

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

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended: June 30, 2017**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 0-19254**

**LIFETIME BRANDS, INC.**

**(Exact name of registrant as specified in its charter)**



The number of shares of the registrant's common stock outstanding as of July 31, 2017 was 14,798,440.

**Table of Contents**

**LIFETIME BRANDS, INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED JUNE 30, 2017**

**INDEX**

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

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****LIFETIME BRANDS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	(unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,122	\$ 7,883
Accounts receivable, less allowances of \$4,349 at June 30, 2017 and \$5,725 at December 31, 2016	67,509	104,556
Inventory (Note A)	167,428	135,212
Prepaid expenses and other current assets	8,088	8,796
Income taxes receivable (Note H)	4,279	
<b>TOTAL CURRENT ASSETS</b>	<b>251,426</b>	<b>256,447</b>
<b>PROPERTY AND EQUIPMENT, net</b>	<b>20,650</b>	<b>21,131</b>
<b>INVESTMENTS (Note B)</b>	<b>25,170</b>	<b>22,712</b>
<b>INTANGIBLE ASSETS, net (Note C)</b>	<b>88,129</b>	<b>89,219</b>
<b>DEFERRED INCOME TAXES (Note H)</b>	<b>8,467</b>	<b>8,459</b>
<b>OTHER ASSETS</b>	<b>1,340</b>	<b>1,886</b>
<b>TOTAL ASSETS</b>	<b>\$ 395,182</b>	<b>\$ 399,854</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturity of Credit Agreement Term Loan (Note D)	\$	\$ 9,343
Short term loan	121	113
Accounts payable	33,977	29,698
Accrued expenses	37,159	45,212
Income taxes payable (Note H)		6,920
<b>TOTAL CURRENT LIABILITIES</b>	<b>71,257</b>	<b>91,286</b>
<b>DEFERRED RENT &amp; OTHER LONG-TERM LIABILITIES</b>	<b>17,610</b>	<b>18,973</b>
<b>DEFERRED INCOME TAXES (Note H)</b>	<b>6,161</b>	<b>5,666</b>
<b>REVOLVING CREDIT FACILITY (Note D)</b>	<b>98,974</b>	<b>86,201</b>
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock, \$1.00 par value, shares authorized: 100 shares of Series A and 2,000,000 shares of Series B; none issued and outstanding		

Edgar Filing: LIFETIME BRANDS, INC - Form 10-Q

Common stock, \$.01 par value, shares authorized: 50,000,000 at June 30, 2017 and December 31, 2016; shares issued and outstanding: 14,797,690 at June 30, 2017 and 14,555,936 at December 31, 2016	148	146
Paid-in capital	176,488	173,600
Retained earnings	56,210	60,981
Accumulated other comprehensive loss (Note K)	(31,666)	(36,999)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>201,180</b>	<b>197,728</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 395,182</b>	<b>\$ 399,854</b>

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

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

(In thousands, except per share data)

(unaudited)

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

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

consolidated financial statements.

Table of Contents**LIFETIME BRANDS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(In thousands)

(unaudited)

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

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



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

(In thousands)

(unaudited)

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

Edgar Filing: LIFETIME BRANDS, INC - Form 10-Q

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

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

**Table of Contents**

**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

(unaudited)

**NOTE A BASIS OF PRESENTATION AND SUMMARY ACCOUNTING POLICIES**

**Organization and business**

Lifetime Brands, Inc. (the Company) designs, sources and sells branded kitchenware, tableware and other products used in the home and markets its products under a number of brand names and trademarks, which are either owned or licensed by the Company, or through retailers' private labels. The Company markets and sells its products principally on a wholesale basis to retailers. The Company also markets and sells a limited selection of its products directly to consumers through its Pfaltzgraff, Mikasa, Fred and Friends, Built NY, Lifetime Sterling and The English Table internet websites.

**Basis of presentation**

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

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

**Revenue recognition**

The Company sells products wholesale, to retailers and distributors, and retail, directly to the consumer. Wholesale sales and retail sales are recognized when title passes to the customer, which is primarily at the shipping point for wholesale sales and upon delivery to the customer for retail sales. Shipping and handling fees that are billed to customers in sales transactions are included in net sales and amounted to \$431,000 and \$497,000 for the three months ended June 30, 2017 and 2016, respectively, and \$992,000 and \$1,033,000 for the six months ended June 30, 2017 and 2016, respectively. Net sales exclude taxes that are collected from customers and remitted to the taxing authorities.

The Company offers various sales incentives and promotional programs to its wholesale customers from time to time in the normal course of business. These incentives and promotions typically include arrangements such as cooperative

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

**Cost of sales**

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

**Distribution expenses**

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

**Table of Contents**

**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

(unaudited)

**Accounts receivable**

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

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

**Receivable purchase agreement**

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

**Inventory**

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

The components of inventory are as follows:

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

### **Fair value of financial instruments**

The Company determined the carrying amounts of cash and cash equivalents, accounts receivable and accounts payable are reasonable estimates of their fair values because of their short-term nature. The Company determined that the carrying amounts of borrowings outstanding under its Revolving Credit Facility, term loan and short term loan approximate fair value since such borrowings bear interest at variable market rates.

**Table of Contents**

**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

(unaudited)

**Derivatives**

The Company accounts for derivative instruments in accordance with Accounting Standard Codification ( ASC ) Topic No. 815, Derivatives and Hedging. ASC Topic No. 815 requires that all derivative instruments be recognized on the balance sheet at fair value as either an asset or liability. Changes in the fair value of derivatives that qualify as hedges and have been designated as part of a hedging relationship for accounting purposes have no net impact on earnings to the extent the derivative is considered highly effective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged, until the hedged item is recognized in earnings. If a derivative which is designated as part of a hedging relationship is considered ineffective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged, the changes in fair value are recorded in operations. For derivatives that do not qualify or are not designated as hedging instruments for accounting purposes, changes in fair value are recorded in operations.

**Restructuring Expenses**

Costs associated with restructuring activities are recorded at fair value when a liability has been incurred. A liability has been incurred at the point of closure for any remaining operating lease obligations and at the communication date for severance.

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

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

**Goodwill, intangible assets and long-lived assets**

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

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



**Table of Contents**

**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

(unaudited)

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

**Employee healthcare**

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

**Adoption of new accounting pronouncements**

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

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

**Accounting pronouncements to be adopted in future periods**

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

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

**Table of Contents**

**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

(unaudited)

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

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

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

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

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

Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2017**

(unaudited)

**NOTE B INVESTMENTS**

The Company owns an approximately 30% interest in Grupo Vasconia S.A.B. ( Vasconia ), an integrated manufacturer of aluminum products and one of Mexico's largest housewares companies. Shares of Vasconia's capital stock are traded on the Bolsa Mexicana de Valores, the Mexican Stock Exchange. The Quotation Key is VASCONI. The Company accounts for its investment in Vasconia using the equity method of accounting and records its proportionate share of Vasconia's net income in the Company's statement of operations. Accordingly, the Company has recorded its proportionate share of Vasconia's net income (reduced for amortization expense related to the customer relationships acquired) for the three and six month periods ended June 30, 2017 and 2016 in the accompanying condensed consolidated statements of operations. The value of the Company's investment balance has been translated from Mexican Pesos ( MXN ) to U.S. Dollars ( USD ) using the spot rates of MXN 18.05 and MXN 20.70 at June 30, 2017 and December 31, 2016, respectively. The Company's proportionate share of Vasconia's net income has been translated from MXN to USD using the average exchange rates of MXN 18.54 and MXN 18.09 during the three months ended June 30, 2017 and 2016, respectively, and MXN 18.54 to MXN 20.30 and MXN 18.06 to MXN 18.07 during the six months ended June 30, 2017 and 2016, respectively. The effect of the translation of the Company's investment resulted in an increase to the investment of \$1.8 million and a decrease to the investment of \$1.7 million during the six months ended June 30, 2017 and 2016, respectively (also see Note K). These translation effects are recorded in accumulated other comprehensive income (loss). Included within prepaid expenses and other current assets at June 30, 2017 and December 31, 2016 are amounts due from Vasconia of \$85,000 and \$83,000, respectively. Included within accrued expenses and accounts payable at June 30, 2017 and December 31, 2016 are amounts due to Vasconia of \$24,000 and \$220,000, respectively.

