for the three months ended June 30, 2008 and 2007, respectively, and $3.4 million and $3.9 million, for the six months ended June 30, 2008 and 2007, respectively.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

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

Inventory

Inventory consists principally of finished goods sourced from third party suppliers. Inventory also includes finished goods, work in process and raw materials related to the Company's manufacture of sterling silver products. Inventory is priced by the lower of cost (first-in, first-out basis) or market method. 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.

The components of inventory are as follows:

	June 30, 2008	**December 31, 2007**
	(in thousands)	
Finished goods	$155,426	$139,042
Work in process	2,453	2,412
Raw materials	2,979	2,230
Total	$160,858	$143,684

Derivatives

The Company accounts for derivative instruments in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and subsequent amendments ("SFAS 133"). SFAS 133 requires that all derivative instruments be recognized on the balance sheet at fair value as either an asset or a liability. Accounting for changes in the fair value of a derivative depends on whether it qualifies and has been designated as part of a hedging relationship. For derivatives that qualify and have been designated as hedges for accounting purposes, changes in fair value 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.

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 condensed consolidated financial statements relate solely to the Company's derivatives described in Note G.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

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

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 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. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retrospective basis and will be adopted by the Company on January 1, 2009. The Company is currently evaluating the impact that FSP APB 14-1 will have on its consolidated financial statements.

Reclassifications

Certain amounts in the 2007 period condensed consolidated statement of cash flows were reclassified to conform to the presentation in 2008. These reclassifications had no effect on the Company's previously reported consolidated financial position or results of operations.

-7-

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

NOTE B – MIKASA ACQUISITION

On June 6, 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’s products are distributed through department stores, specialty stores and big box chains, as well as through its own Internet website. The preliminary purchase price was $20.1 million, consisting of (i) $12.3 million of cash paid at closing, (ii) $2.7 million of certain liabilities assumed at closing, (iii) $5.0 million of cash to be paid on December 15, 2008, and (iv) acquisition related costs of $100,000. The agreement also requires the Company to pay ARC an amount by which the sum of 5% of the annual net sales of Mikasa for 2009, 2010 and 2011, exceeds $5.0 million. On a preliminary basis the purchase price has been allocated to inventory acquired.

NOTE C - INVESTMENT IN GRUPO VASCONIA, S.A.B.

In December 2007, the Company acquired approximately 30% 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 BMV: EKCO.

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), net of taxes of $142,000 and $226,000 for the three and six month periods ended June 30, 2008, respectively, in the accompanying condensed consolidated statement of operations. The Company has 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

Summarized income statement information for Vasconia is as follows (in thousands):

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Net sales	$28,680	$50,812
Gross profit	8,161	14,242
Income from operations	3,539	5,995
Net income	2,663	4,152

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

NOTE D - INTANGIBLE ASSETS

Intangible assets

Intangible assets, all of which relate to the Company's wholesale segment, consist of the following (in thousands):

	June 30 , 2008			December 31, 2007		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Indefinite-lived intangible assets:						
Trade names	$21,443	$	$21,443	$21,443	$	$21,443
Finite-lived intangible assets:						
Licenses	15,847	(4,807)	11,040	15,847	(4,490)	11,357
Trade names	2,477	(1,061)	1,416	2,477	(1,020)	1,457
Customer relationships	886	(538)	348	886	(451)	435
Designs	460	(364)	96	460	(330)	130
Patents	584	(40)	544	584	(23)	561
Total	$41,697	$ (6,810)	$34,887	$41,697	$ (6,314)	$35,383

NOTE E - BANK CREDIT FACILITY

The Company has a $150 million secured credit facility, with an accordion feature for an additional $50 million, that expires 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, the Company is required to satisfy certain financial covenants, including covenants providing limitations on indebtedness, sale of assets and capital expenditures, a maximum leverage ratio and a minimum interest coverage ratio. At June 30, 2008, the Company was in compliance with these covenants. Borrowings under the Credit Facility have different interest rate options that are based on either, (i) an alternate base rate, (ii) the LIBOR rate, or (iii) the lender's cost of funds rate, plus in each case a margin based on a leverage ratio. In April 2008, the Credit Facility was amended to revise certain financial covenants, increase the applicable margin rates and establish a borrowing base calculation.

At June 30, 2008, the Company had $2.8 million of open letters of credit and $95.8 million of borrowings outstanding under the Credit Facility. Interest rates on outstanding borrowings at June 30, 2008 ranged from 3.64% to 5.00%. The availability under the Credit Facility at June 30, 2008 was $19.8 million. The Company has interest rate swap and collar agreements (see Note G) with an aggregate notional amount of $55.2 million at June 30, 2008 and December 31, 2007. The Company entered into these agreements to effectively fix the interest rate on a portion of its borrowings under the Credit Facility. The agreements have maturity dates that exceed one year as the Company does not intend to repay an equivalent amount of debt within one year. Accordingly, $55.2 million of debt outstanding under the Credit Facility at June 30, 2008 and December 31, 2007, has been classified as long-term debt.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

NOTE F - 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 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. Such shares have been registered and the Notes include a registration rights agreement that would require the Company to pay liquidated damages to the holders of the Notes if the Company fails to keep the registration statement effective.

