

LIFETIME BRANDS, INC  
Form 10-K  
March 11, 2011

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

FORM 10-K

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

For the fiscal year ended December 31, 2010  
or

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

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

Commission file number: 0-19254

LIFETIME BRANDS, INC.

(Exact name of registrant as specified in its charter)

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

1000 Stewart Avenue, Garden City, New York 11530  
(Address of principal executive offices, including Zip Code)

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

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

Common Stock, \$.01 par value  
(Title of each class)

The NASDAQ Stock Market LLC  
(Name of each exchange on which registered)

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

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

Yes No

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

Yes No

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

Yes  No

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

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer (do not check if a smaller reporting company) <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	

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

Yes  No

The aggregate market value of 9,543,453 shares of the voting stock held by non-affiliates of the registrant as of June 30, 2010 was approximately \$139,525,283. Directors, executive officers, and trusts controlled by said individuals are considered affiliates for the purpose of this calculation and should not necessarily be considered affiliates for any other purpose.

The number of shares of common stock, par value \$.01 per share, outstanding as of March 11, 2011 was 12,065,543.

#### DOCUMENTS INCORPORATED BY REFERENCE

Parts of the registrant's definitive proxy statement for the 2011 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 are incorporated by reference in Part III of this Annual Report.

LIFETIME BRANDS, INC.  
FORM 10-K

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## DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains “forward-looking statements” as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements include information concerning Lifetime Brands, Inc.’s (the “Company’s”) plans, objectives, goals, strategies, future events, future revenues, performance, capital expenditures, financing needs and other information that is not historical information. Many of these statements appear, in particular, under the headings Business and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in Item 1 of Part I and Item 7 of Part II, respectively. When used in this Annual Report on Form 10-K, the words “estimates,” “expects,” “anticipates,” “projects,” “plans,” “intends,” “believes” and variations of such words and similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, the Company’s examination of historical operating trends, are based upon the Company’s current expectations and various assumptions. The Company believes there is a reasonable basis for its expectations and assumptions, but there can be no assurance that the Company will realize its expectations or that the Company’s assumptions will prove correct.

There are a number of risks and uncertainties that could cause the Company’s actual results to differ materially from the forward-looking statements contained in this Annual Report. Important factors that could cause the Company’s actual results to differ materially from those expressed as forward-looking statements are set forth in this Annual Report, including the risk factors discussed in Part I, Item 1A under the heading Risk Factors.

Except as may be required by law, the Company undertakes no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

## OTHER INFORMATION

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

## PART I

## Item 1. Business

## OVERVIEW

The Company is one of North America's leading resources for nationally branded kitchenware, tabletop and home décor products. The Company either owns or licenses its brands. The Company's licenses generally only permit the Company to sell certain products using the licensed brand name. The Company sells its products to retailers and distributors, and directly to consumers through its Internet websites and mail-order catalog operations. The Company markets its products under well-respected and widely-recognized brand names in the U.S. housewares industry. According to the Home Furnishing News Brand Survey issued in 2009, three of the Company's brands, KitchenAid®, Cuisinart®, and Farberware®, are among the four most recognized brands in the "Kitchen Tool, Cutlery and Gadgets" category. The Company primarily targets moderate to premium price points through every major level of trade and generally markets several lines within each of its product categories under more than one brand. At the heart of the Company is a strong culture of innovation and new product development. The Company brought over 4,000 new or redesigned products to market in 2010 and expects to introduce between 4,000 and 5,000 new or redesigned products in 2011.

The Company's major product categories are Kitchenware, consisting primarily of kitchen tools and gadgets, cutlery, cutting boards, cookware/bakeware and pantryware, Tabletop, consisting primarily of dinnerware and flatware, and Home Décor, which consists primarily of wall décor, picture frames and decorative shelving products.

The Company sources almost all of its products from suppliers located outside the United States, primarily in the People's Republic of China. The Company manufactures its sterling silver products at a leased facility in San Germán, Puerto Rico and fills spices and assembles spice racks at its owned Winchendon, Massachusetts distribution facility.

The Company seeks to expand its presence in international markets by making investments in various companies that operate outside of the United States. In 2007, the Company acquired a 30% interest in Grupo Vasconia, S.A.B. ("Vasconia"), a Mexican company. In January 2011, the Company, together with Vasconia and unaffiliated partners, formed Housewares Corporation of Asia Limited, a Hong Kong-based company that will supply direct import kitchenware programs to retailers in North, Central and South America.

In addition, the Company licenses certain of its brands to other companies, including Vasconia, that operates in various foreign markets.

The Company continues to evaluate opportunities to expand the reach of its brands and to invest in other companies that operate principally outside the United States. These opportunities involve risks as the industry and foreign markets may not evolve as anticipated and the Company's strategic objectives may not be achieved.