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

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

**Six Months Ended**  
**June 30,**

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

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

Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2017**

(unaudited)

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

The Company evaluated the disclosure requirements of ASC Topic No. 860, *Transfers and Servicing*, and determined that at June 30, 2017, the Company did not have a controlling voting interest or variable interest in any of its investments and therefore continued accounting for the investments using the equity method of accounting.

**NOTE C INTANGIBLE ASSETS**

Intangible assets consist of the following (in thousands):

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

**NOTE D DEBT**

The Company's Second Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A, as Administrative Agent and Co-Collateral Agent, and HSBC Bank USA, National Association, as Syndication Agent and Co-Collateral Agent, and the other Lenders and Loan Parties party thereto, as amended, (the "Credit Agreement"), which expires in January 2019, provides for, among other things, a revolving credit facility commitment totaling \$175.0 million, \$40.0 million of which is available for multi-currency borrowings (the "Revolving Credit Facility") and a term loan facility (the "Term Loan").

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

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

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



**Table of Contents**

**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

(unaudited)

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

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

The Credit Agreement provides for customary restrictions and events of default. Restrictions include limitations on additional indebtedness, acquisitions, investments and payment of dividends, among other things. Further, the Credit Agreement provides that at any time any Term Loan is outstanding or at any time no Term Loan is outstanding and availability under the Revolving Credit Facility is less than \$17.5 million and continuing until availability of at least \$20.0 million is maintained for three consecutive months, the Company is required to maintain a minimum fixed charge coverage ratio of 1.20 to 1.00 for each of four consecutive fiscal quarter periods. The Company was in compliance with the financial covenants of the Credit Agreement as of June 30, 2017.

**NOTE E- DERIVATIVES**

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

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



Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2017**

(unaudited)

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

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

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

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

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

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

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

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

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

**NOTE F STOCK COMPENSATION**

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

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

Table of Contents

## LIFETIME BRANDS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(unaudited)

*Option Awards*

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

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

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that would have been received by the option holders had all option holders exercised their stock options on June 30, 2017. The intrinsic value is calculated for each in-the-money stock option as the difference between the closing price of the Company's common stock on June 30, 2017 and the exercise price.

The total intrinsic value of stock options exercised for the six month periods ended June 30, 2017 and 2016 was \$0.9 million and \$0.9 million, respectively. The intrinsic value of a stock option that is exercised is calculated at the date of exercise.

Total unrecognized stock option compensation expense at June 30, 2017, before the effect of income taxes, was \$1.6 million and is expected to be recognized over a weighted-average period of 2.3 years.

*Restricted Stock*

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

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

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

Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2017**

(unaudited)

*Performance shares*

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

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

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

(1) Represents the target number of shares to be issued for each performance-based award. The Company recognized total stock compensation expense of \$0.7 million for the three months ended June 30, 2017, of which \$0.2 million represents stock option compensation expense and \$0.5 million represents restricted stock and performance based compensation expense. For the six months ended June 30, 2017 the Company recognized total stock compensation expense of \$1.5 million, of which \$0.6 million represents stock option compensation expense, \$0.9 million represents restricted stock and performance based compensation expense.

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

#### NOTE G LOSS PER COMMON SHARE

Basic loss per common share has been computed by dividing net loss by the weighted-average number of shares of the Company's common stock outstanding during the relevant period. Diluted loss per common share adjusts net loss and basic loss per common share for the effect of all potentially dilutive shares of the Company's common stock. The calculations of basic and diluted loss per common share for the three and six month periods ended June 30, 2017 and 2016 are as follows:

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



**Table of Contents**

**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

(unaudited)

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

**NOTE H INCOME TAXES**

On a quarterly basis, the Company evaluates its tax positions and revises its estimates accordingly. The estimated value of the Company's uncertain tax positions at June 30, 2017 is a gross liability of tax and interest of \$115,000. The Company believes that \$54,000 of its tax positions will be resolved within the next twelve months.

The Company has identified the following jurisdictions as major tax jurisdictions: U.S. Federal, California, Massachusetts, New York, New Jersey and the United Kingdom. The Company is no longer subject to U.S. Federal income tax examinations for the years prior to 2014. At June 30, 2017, the periods subject to examination for the Company's major state jurisdictions are the years ended 2013 through 2016.

The Company's policy for recording interest and penalties is to record such items as a component of income taxes. Interest and penalties were not material to the Company's financial position, results of operations or cash flows as of and for the three and six month periods ended June 30, 2017 and 2016.

**NOTE I BUSINESS SEGMENTS**

The Company operates in three reportable business segments: U.S. Wholesale, International and Retail Direct. The U.S. Wholesale segment is the Company's primary domestic business that designs, markets and distributes its products to retailers and distributors. The International segment consists of certain business operations conducted outside the U.S. The Retail Direct segment is where the Company markets and sells a limited selection of its products directly to consumers through its Pfaltzgraff, Mikasa, Fred and Friends, Built NY and Lifetime Sterling internet websites.

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



Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2017**

(unaudited)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(in thousands)			
<b>Net sales</b>				
U.S. Wholesale	\$ 94,770	\$ 92,738	\$ 182,162	\$ 175,006
International	19,365	21,560	40,593	45,233
Retail Direct	3,258	3,752	7,994	8,736
<b>Total net sales</b>	<b>\$ 117,393</b>	<b>\$ 118,050</b>	<b>\$ 230,749</b>	<b>\$ 228,975</b>
<b>Loss from operations</b>				
U.S. Wholesale	\$ 3,712	\$ 3,268	\$ 5,947	\$ 1,479
International	(3,743)	(382)	(4,900)	13
Retail Direct	(277)	6	(161)	43
Unallocated corporate expenses	(2,833)	(3,180)	(5,901)	(7,038)
<b>Loss from operations</b>	<b>\$ (3,141)</b>	<b>\$ (288)</b>	<b>\$ (5,015)</b>	<b>\$ (5,503)</b>
<b>Depreciation and amortization</b>				
U.S. Wholesale	\$ 2,301	\$ 2,272	\$ 4,603	\$ 4,451
International	1,014	1,270	1,965	2,540
Retail Direct	33	36	66	71
<b>Total depreciation and amortization</b>	<b>\$ 3,348</b>	<b>\$ 3,578</b>	<b>\$ 6,634</b>	<b>\$ 7,062</b>

	<b>June 30,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
	(in thousands)	
<b>Assets</b>		
U.S. Wholesale	\$ 283,942	\$ 287,313
International	93,946	95,698
Retail Direct	426	501
Unallocated/ Corporate/ Other	16,868	16,342
<b>Total assets</b>	<b>\$ 395,182</b>	<b>\$ 399,854</b>

**NOTE J CONTINGENCIES**

Wallace Silversmiths de Puerto Rico, Ltd. ( WSPR ), a wholly-owned subsidiary of the Company, operates a manufacturing facility in San Germán, Puerto Rico that is leased from the Puerto Rico Industrial Development Company ( PRIDCO ). In March 2008, the United States Environmental Protection Agency (the EPA ) announced that the San Germán Ground Water Contamination site in Puerto Rico (the Site ) had been added to the Superfund National Priorities List due to contamination present in the local drinking water supply.