NOTE G - 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 unrealized gains of $59,000 and $10,000 for the three and six months ended June 30, 2008, 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 gain of $712,000 (net of taxes of $526,000) for the three months ended June 30, 2008 and an unrealized loss of $77,000 (net of taxes of $58,000) for the six months ended June 30, 2008. 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 reasonable estimates about relevant future market conditions. The aggregate fair value of the Company's derivative instruments at June 30, 2008 was a liability of $857,000, which is included in deferred rent and other long-term liabilities.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

NOTE H - STOCK OPTIONS

A summary of the Company’s stock option activity and related information for the six months ended June 30, 2008 is as follows:

	Options	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Options outstanding, January 1, 2008	1,808,900	$22.69		
Grants	20,000	10.32		
Exercises	(1,500)	5.50		
Cancellations	(38,000)	27.49		
Options outstanding, June 30, 2008	1,789,400	22.46	5.75	$490,000
Options exercisable, June 30, 2008	1,094,090	21.35	5.19	$490,000

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that would have been received by the option holders had all option holders exercised their stock options on June 30, 2008. The intrinsic value is calculated for each in-the-money stock option as the difference between the closing price of the Company’s common stock on June 30, 2008 and the exercise price.

The total intrinsic value of stock options exercised during the six months ended June 30, 2008 was $8,700. The intrinsic value of a stock option that is exercised is calculated as the difference between the quoted market price of the Company’s common stock at the date of exercise and the exercise price of the stock option multiplied by the number of shares exercised.

The Company recognized stock option expense of $615,000 and $533,000 for the three months ended June 30, 2008 and 2007, respectively, and $1.2 million and $966,000 for the six months ended June 30, 2008 and 2007, respectively. Total unrecognized compensation cost related to unvested stock options at June 30, 2008, before the effect of income taxes, was $6.0 million and is expected to be recognized over a weighted average period of 2.84 years.

The weighted average per share grant date fair value of stock options granted during the six months ended June 30, 2008 was $3.40.

The fair value of the stock options granted during the six months ended June 30, 2008 was estimated at the date of grant using the following weighted average assumptions: Volatility—40.2%, Expected term—6 years, Risk-free interest rate—2.72% and Expected dividend yield—2.42%.

LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

NOTE I - LOSS PER COMMON SHARE

Basic loss per common share has been computed by dividing net loss by the weighted average number of shares of the Company's common stock outstanding. Diluted loss per common share adjusts net loss and basic loss per common share for the effect of all potentially dilutive shares of the Company's common stock. The calculations of basic and diluted loss per common share for the three and six months ended June 30, 2008 and 2007 are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2008	2007	June 30, 2008	2007
	(in thousands, except per share amounts)			
Net loss- basic	$ (3,183)	$ (2,026)	$ (9,180)	$ (3,309)
Net interest expense, 4.75% Convertible Notes				
Net loss- diluted	$ (3,183)	$ (2,026)	$ (9,180)	$ (3,309)
Weighted average shares outstanding – basic	11,967	13,300	11,966	13,295
Effect of dilutive securities:				
Stock options				
4.75% Convertible Notes				
Weighted average shares outstanding – diluted	11,967	13,300	11,966	13,295
Basic and diluted loss per common share	$ (0.27)	$ (0.15)	$ (0.77)	$ (0.25)

The computation of diluted loss per common share for the three months ended June 30, 2008 and 2007 excludes: (i) options to purchase 1,529,000 shares and 1,784,000 shares, respectively; and (ii) 2,678,571 shares of the Company's common stock issuable upon the conversion of the Company's 4.75% Convertible Notes and related interest expense. The computation of diluted loss per common share for the six months ended June 30, 2008 and 2007 excludes: (i) options to purchase 1,520,000 shares and 1,593,000 shares, respectively; and (ii) 2,678,571 shares of the Company's common stock issuable upon the conversion of the Company's 4.75% Convertible Notes and related interest expense. The above shares were excluded due to their antidilutive effect as a result of the losses during the periods.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

NOTE J – INCOME TAXES

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*. FIN 48 provides guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with SFAS 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. The Company adopted FIN 48 on January 1, 2007.

The estimated value of the Company's tax positions at June 30, 2008 is a liability of $154,000 (including interest of $54,000) and consisted of the following (in thousands):

Balance as of January 1, 2008	$ 1,437
Decrease – tax positions in prior years	(1,283)
Balance as of June 30, 2008	$ 154

If the Company's tax positions are sustained by the taxing authorities in favor of the Company, the Company's income tax provision would be reduced by $154,000. On a quarterly basis the Company evaluates its FIN 48 tax positions and revises its estimates accordingly. During the quarter ended June 30, 2008 the Company reversed $1.3 million of its FIN 48 reserves as a result of the expiration of the statute of limitations on a certain tax year, resulting in an increase in the income tax benefit recorded during the period.