In May 2008, WSPR received from the EPA a Notice of Potential Liability and Request for Information Pursuant to 42 U.S.C. Sections 9607(a) and 9604(e) of the Comprehensive Environmental Response, Compensation, and Liability Act ( CERCLA ). In July 2011, WSPR received a letter from the EPA requesting access to the property

---

**Table of Contents****LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2017**

(unaudited)

that it leases from PRIDCO to conduct an environmental investigation, and the Company granted such access. In February 2013, the EPA requested access to conduct a further environmental investigation at the property. PRIDCO agreed to such access and the Company consented. EPA conducted a further investigation during 2013 and, in April 2015, notified the Company and PRIDCO that the results from vapor intrusion sampling may warrant implementation of measures to mitigate potential exposure to sub-slab soil gas. The Company reviewed the information provided by the EPA and requested that PRIDCO, as the property owner, find and implement a solution acceptable to the EPA. While WSPR did not cause the sub-surface condition that resulted in the potential for vapor intrusion, in order to protect the health of its employees and continue its business operations, it has nevertheless implemented corrective action measures to prevent vapor intrusion such as sealing floors of the building and conducting periodic air monitoring to address potential exposure. On August 13, 2015, the EPA released its remedial investigation and feasibility study ( RI/FS ) for the Site. On December 11, 2015, the EPA issued the Record of Decision ( ROD ) for OU-1, electing to implement its preferred remedy which consists of soil vapor extraction and dual-phase extraction/*in-situ* treatment. This selected remedy includes soil vapor extraction ( SVE ) to address soil (vadose zone) source areas at the Site, impermeable cover as necessary for the implementation of SVE, dual phase extraction in the shallow saprolite zone, and *in-situ* treatment as needed to address residual sources. The EPA's estimated capital cost for its selected remedy is \$7.3 million. The EPA also designated a second operable unit under which the EPA will conduct further investigations to determine the nature and extent of groundwater contamination, as well as a determination by the EPA on the necessity of any further response actions to address groundwater contamination. In February 2017, the EPA indicated that it plans to expand its field investigation for the RI/FS for the second operable unit to further determine the nature and extent of the groundwater contamination at and from the Site and to determine the nature of the remedial action needed to address the contamination. The EPA has requested access to the property occupied by WSPR to install monitoring wells and to undertake groundwater sampling as part of this expanded investigation. WSPR has consented to EPA's access request, provided that the EPA receives PRIDCO's consent, as the property owner. WSPR never used the primary contaminant of concern and did not take up its tenancy at the Site until after the EPA had discovered the contamination in the local water supply. The EPA has also issued notices of potential liability to a number of other entities affiliated with the Site, which used the contaminants of concern.

Accordingly, based on the above uncertainties and variables, it is not possible at this time for the Company to estimate its share of liability, if any, related to this matter. However, in the event of one or more adverse determinations related to this matter, it is possible that the ultimate liability resulting from this matter and the impact on the Company's results of operations could be material.

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

**NOTE K OTHER**

**Cash dividends**

Dividends declared in the six months ended June 30, 2017 are as follows:

<b>Dividend per share</b>	<b>Date declared</b>	<b>Date of record</b>	<b>Payment date</b>
\$ 0.0425	March 8, 2017	May 1, 2017	May 15, 2017
\$ 0.0425	June 22, 2017	August 1, 2017	August 15, 2017

Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2017**

(unaudited)

On February 15, 2017 and May 15, 2017, the Company paid cash dividends of \$613,000 and \$613,000, respectively, to shareholders of record on February 1, 2017 and May 1, 2017, respectively. In the three months ended June 30, 2017, the Company reduced retained earnings for the accrual of \$639,000 relating to the dividend payable on August 15, 2017.

On August 4, 2017, the Board of Directors declared a quarterly dividend of \$0.0425 per share payable on November 15, 2017 to shareholders of record on November 1, 2017.

**Supplemental cash flow information**

	<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
	(in thousands)	
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 1,704	\$ 1,971
Cash paid for taxes	8,753	5,923
<b>Non-cash investing activities:</b>		
Translation adjustment	\$ 5,288	\$ (5,133)

- 20 -

Table of Contents**LIFETIME BRANDS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****June 30, 2017**

(unaudited)

**Components of accumulated other comprehensive loss, net**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(in thousands)			
<i>Accumulated translation adjustment:</i>				
Balance at beginning of period	\$ (33,668)	\$ (14,640)	\$ (35,644)	\$ (12,961)
Translation gain (loss) during period	3,312	(3,454)	5,288	(5,133)
Amounts reclassified from accumulated other comprehensive loss: <sup>(1)</sup>				
Currency translation adjustment		378		378
Balance at end of period	\$ (30,356)	\$ (17,716)	\$ (30,356)	\$ (17,716)
<i>Accumulated deferred gains (losses) on cash flow hedges:</i>				
Balance at beginning of period	\$ 10	\$ (63)	\$ (3)	\$ (20)
Derivative fair value adjustment, net of taxes of \$1 and \$3 for the three month periods ended June 30, 2017 and 2016, respectively and \$9 and \$32 for the six month periods ended June 30, 2017 and 2016, respectively.	1	(4)	14	(47)
Balance at end of period	\$ 11	\$ (67)	\$ 11	\$ (67)
<i>Accumulated effect of retirement benefit obligations:</i>				
Balance at beginning of period	\$ (1,337)	\$ (1,190)	\$ (1,352)	\$ (1,204)
Amounts reclassified from accumulated other comprehensive loss: <sup>(2)</sup>				
Amortization of actuarial losses, net of taxes of \$10 and \$9 for the three month periods ended June 30, 2017 and 2016, respectively and \$20 and \$18 for the six month periods ended June 30, 2017 and 2016, respectively.	16	13	31	27



Edgar Filing: LIFETIME BRANDS, INC - Form 10-Q

Balance at end of period	\$ (1,321)	\$ (1,177)	\$ (1,321)	\$ (1,177)
Total accumulated other comprehensive loss at end of period	\$ (31,666)	\$ (18,960)	\$ (31,666)	\$ (18,960)

- (1) Amount is recorded in equity in earnings (losses) on the condensed consolidated statements of operations.
- (2) Amounts are recorded in selling, general and administrative expense on the condensed consolidated statements of operations.

- 21 -

**Table of Contents**

**Review Report of Independent Registered Public Accounting Firm**

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

We have reviewed the condensed consolidated balance sheet of Lifetime Brands, Inc. as of June 30, 2017, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three-and six month periods ended June 30, 2017 and 2016, and the related condensed consolidated statements of cash flows for the six month periods ended June 30, 2017 and 2016. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Lifetime Brands, Inc. as of December 31, 2016, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated March 16, 2017. We did not audit the consolidated financial statements of Grupo Vasconia, S.A.B. and Subsidiaries (a corporation in which the Company has a 30% interest), which statements have been audited by other auditors whose report has been furnished to us, and our opinion on the consolidated financial statements, insofar as it relates to the amounts included for Grupo Vasconia, S.A.B. and Subsidiaries, is based solely on the report of the other auditors. In the consolidated financial statements, the Company's investment in Grupo Vasconia, S.A.B. and Subsidiaries is stated at \$22.5 million at December 31, 2016, and the Company's equity in the net income of Grupo Vasconia, S.A.B. and Subsidiaries is stated at \$0.6 million for the year ended December 31, 2016. In our opinion, the accompanying condensed consolidated balance sheet of Lifetime Brands, Inc. as of December 31, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Jericho, New York

August 8, 2017

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This Quarterly Report on Form 10-Q of Lifetime Brands, Inc. (the Company and, unless the context otherwise requires, references to the Company shall include its consolidated subsidiaries), contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements include information concerning 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, in *Management's Discussion and Analysis of Financial Condition and Results of Operations*. When used in this Quarterly Report on Form 10-Q, the words estimates, expects, anticipates, projects, plans, intends, believes, may, should, seeks, and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, the Company's examination of historical operating trends, are based upon the Company's current expectations and various assumptions. The Company believes there is a reasonable basis for its expectations and assumptions, but there can be no assurance that the Company will realize its expectations or that the Company's assumptions will prove correct.

There are a number of risks and uncertainties that could cause the Company's actual results to differ materially from the forward-looking statements contained in this Quarterly Report. Important factors that could cause the Company's actual results to differ materially from those expressed as forward-looking statements are set forth in the Company's 2016 Annual Report on Form 10-K in Part I, Item 1A under the heading *Risk Factors*. Such risks, uncertainties and other important factors include, among others, risks related to:

Tax reform;

General economic factors and political conditions;

Indebtedness;

Seasonality;

Liquidity;

Interest;

Competition;

Customer practices;

Intellectual property, brands and licenses;

International operations;

Supply chain;

Foreign exchange rates;

International trade and transportation;

Product liability;

Regulatory matters;

Product development;

Reputation;

Technology;

Personnel;

Price fluctuations;

Business interruptions;

---

**Table of Contents**

Projections;

Fixed costs; and

Acquisitions and investments;

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.

**ABOUT THE COMPANY**

The Company designs, sources and sells branded kitchenware, tableware and other products used in the home. The Company's product categories include two categories of products used to prepare, serve and consume foods: Kitchenware (kitchen tools and gadgets, cutlery, cutting boards, shears, cookware, pantryware, spice racks, and bakeware); and Tableware (dinnerware, stemware, flatware and giftware); and one category, Home Solutions, which comprises other products used in the home (thermal beverage ware, food storage, neoprene travel products and home décor). In 2016, Kitchenware products and Tableware products accounted for approximately 90% of the Company's U.S. Wholesale net sales and 88% of the Company's consolidated net sales.

At the heart of the Company is a culture of innovation. The Company employs over 120 artists, engineers, industrial designers and graphics specialists, who create new products, packaging and merchandising concepts. The Company expects to introduce approximately 4,000 new or redesigned products globally in 2017. Newly introduced products typically reach their peak sales in 12 to 18 months.

The Company markets several product lines within each of its product categories and under most of the Company's brands, primarily targeting moderate price points through virtually every major level of trade. The Company believes it possesses certain competitive advantages based on its brands, its emphasis on innovation and new product development and its sourcing capabilities. The Company owns or licenses a number of leading brands in its industry, including Farberware®, Mikasa®, KitchenAid®, Pfaltzgraff®, KitchenCraft®, Sabatier®, Mossy Oak®, Kamenstein®, Copco®, masterclass®, Towle®, Fred® and La Cafetière®. Historically, the Company's sales growth has come from expanding product offerings within its product categories, by developing existing brands, acquiring new brands, including complementary brands in markets outside the United States, and establishing new product categories. Key factors in the Company's growth strategy have been the selective use and management of the Company's brands and the Company's ability to provide a stream of new products and designs. A significant element of this strategy is the Company's in-house design and development teams that create new products, packaging and merchandising concepts.

**BUSINESS SEGMENTS**

The Company operates in three reportable segments: U.S. Wholesale, International and Retail Direct. The U.S. Wholesale segment, is the Company's primary domestic business that designs, markets and distributes its products to retailers and distributors. The International segment consists of certain business operations conducted outside the U.S. The Retail Direct segment is that in which the Company markets and sells a limited selection of its products directly to consumers through its Pfaltzgraff, Mikasa, Fred and Friends, Built NY and Lifetime Sterling internet websites. The Company has segmented its operations to reflect the manner in which management reviews and evaluates its results of operations.

## **EQUITY INVESTMENTS**

The Company owns approximately 30% of the outstanding capital stock of Grupo Vasconia, S.A.B. ( Vasconia ), an integrated manufacturer of aluminum products and one of Mexico's largest housewares companies. Shares of Vasconia's capital stock are traded on the Bolsa Mexicana de Valores, the Mexican Stock Exchange. The Quotation Key is VASCONI.

- 24 -

## **Table of Contents**

The Company accounts for its investment in Vasconia using the equity method of accounting and has recorded its proportionate share of Vasconia's net income, net of taxes, as equity in earnings (losses) in the Company's condensed consolidated statements of operations. Pursuant to a Shares Subscription Agreement (the "Agreement"), the Company may designate four persons to be nominated as members of Vasconia's Board of Directors. As of June 30, 2017, Vasconia's Board of Directors is comprised of ten members of whom the Company has designated three members.

## **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 2016 and 2015, net sales for the third and fourth quarters accounted for 61% and 59% of total annual net sales, respectively. In anticipation of the pre-holiday shipping season, inventory levels increase primarily in the June through October time period. Consistent with the seasonality of the Company's net sales and inventory levels, the Company also experiences seasonality in its inventory turnover and turnover days from one quarter to the next.

## **RESTRUCTURING**

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

In 2015 the Company commenced an in-depth review of its U.S. Wholesale business segment, which included the evaluation of the segment's efficiency and effectiveness, with the objective of developing a plan to restructure its operations as appropriate. During 2016 the Company expanded this restructuring plan to focus on specific actions required to achieve the plan's objectives. The restructuring plan included the realignment of product categories to best achieve the Company's strategic plan and implementation of cost reduction initiatives. During the three and six months ended June 30, 2016, the Company recorded \$1.1 million and \$1.7 million of restructuring expense related to the U.S. Wholesale restructuring.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The following is an update to the corresponding accounting policy set forth in the Company's 2016 Annual Report on Form 10-K. Except as modified below, there have been no material changes to the Company's critical accounting policies and estimates discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

### **Inventory**

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

### **Share-based compensation**

The Company accounts for its share-based compensation arrangements in accordance with ASC Topic 718, *Stock Compensation*, which 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 and the risk-free interest rate. Changes in these subjective input assumptions can materially affect the fair value estimate of the Company's stock options on the date of the option grant.



**Table of Contents**

Performance share awards are initially valued at the Company's closing stock price on the date of grant. Each performance award represents the right to receive up to 150% of the target number of shares of common stock. The number of shares of common stock earned will be determined based on the attainment of specified performance goals by the end of the performance period, as determined by the Compensation Committee. Compensation expense for performance awards is recognized over the vesting period, and will vary based on remeasurement during the performance period. If the performance metrics are not probable of achievement during the performance period, compensation expense would be reversed. The awards are forfeited if the performance metrics are not achieved as of the end of the performance period. The performance share awards vest in full at the end of a three year period.

The Company bases the estimated fair value of restricted stock awards on the fair value of its common stock on the date of grant. The estimated fair value of an award is determined based on the closing price of the Company's common stock on the date of grant multiplied by the number of shares awarded. Compensation expense is recognized on a straight-line basis over the vesting period. Forfeitures are accounted for as they occur.

**RESULTS OF OPERATIONS**

The following table sets forth statement of operations data of the Company as a percentage of net sales for the periods indicated:

	Three Months Ended		Six Months	
	June 30,		Ended June 30,	
	2017	2016	2017	2016
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	63.5	63.6	62.4	63.5
Gross margin	36.5	36.4	37.6	36.5
Distribution expenses	10.7	10.5	11.3	11.2
Selling, general and administrative expenses	28.2	25.3	28.4	26.9
Restructuring expenses	0.2	0.9	0.1	0.7
Loss from operations	(2.6)	(0.3)	(2.2)	(2.3)
Interest expense	(0.9)	(1.0)	(0.8)	(1.0)
Loss on early retirement of debt	(0.1)	(0.2)		(0.1)
Loss before income taxes and equity in earnings	(3.6)	(1.5)	(3.0)	(3.4)
Income tax benefit	1.4	0.4	1.1	1.2
Equity in earnings (losses), net of taxes	0.4		0.4	(0.1)
Net loss	(1.8)%	(1.1)%	(1.5)%	(2.3)%

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**THREE MONTHS ENDED JUNE 30, 2017 COMPARED TO THE THREE MONTHS ENDED**

**JUNE 30, 2016**

**Net Sales**

Net sales for the three months ended June 30, 2017 were \$117.4 million, a decrease of \$0.7 million, or 0.6%, as compared to net sales of \$118.1 million for the corresponding period in 2016.

Net sales for the U.S. Wholesale segment for the three months ended June 30, 2017 were \$94.8 million, an increase of \$2.1 million, or 2.3%, as compared to net sales of \$92.7 million for the corresponding period in 2016.

Net sales for the U.S. Wholesale segment's Kitchenware product category were \$61.5 million for the three months ended June 30, 2017, an increase of \$2.9 million, or 4.9%, as compared to \$58.6 million for the corresponding period in 2016. The increase in the U.S. Wholesale segment's Kitchenware product category was attributable to increases in the kitchen tools and gadgets, cookware and bakeware product lines.