The Company has identified federal, New York and New Jersey as "major" tax jurisdictions. The periods subject to examination for the Company's federal return are years 2003 through 2006. The periods subject to examination for the Company's New York return are years 2003 through 2006. The periods subject to examination for the Company's New Jersey return are years 2001 through 2006.

The Company's policy for recording interest and penalties is to record such items as a component of income taxes. Interest and penalties were not material to the Company's financial position, results of operations or cash flows as of and for the three and six months ended June 30, 2008 and 2007.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

NOTE K – BUSINESS SEGMENTS

The Company operates in two reportable business segments — wholesale and direct-to-consumer. The wholesale segment is the Company's primary business that designs, markets and distributes household products to retailers and distributors. The direct-to-consumer segment is comprised of the Company's business that sells household products directly to the consumer through Company-operated factory and outlet stores, and catalog and Internet operations. At June 30, 2008, the Company operated 44 factory stores utilizing the Pfaltzgraff® brand name and 8 outlet stores utilizing the Farberware® brand name. As described in Note M, the Company closed 30 underperforming Farberware® outlet stores and Pfaltzgraff® factory stores during the period from December 2007 to March 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.

Management evaluates the performance of the wholesale and direct-to-consumer segments based on net sales and income (loss) from operations. Such measures give recognition to specifically identifiable operating costs such as cost of sales, distribution expenses and selling, general and administrative expenses. Certain general and administrative expenses such as senior executive salaries and benefits, stock compensation, director fees and accounting, legal and consulting fees are not allocated to the specific segments and are reflected as unallocated corporate expenses.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
	(in thousands)			
Net sales				
Wholesale	$ 79,856	$ 77,422	$ 160,234	$ 166,594
Direct-to-consumer	12,543	13,949	30,359	28,564
Total net sales	$ 92,399	$ 91,371	$ 190,593	$ 195,158
Income (loss) from operations				
Wholesale	$ (1,222)	$ 3,461	$ (877)	$ 9,013
Direct-to-consumer (1)	(2,943)	(2,957)	(9,468)	(7,060)
Unallocated corporate expenses	(2,780)	(2,254)	(5,384)	(4,255)
Total loss from operations	$ (6,945)	$ (1,750)	$ (15,729)	$ (2,302)
Depreciation and amortization				
Wholesale	$ (2,567)	$ (1,943)	$ (4,947)	$ (3,632)
Direct-to-consumer	(226)	(323)	(449)	(669)
Total depreciation and amortization	$ (2,793)	$ (2,266)	$ (5,396)	$ (4,301)

Note:

(1) Loss from operations for the Direct-to-consumer segment for three and six months ended June 30, 2008 includes restructuring expenses of $107,000 and $3.0 million, respectively.
See Note M.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

NOTE L - CONTINGENCIES

The Company is a defendant in various lawsuits and from time-to-time, regulatory proceedings which may require the recall of its products, arising in the ordinary course of its business. Management does not expect the outcome of any of these matters, individually or collectively, to have a material adverse effect on the Company's financial condition.

In addition to the matters referred to in the foregoing paragraph, on April 10, 2007, a complaint was filed against the Company in the United States District Court for the Eastern District of Pennsylvania (the "Court"), in which the Plaintiff alleged that the Company violated the Fair and Accurate Credit Transaction Act of 2003. The Company reached a settlement with the Plaintiff which has received final approval of the Court. The settlement is not material to the Company's consolidated financial statements.

NOTE M - OTHER

Dividends

Dividends declared in 2008 are as follows:

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

Stock repurchase plan

The Board of Directors of the Company has authorized a program to repurchase up to $40.0 million of the Company's common stock through open market purchases or privately-negotiated transactions. Through June 30, 2008 the Company has 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 the six months

ended June 30, 2008.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

NOTE M - OTHER (continued)

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. In connection with the store closings, the Company has incurred certain restructuring related costs for store lease obligations, consulting fees, retention bonuses and severance, and other incremental costs related to the closures. During the three and six months ended June 30, 2008, the Company recognized $107,000 and $3.0 million of such costs, respectively, consisting of the following:

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
	(in thousands)	
Store lease obligations	$	$ 2,300
Consulting fees		393
Retention bonuses and severance		141
Other related costs	107	153
Total	$ 107	$ 2,987

The following is a roll-forward of the amounts included in accrued expenses related to the store closures:

	Balance March 31, 2008	Charges	Payments	Balance June 30, 2008
	(in thousands)			
Store lease obligations	$2,300	$	$(1,734)	$566
Consulting fees	192		(192)	

Retention bonuses and severance	188		(188)	
Other related costs	49	107	(156)	
Total	$2,729	$107	$(2,270)	$566

Supplemental cash flow information

	Six Months Ended June 30,	
	2008	**2007**
	(in thousands)	
Supplemental disclosure of cash flow information:		
Cash paid for interest	$3,838	$3,157
Cash paid for taxes	3,826	5,347
Non-cash investing activities:		
Liabilities assumed in business acquisition	$2,718	$
Deferred cash purchase price of business acquisition	5,000	
Reclassification of property and equipment to building held for sale		5,073

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

NOTE M - OTHER (continued)

Comprehensive loss

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007