Net sales for the U.S. Wholesale segment's Tableware product category were \$22.3 million for the three months ended June 30, 2017, a decrease of \$4.4 million, or 16.5%, as compared to \$26.7 million for the corresponding period in 2016. The decrease was attributable to the sales decline at department stores and a club promotion not repeated.

Net sales for the U.S. Wholesale segment's Home Solutions product category were \$11.0 million for the three months ended June 30, 2017, an increase of \$3.5 million, or 46.7%, as compared to \$7.5 million for the corresponding period in 2016. The increase reflects the continued growth in hydration programs, including products under the Built brand. This increase was partially offset by a decline in the home décor product lines.

Net sales for the International segment were \$19.4 million for the three months ended June 30, 2017, a decrease of \$2.2 million, or 10.2%, as compared to net sales of \$21.6 million for the corresponding period in 2016. In constant currency, net sales increased approximately 0.8%. The increase, in constant currency, was due to an increase in kitchenware sales to online retailers and export sales. This increase was partially offset by a decrease in tableware sales.

Net sales for the Retail Direct segment were \$3.3 million for the three months ended June 30, 2017, a decrease of \$0.5 million, or 13.2%, as compared to net sales of \$3.8 million for the corresponding period in 2016. The decrease was attributable to more emphasis on the wholesale online sales channel and a decrease in promotions.

**Gross margin**

Gross margin for the three months ended June 30, 2017 was \$42.8 million, or 36.5%, as compared to \$43.0 million, or 36.4%, for the corresponding period in 2016.

Gross margin for the U.S. Wholesale segment was \$34.6 million, or 36.5%, for the three months ended June 30, 2017, as compared to \$33.0 million, or 35.6%, for the corresponding period in 2016. Gross margin fluctuates from period to period based on a number of factors, including product and customer mix. The increase reflects a change in customer and product mix, in part from the timing of customer programs.

Gross margin for the International segment was \$6.0 million, or 31.1%, for the three months ended June 30, 2017, as compared to \$7.5 million, or 34.8% for the corresponding period in 2016. The decrease in margin is the result of tableware product lines de-emphasized, higher customer allowances and increases in product testing and factory audit expenses.

Gross margin for the Retail Direct segment was \$2.2 million, or 67.4%, for the three months ended June 30, 2017, as compared to \$2.5 million, or 65.9%, for the corresponding period in 2016. The increase in gross margin percentage in the Retail Direct segment reflects a decrease in promotions.

## **Table of Contents**

### **Distribution expenses**

Distribution expenses for the three months ended June 30, 2017 were \$12.6 million as compared to \$12.4 million for the corresponding period in 2016. Distribution expenses as a percentage of net sales were 10.7% for the three months ended June 30, 2017, as compared to 10.5% for the three months ended June 30, 2016.

Distribution expenses as a percentage of net sales for the U.S. Wholesale segment were approximately 9.8% and 9.4% for the three months ended June 30, 2017 and 2016, respectively. As a percentage of sales shipped from the Company's warehouses, distribution expenses for the U.S. Wholesale segment were 10.8% for the three months ended June 30, 2017 and 10.3% for the three months ended June 30, 2016. The increases reflect the effect of an increase in facility costs, labor costs and higher prepaid freight sales.

Distribution expenses as a percentage of net sales for the International segment were approximately 11.3% and 12.0% for the three months ended June 30, 2017 and 2016, respectively. Distribution expenses as a percentage of sales shipped from the Company's U.K. warehouses were 12.9% and 13.4% for the three months ended June 30, 2017 and 2016, respectively. The improvement reflects an improvement in labor management, freight rates and the decrease in the use of third party warehousing.

Distribution expenses as a percentage of net sales for the Retail Direct segment were approximately 33.3% and 28.9% for the three months ended June 30, 2017 and 2016, respectively. The increase was from an increase in freight rates.

### **Selling, general and administrative expenses**

Selling, general and administrative expenses for the three months ended June 30, 2017 were \$33.1 million, an increase of \$3.3 million, or 11.1%, as compared to \$29.8 million for the corresponding period in 2016.

Selling, general and administrative expenses for the three months ended June 30, 2017, for the U.S. Wholesale segment were \$21.6 million, an increase of \$1.6 million, or 8.0%, from \$20.0 million for the corresponding period in 2016. The 2017 period reflects an increase in employee related expenses (including severance), intangible amortization related to the Company's 2016 acquisitions, customer credit insurance and an increase in marketing expense. As a percentage of net sales, selling, general and administrative expenses were 22.8% and 21.6% for the three months ended June 30, 2017 and 2016, respectively.

Selling, general and administrative expenses for the three months ended June 30, 2017 for the International segment were \$7.3 million, an increase of \$2.0 million, from \$5.3 million for the corresponding period in 2016. The increase in expenses was primarily due to unrealized losses on foreign currency contracts in the current period, as compared to unrealized gains on foreign currency contracts in the corresponding 2016 period, resulting from the Company's hedging activity. In addition, the increase in expenses is attributable to SAP implementation costs.

Selling, general and administrative expenses for the Retail Direct segment were \$1.4 million for the three months ended June 30, 2017, as compared to \$1.3 million for the three months ended June 30, 2016. The increase in expenses was primarily due to an increase in employee headcount.

Unallocated corporate expenses for the three months ended June 30, 2017 were \$2.8 million as compared to \$3.2 million for the corresponding period in 2016. The decrease was primarily attributable to a decrease in professional fees and acquisition related expenses.

### **Restructuring expenses**

During the three months ended June 30, 2017, the Company recorded \$0.3 million of restructuring expense, primarily for severance related to the integration of legal entities operating in Europe.

During the three months ended June 30, 2016, the Company recorded \$1.1 million of restructuring expense, primarily for consulting fees related to the execution of the U.S. Wholesale restructuring plan.

**Interest expense**

Interest expense for the three months ended June 30, 2017 was \$1.0 million, a decrease of \$0.1 million, from \$1.1 million for the three months ended June 30, 2016. The decrease in expense was attributable to a decrease in average borrowings outstanding.

**Table of Contents**

**Loss on early retirement of debt**

In April 2017, the Company prepaid the remaining outstanding balance under the Company's Term Loan. In connection therewith, the Company wrote-off debt issuance costs of \$0.1 million.

In April 2016, the Company made a prepayment of \$15.2 million in accordance with the amended terms of the Company's Term Loan. In connection therewith, the Company wrote-off debt issuance costs of \$0.3 million.

**Income tax benefit**

The income tax benefit for the three months ended June 30, 2017 was \$1.7 million as compared to \$0.5 million for the corresponding period in 2016. The Company's effective tax rate for the three months ended June 30, 2017 was 39.9% as compared to 28.1% for the corresponding 2016 period. The effective tax rate for the three months ended June 30, 2017, as a percentage of quarterly losses, increased due to a change in the jurisdictional mix in forecasted earnings for the year, as well as the benefit generated on share based compensation. This was partially offset by foreign losses for which no benefit was recorded.

**Equity in earnings (losses)**

Equity in earnings of Vasconia was \$0.5 million, net of taxes, for the three months ended June 30, 2017, as compared to equity in losses of \$0.2 million, net of tax, for the corresponding 2016 period. Equity in earnings (losses) for the three months ended June 30, 2017 and 2016 includes a deferred tax benefit (expense) of \$0.1 million and (\$0.3) million, respectively, due to the requirement to record tax benefits for foreign currency translation losses through other comprehensive income (loss), with a corresponding adjustment to deferred tax liabilities. Vasconia reported net income of \$1.2 million and \$0.5 million for the three months ended June 30, 2017 and 2016, respectively.

During the three months ended June 30, 2016, the Company sold its 40% equity interest in GS Internacional S/A (GSI), a wholesale distributor of branded housewares products in Brazil. Upon the sale of its equity interest in GSI, the Company recognized a net gain of \$189,000. This gain represents the net consideration received of R\$2.3 million (approximately \$567,000) reduced by currency translation losses of \$378,000 that were recognized when the equity interest was sold.

---

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**SIX MONTHS ENDED JUNE 30, 2017 AS COMPARED TO THE SIX MONTHS ENDED**

**JUNE 30, 2016**

**Net Sales**

Net sales for the six months ended June 30, 2017 were \$230.7 million, an increase of \$1.7 million, or 0.7%, as compared to net sales of \$229.0 million for the corresponding period in 2016.

Net sales for the U.S. Wholesale segment for the six months ended June 30, 2017 were \$182.1 million, an increase of \$7.1 million, or 4.1%, as compared to net sales of \$175.0 million for the corresponding period in 2016.

Net sales for the U.S. Wholesale's Kitchenware product category were \$117.9 million for the six months ended June 30, 2017, an increase of \$3.7 million, or 3.2%, as compared to \$114.2 million for the corresponding period in 2016. The increase in the U.S. Wholesale segment's Kitchenware product category was primarily attributable to the cookware and bakeware product lines, partially offset by a decrease in cutlery sales due to the timing of programs with certain retailers.

Net sales for the U.S. Wholesale's Tableware product category were \$42.1 million for the six months ended June 30, 2017, a decrease of \$4.3 million, or 9.3%, as compared to \$46.4 million for the corresponding period in 2016. The decrease was attributable to the sales decline at department stores and, in part, due to the timing of programs with certain retailers.

Net sales for the U.S. Wholesale's Home Solutions product category were \$22.1 million for the six months ended June 30, 2017, an increase of \$7.7 million, or 53.5%, as compared to \$14.4 million for the corresponding period in 2016. The increase reflects the continued growth in hydration programs, including products under the Built brand, as well as a new drug store program.

Net sales for the International segment for the six months ended June 30, 2017 were \$40.6 million, a decrease of \$4.6 million, as compared to net sales of \$45.2 million for the corresponding period in 2016. In constant currency, net sales increased approximately 2.2%. The increase, in constant currency, was due to an increase in sales to U.K. national retailers and kitchenware export sales.

Net sales for the Retail Direct segment for the six months ended June 30, 2017 were \$8.0 million, a decrease of \$0.7 million, or 8.0%, as compared to \$8.7 million for the corresponding period in 2016. The decrease was attributable to more emphasis on the wholesale online sales channel and a decrease in promotions.

**Gross margin**

Gross margin for the six months ended June 30, 2017 was \$86.7 million, or 37.6%, as compared to \$83.5 million, or 36.5%, for the corresponding period in 2016.

Gross margin for the U.S. Wholesale segment was \$68.1 million, or 37.4% for the six months ended June 30, 2017, as compared to \$61.8 million, or 35.3%, for the corresponding period in 2016. Gross margin fluctuates from period to period based on a number of factors, including product and customer mix. The increase reflects a change in customer and product mix, in part from the timing of customer programs and a decrease in ocean freight rates.

Gross margin for the International segment was \$13.3 million, or 32.7%, for the six months ended June 30, 2017, as compared to \$15.9 million, or 35.2%, for the corresponding period in 2016. The decrease in margin is the result of a change in customer mix, tableware product lines de-emphasized, higher customer allowances and the weakened British Pound.

Gross margin for the Retail Direct segment was \$5.3 million, or 67.0%, for the six months ended June 30, 2017, as compared to \$5.8 million, or 66.7%, for the corresponding period in 2016. The increase in gross margin percentage in Retail Direct reflects a reduction in promotional expenses in the 2017 period.



---

**Table of Contents****Distribution expenses**

Distribution expenses for the six months ended June 30, 2017 were \$26.0 million as compared to \$25.7 million for the corresponding period in 2016. Distribution expenses as a percentage of net sales were 11.3% and 11.2% for the six months ended June 30, 2017 and 2016, respectively.

Distribution expenses as a percentage of net sales for the U.S. Wholesale segment were approximately 10.4% and 10.2% for the six months ended June 30, 2017 and 2016, respectively. Distribution expenses as a percentage of sales shipped from the Company's warehouses for the U.S. Wholesale segment were 11.0% and 10.8% for the six months ended June 30, 2017 and 2016, respectively. The increases reflect a decrease in labor efficiencies and an increase in facility costs.

Distribution expenses as a percentage of net sales for the International segment were approximately 11.1% for the six months ended June 30, 2017, as compared to 11.5% for the corresponding period in 2016. As a percentage of sales shipped from the Company's U.K. warehouses, distribution expenses for the International segment were 12.4% and 13.0% for the six months ended June 30, 2017 and 2016, respectively. The improvement reflects a reduction in facility expenses due to a reduction in third party warehousing and improvements in labor management.

Distribution expenses as a percentage of net sales for the Retail Direct segment were approximately 32.5% and 29.9% for the six months ended June 30, 2017 and 2016, respectively. The increase was from an increase in freight rates.

**Selling, general and administrative expenses**

Selling, general and administrative expenses for the six months ended June 30, 2017 were \$65.5 million, an increase of \$3.8 million, or 6.2%, as compared to \$61.7 million for the corresponding period in 2016.

Selling, general and administrative expenses for the six months ended June 30, 2016 for the U.S. Wholesale segment were \$43.2 million, an increase of \$2.3 million, or 5.6%, as compared to \$40.9 million for the corresponding period in 2016. The 2017 period reflects an increase in employee related expenses (including severance), IT software to improve efficiencies, intangible amortization related to the Company's 2016 acquisitions, customer credit insurance and an increase in marketing expenses. As a percentage of net sales, selling, general and administrative expenses increased to 23.7% for the six months ended June 30, 2017 compared to 23.4% for the corresponding period in 2016.

Selling, general and administrative expenses for the six months ended June 30, 2017 for the International segment were \$13.4 million, an increase of \$2.7 million, or 25.2%, as compared to \$10.7 million for the corresponding period in 2016. The increase in expenses in the 2017 period was primarily due to unrealized loss on foreign currency contracts in the current period, as compared to unrealized gains on foreign currency contracts in the corresponding 2016 period, resulting from the Company's hedging activity. In addition, the increase in expenses is attributable to SAP implementation costs.

Selling, general and administrative expenses for the six months ended June 30, 2017 and 2016 for the Retail Direct segment were \$3.0 million and \$3.1 million, respectively. The decrease in expenses was primarily due to a reduction in headcount and selling expenses.

Unallocated corporate expenses for the six months ended June 30, 2017 and 2016 were \$5.9 million and \$7.0 million, respectively. The decrease was primarily attributable to decrease in professional fees and acquisition related expenses.

**Restructuring expenses**

Edgar Filing: LIFETIME BRANDS, INC - Form 10-Q

During the six months ended June 30, 2017, the Company recorded \$0.3 million of restructuring expense, primarily for severance. These charges are related to the integration of legal entities operating in Europe.

During the six months ended June 30, 2016, the Company recorded \$1.7 million of restructuring expense. The expense for the period includes severance of approximately \$0.6 million and consulting expenses of approximately \$1.1 million. These charges are related to the execution of the U.S. Wholesale restructuring plan.

- 31 -

## **Table of Contents**

### **Interest expense**

Interest expense for the six months ended June 30, 2017 was \$1.9 million as compared to \$2.3 million for the corresponding period in 2016. The decrease in expense was attributable to a decrease in average borrowings and a decrease in average borrowing rate due to Term Loan repayments.

### **Loss on early retirement of debt**

In April 2017, the Company repaid the outstanding balance under its Term Loan. In connection therewith, the Company wrote-off debt issuance costs of \$0.1 million.

In April 2016, the Company made a prepayment of \$15.2 million in accordance with the amended terms of the Company's Term Loan. In connection therewith, the Company wrote-off debt issuance costs of \$0.3 million.

### **Income tax benefit**

The income tax benefit for the six months ended June 30, 2017 was \$2.6 million as compared to \$2.7 million for the corresponding period in 2016. The Company's effective tax rate for the six months ended June 30, 2017 was 37.4% as compared to 33.9% for the corresponding 2016 period. The effective tax rate for the six months ended June 30, 2017, as a percentage of quarterly losses, increased due to a change in the jurisdictional mix in forecasted earnings for the year, as well as the benefit generated on share based compensation. This was partially offset by foreign losses for which no benefit was recorded.

### **Equity in earnings (losses)**

Equity in earnings of Vasconia was \$1.0 million, net of taxes, for the six months ended June 30, 2017, as compared to equity in losses of \$0.3 million, net of taxes, for the corresponding 2016 period. Equity in earnings (losses) for the six months ended June 30, 2017 and 2016 includes a deferred tax benefit (expense) of \$0.4 million and (\$0.5) million, respectively, due to the requirement to record tax benefits for foreign currency translation losses through other comprehensive income (loss), with a corresponding adjustment to deferred tax liabilities. Vasconia reported income from operations of \$4.1 million and \$2.9 million for the six months ended June 30, 2017 and 2016, respectively, and net income of \$2.4 million and \$0.7 million for the six months ended June 30, 2017 and 2016, respectively.

During the six months ended June 30, 2016, the Company sold its 40% equity interest in GSI. Upon the sale of its equity interest in GSI the Company recognized a net gain of \$189,000. This gain represents the net consideration received of R\$2.3 million (approximately \$567,000) reduced by currency translation losses of \$378,000 that were recognized when the equity interest was sold.

---

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

The Company's principal sources of cash to fund liquidity needs are: (i) cash provided by operating activities and (ii) borrowings available under its Second Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A, as Administrative Agent and Co-Collateral Agent, and HSBC Bank USA, National Association, as Syndication Agent and Co-Collateral Agent, and the other Lenders and Loan Parties party thereto, as amended, (the Credit Agreement), which provides for, among other things, a revolving credit facility commitment totaling \$175.0 million (the Revolving Credit Facility) and a term loan facility (the Term Loan). The Company's primary uses of funds consist of working capital requirements, capital expenditures and payments of principal and interest on its debt.

At June 30, 2017, the Company had cash and cash equivalents of \$4.1 million, compared to \$7.9 million at December 31, 2016. Working capital was \$180.2 million at June 30, 2017 compared to \$165.2 million at December 31, 2016. Liquidity, which includes cash and cash equivalents and availability under its credit facilities (subject to the financial covenants of the Credit Agreement), was \$66.9 million.

Inventory, a large component of the Company's working capital, is expected to fluctuate from period to period, with inventory levels higher primarily in the June through October time period. The Company also expects inventory turnover to fluctuate from period to period based on product and customer mix. Certain product categories have lower inventory turnover rates as a result of minimum order quantities from the Company's vendors or customer replenishment needs. Certain other product categories experience higher inventory turnover due to lower minimum order quantities or trending sale demands. For the three months ended June 30, 2017, inventory turnover was 1.9 times, or 196 days, as compared to 2.1 times, or 174 days, for the three months ended June 30, 2016. The decrease in turnover and increase in turnover days is, in part, the result of an increase in average inventory in the U.S. Wholesale segment due to an increase in inventory as the result of the Company's acquisitions in the fourth quarter of 2016.

The Company's Credit Agreement, which expires in January 2019, provides for, among other things, a Revolving Credit Facility commitment totaling \$175.0 million (\$40.0 million of which is available for multi-currency borrowings) and a Term Loan facility.

At June 30, 2017, borrowings outstanding under the Revolving Credit Facility were \$99.0 million and open letters of credit were \$2.8 million. At June 30, 2017, availability under the Revolving Credit Facility was approximately \$62.8 million. The borrowing capacity under the Revolving Credit Facility depends, in part, on eligible levels of accounts receivable and inventory that fluctuate regularly, and certain trademark values based upon periodic appraisals, and may be lower in the first and second quarters when the Company's inventory level is lower due to seasonality.

In April 2017, the Company repaid its \$7.0 million outstanding balance under the Term Loan. As of December 31, 2016, \$9.5 million was outstanding under the Term Loan. At December 31, 2016, unamortized debt issuance costs were \$157,000. In connection with the repayment of the Term Loan, the Company wrote off the unamortized debt issuance costs of \$110,000 during the six months ended June 30, 2017.

The Company's payment obligations under the Revolving Credit Facility are unconditionally guaranteed by each of its existing U.S. subsidiaries and will be unconditionally guaranteed by each of its future U.S. subsidiaries. Certain payment obligations under the Revolving Credit Facility are also direct obligations of its foreign subsidiary borrowers designated as such under the Credit Agreement and, subject to limitations on such guaranties, are guaranteed by the foreign subsidiary borrowers, as well as by the Company. The obligations of the Company under the Revolving Credit Facility and any hedging arrangements and cash management services and the guarantees by its domestic subsidiaries in respect of those obligations are secured by substantially all of the assets and stock (but in the case of foreign subsidiaries, limited to 65% of the capital stock in first-tier foreign subsidiaries and not including the stock of

subsidiaries of such first-tier foreign subsidiaries) owned by the Company and the U.S. subsidiary guarantors, subject to certain exceptions. Such security interests consist of a first-priority lien, subject to certain permitted liens, with respect to the assets of the Company and its domestic subsidiaries pledged as collateral in favor of lenders under the Revolving Credit Facility.

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

**Table of Contents**

The Credit Agreement provides for customary restrictions and events of default. Restrictions include limitations on additional indebtedness, acquisitions, investments and payment of dividends, among other things. Further, the Credit Agreement provides that at any time any Term Loan is outstanding or at any time no Term Loan is outstanding and availability under the Revolving Credit Facility is less than \$17.5 million and continuing until availability of at least \$20.0 million is maintained for three consecutive months, the Company is required to maintain a minimum fixed charge coverage ratio of 1.20 to 1.00 for each of four consecutive fiscal quarter periods. The Company was in compliance with the financial covenants of the Credit Agreement as of June 30, 2017.

*Covenant Calculations*

Consolidated adjusted EBITDA, as provided below, is used in the calculation of covenants provided for in the Company's Credit Agreement. The following is the Company's consolidated adjusted EBITDA for the last four fiscal quarters:

	<b>Consolidated adjusted EBITDA for the Four Quarters Ended June 30, 2017</b>	
	(in thousands)	
Three months ended June 30, 2017	\$	1,361
Three months ended March 31, 2017		2,251
Three months ended December 31, 2016		25,100
Three months ended September 30, 2016		16,652
<b>Total for the four quarters</b>	<b>\$</b>	<b>45,364</b>

Capital expenditures for the three months ended June 30, 2017 were \$2.7 million.

*Non-GAAP financial measure*

Consolidated adjusted EBITDA is a non-GAAP financial measure within the meaning of Regulation G promulgated by the Securities and Exchange Commission. The following is a reconciliation of the net loss, as reported, to consolidated adjusted EBITDA, for the three and six months ended June 30, 2017 and 2016:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	(in thousands)			
Net loss as reported	\$ (2,096)	\$ (1,191)	\$ (3,427)	\$ (5,479)
Subtract out:				
Undistributed equity in (earnings) losses, net	(430)	(18)	(970)	132

Edgar Filing: LIFETIME BRANDS, INC - Form 10-Q

Add back:

Income tax benefit	(1,698)	(473)	(2,642)	(2,743)
Interest expense	1,001	1,122	1,942	2,315
Loss on early retirement of debt	110	272	110	272
Depreciation and amortization	3,348	3,578	6,634	7,062
Stock compensation expense	726	487	1,530	1,290
Permitted acquisition related expenses	(9)	369	26	924
Restructuring expenses <sup>(1)</sup>	254	1,060	254	1,701
Severance expenses <sup>(1)</sup>	155		155	
<b>Consolidated adjusted EBITDA</b>	<b>\$ 1,361</b>	<b>\$ 5,206</b>	<b>\$ 3,457</b>	<b>\$ 5,474</b>

- (1) Restructuring expenses and severance expenses represent non-recurring charges incurred during such periods and are permitted exclusions from the Company's consolidated adjusted EBITDA, pursuant to the Company's Credit Agreement.

- 34 -

---

**Table of Contents***Accounts Receivable Purchase Agreement*

In order to improve its liquidity during seasonally high working capital periods, in 2016 the Company entered into an uncommitted Receivables Purchase Agreement with HSBC Bank USA, National Association ( HSBC ), as Purchaser (the Receivables Purchase Agreement ). Under the Receivables Purchase Agreement, the Company may offer to sell certain eligible accounts receivable (the Receivables ) to HSBC, which may accept such offer, and purchase the offered Receivables. Under the Receivables Purchase Agreement, following each purchase of Receivables, the outstanding aggregate purchased Receivables shall not exceed \$25.0 million. HSBC will assume the credit risk of the Receivables purchased; and the Company will continue to be responsible for all non-credit risk matters. The Company will service the Receivables, and as such servicer, collect and otherwise enforce the Receivables on behalf of HSBC. The term of the agreement is for 364 days and shall automatically be extended for annual successive terms unless terminated. Either party may terminate the agreement at any time upon sixty days prior written notice to the other party. Pursuant to this agreement, the Company sold to HSBC \$17.6 million and \$39.2 million of Receivables during the three and six months ended June 30, 2017, respectively. A charge of \$63,000 and \$130,000 related to the sale of the Receivables is included in selling, general and administrative expenses in the condensed consolidated statement of operations for the three and six months ended June 30, 2017, respectively.

**Derivatives**

The Company is a party to interest rate swap agreements with an aggregate notional amount of \$10.5 million to manage interest rate exposure in connection with its variable interest rate borrowings. The hedge periods in these agreements commenced in March 2013 and will expire in September 2018, and the notional amounts amortize over this period. The hedge provides for a fixed payment of interest at an annual rate of 1.05% in exchange for the Adjusted LIBO Rate.

The Company has also entered into certain foreign exchange contracts, to primarily offset the earnings impact related to fluctuations in foreign currency exchange rates associated with sales and inventory purchases denominated in foreign currencies. These foreign exchange contracts have not been designated as hedges as required in order to apply hedge accounting. The changes in the fair value of these contracts are recorded in the condensed consolidated statement of operations.

**Operating activities**

Net cash used in operating activities was \$4.3 million for the six months ended June 30, 2017 as compared to \$19.6 million for the corresponding 2016 period. The change in operating cash flow was primarily due to the timing of the collection of receivables in the current period, as compared to the 2016 period, partially offset by an increase in inventory in the current period, as compared to the 2016 period.

**Investing activities**

Net cash used in investing activities was \$2.7 million for the six months ended June 30, 2017, as compared to \$1.1 million for the corresponding 2016 period.

**Financing activities**

Net cash provided by financing activities was \$3.0 million for the six months ended June 30, 2017 as compared to \$20.4 million for the corresponding 2016 period. The change in financing activities was attributable to the change in borrowings under the Company's Revolving Credit Facility and the prepayment of borrowings under the Company's



Term Loan.

- 35 -

---

**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There were no material changes in market risk for changes in foreign currency exchange rates and interest rates from the information provided in Item 7A Quantitative and Qualitative Disclosures About Market Risk in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

**Item 4. 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 officer, respectively) have concluded, based on their evaluation as of June 30, 2017, that the Company's disclosure 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, 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.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

Wallace Silversmiths de Puerto Rico, Ltd. ( WSPR ), a wholly-owned subsidiary of the Company, operates a manufacturing facility in San Germán, Puerto Rico that is leased from the Puerto Rico Industrial Development Company ( PRIDCO ). In March 2008, the United States Environmental Protection Agency (the EPA ) announced that the San Germán Ground Water Contamination site in Puerto Rico (the Site ) had been added to the Superfund National Priorities List due to contamination present in the local drinking water supply.

In May 2008, WSPR received from the EPA a Notice of Potential Liability and Request for Information Pursuant to 42 U.S.C. Sections 9607(a) and 9604(e) of the Comprehensive Environmental Response, Compensation, and Liability Act ( CERCLA ). In July 2011, WSPR received a letter from the EPA requesting access to the property that it leases from PRIDCO to conduct an environmental investigation, and the Company granted such access. In February 2013, the EPA requested access to conduct a further environmental investigation at the property. PRIDCO agreed to such access and the Company consented. EPA conducted a further investigation during 2013 and, in April 2015, notified the Company and PRIDCO that the results from vapor intrusion sampling may warrant implementation of measures to mitigate potential exposure to sub-slab soil gas. The Company reviewed the information provided by the EPA and requested that PRIDCO, as the property owner, find and implement a solution acceptable to the EPA. While WSPR did not cause the sub-surface condition that resulted in the potential for vapor intrusion, in order to protect the health

of its employees and continue its business operations, it has nevertheless implemented corrective action measures to prevent vapor intrusion such as sealing floors of the building and conducting periodic air monitoring to address potential exposure. On August 13, 2015, the EPA released its remedial investigation and feasibility study ( RI/FS ) for the Site. On December 11, 2015, the EPA issued the Record of Decision ( ROD ) for OU-1, electing to implement its preferred remedy which consists of soil vapor extraction and dual-phase extraction/*in-situ* treatment. This selected remedy includes soil vapor extraction ( SVE ) to address soil (vadose zone) source areas at the Site, impermeable cover as necessary for the implementation of SVE, dual phase extraction in the shallow saprolite zone, and *in-situ* treatment as needed to address residual sources. The EPA's estimated capital cost for its selected remedy is \$7.3 million. The EPA also designated a second operable unit under which the EPA will conduct further investigations to determine the

**Table of Contents**

nature and extent of groundwater contamination, as well as a determination by the EPA on the necessity of any further response actions to address groundwater contamination. In February 2017, the EPA indicated that it plans to expand its field investigation for the RI/FS for the second operable unit to further determine the nature and extent of the groundwater contamination at and from the Site and to determine the nature of the remedial action needed to address the contamination. The EPA has requested access to the property occupied by WSPR to install monitoring wells and to undertake groundwater sampling as part of this expanded investigation. WSPR has consented to EPA's access request, provided that the EPA receives PRIDCO's consent, as the property owner. WSPR never used the primary contaminant of concern and did not take up its tenancy at the Site until after the EPA had discovered the contamination in the local water supply. The EPA has also issued notices of potential liability to a number of other entities affiliated with the Site, which used the contaminants of concern.

Accordingly, based on the above uncertainties and variables, it is not possible at this time for the Company to estimate its share of liability, if any, related to this matter. However, in the event of one or more adverse determinations related to this matter, it is possible that the ultimate liability resulting from this matter and the impact on the Company's results of operations could be material.

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

**Item 1A. Risk Factors**

There have been no material changes in the company's risk factors from those disclosed in the Company's 2016 Annual Report on Form 10K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

<b>Period</b>	<b>Total number of shares purchased<sup>(1)</sup></b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of publicly announced plans or programs<sup>(2)</sup></b>	<b>Maximum approximate dollar value of shares that may yet be purchased under the plans or programs subsequent to end of period<sup>(2)</sup></b>
June 1- June 30, 2017	9,239	\$ 19.15		\$ 6,771,467

(1) The repurchased shares were acquired other than as part of a publicly announced plan or program. The Company repurchased these securities in connection with its Amended and Restated 2000 Long Term Incentive Plan which

allow participants to use shares to satisfy certain tax liabilities arising from the vesting of restricted stock. The number above does not include unvested shares forfeited back to us pursuant to the terms of our stock compensation plans.

- (2) On April 30, 2013, the Board of Directors of Lifetime Brands, Inc. authorized the repurchase of up to \$10.0 million of the Company's common stock. The repurchase authorization permits the Company to effect the repurchases from time to time through open market purchases and privately negotiated transactions. No repurchases occurred during the three months ended June 30, 2017.

---

**Table of Contents**

**Item 6. Exhibits**

**Exhibit No.**

10.1	Amended and Restated 2000 Incentive Bonus Compensation Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 23, 2017)
10.2	Amended and Restated 2000 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on June 23, 2017)
31.1	Certification by Jeffrey Siegel, Chief Executive Officer and Chairman of the Board of Directors, 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 Chairman of the Board of Directors, 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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

**SIGNATURES**

Pursuant to the requirements 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 August 8, 2017  
Jeffrey Siegel  
Chief Executive Officer and Director  
(Principal Executive Officer)

/s/ Laurence Winoker August 8, 2017  
Laurence Winoker  
Senior Vice President Finance, Treasurer and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

- 39 -