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

Brand	Licensed/Owned	Product Category
Farberware®	Licensed*	Kitchenware and Tabletop
Mikasa®	Owned	Tabletop and Home Décor
KitchenAid®	Licensed	Kitchenware
Pfaltzgraff®	Owned	

		Tabletop and Home Décor
Melannco®	Owned	Home Décor
Elements®	Owned	Home Décor
	Licensed	Kitchenware and Tabletop
Cuisinart®		
Kamenstein®	Owned	Kitchenware
	Owned	Tabletop and Home Décor
Wallace Silversmiths®		
	Owned	Tabletop and Home Décor
Towle®		

\* The Company has a 184 year royalty free license to utilize the Farberware® brand for kitchenware products.

The Company's wholesale customers include mass merchants, specialty stores, national chains, department stores, warehouse clubs, supermarkets, off-price retailers and Internet retailers.

## BUSINESS SEGMENTS

The Company operates in two business segments: the Wholesale segment, which is the Company's primary business that designs, markets and distributes its products to retailers and distributors, and the Retail Direct segment in which the Company markets and sells its products through its Pfaltzgraff®, Mikasa®, Lifetime Sterling™ and Housewares Deals™ Internet websites and Pfaltzgraff® mail-order catalogs. The Company has segmented its operations to reflect the manner in which management reviews and evaluates the results of its operations. While both segments distribute similar products, the segments are distinct due to the different types of customers and the different methods the Company uses to sell, market and distribute the products.

Additional information regarding the Company's reportable segments is included in Note J of the Notes to the Consolidated Financial Statements included in Item 15.

## CUSTOMERS

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

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

During the years ended December 31, 2010, 2009 and 2008, Wal-Mart Stores, Inc. (including Sam's Club) accounted for 15%, 18%, and 20% of sales, respectively. No other customer accounted for 10% or more of the Company's sales during these periods. For the years ended December 31, 2010, 2009 and 2008, the Company's ten largest customers accounted for 67%, 64%, and 60% of sales, respectively.

## DISTRIBUTION

The Company operates the following distribution centers:

Location	Size (square feet)
Fontana, California	753,000
Robbinsville, New Jersey	700,000
Winchendon, Massachusetts	175,000
Medford, Massachusetts	5,590

## SALES AND MARKETING

The Company's sales and marketing staff coordinate directly with its wholesale customers to devise marketing strategies and merchandising concepts and to furnish advice on advertising and product promotion. The Company has



developed several promotional programs for use in the ordinary course of business to promote sales throughout the year.

The Company's sales and marketing efforts are supported from its principal offices and showroom in Garden City, New York; as well as showrooms in New York, New York; Medford, Massachusetts; Atlanta, Georgia; Bentonville, Arkansas; and Menomonee Falls, Wisconsin.

The Company generally collaborates with its largest wholesale customers and in many instances produces specific versions of the Company's product lines with exclusive designs and/or packaging for their stores.

## DESIGN AND INNOVATION

At the heart of the Company is a strong culture of innovation and new product development. The Company's in-house design and development teams currently consist of 77 professional designers, artists and engineers. Utilizing the latest available design tools, technology and materials, these teams create new products, redesign products, and create packaging and merchandising concepts.

## SOURCES OF SUPPLY

The Company sources its products from over 400 suppliers. Most of the Company's suppliers are located in the People's Republic of China. The Company also sources products from suppliers in the United States, India, Japan, Indonesia, Korea, Italy, Thailand, Germany, Slovakia, Vietnam, American Samoa, Czech Republic, United Kingdom, Canada, Poland, Portugal, Switzerland, Malaysia, Slovenia, and Mexico. The Company orders products substantially in advance of the anticipated time of their sale. The Company does not have any formal long-term arrangements with any of its suppliers and its arrangements with most manufacturers allow for flexibility in modifying the quantity, composition and delivery dates of orders. All purchase orders issued by the Company are cancelable.

## MANUFACTURING

The Company manufactures its sterling silver products at its leased manufacturing facility in San Germán, Puerto Rico and fills spices and assembles spice racks at its owned Winchendon, Massachusetts distribution facility.

## COMPETITION

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

## PATENTS

The Company owns 133 design and utility patents on the overall design of some of its products. The Company believes that the expiration of any of its patents would not have a material adverse effect on the Company's business.

## BACKLOG

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

## EMPLOYEES

At December 31, 2010, the Company had a total of 1,040 full-time employees, 154 of whom are located in China. In addition, the Company employed 60 people on a part-time basis, predominately in customer service. None of the Company's employees are represented by a labor union. The Company considers its employee relations to be good.

## REGULATORY MATTERS

The products the Company sells are subject to various Federal, state and local statutes and the jurisdiction of various regulatory agencies, as well as the scrutiny of consumer groups. The Company's spice container filling operation in

Winchendon, Massachusetts is regulated by the Food and Drug Administration. The Company's sterling silver manufacturing operations are subject to the jurisdiction of the Environmental Protection Agency. The Company's products are also subject to regulation under certain state laws pertaining to product safety and liability.

## Item 1A. Risk Factors

The Company's businesses, operations, and financial condition are subject to various risks. The risks and uncertainties described below are those that the Company considers material.

### General Economic Factors and Political Conditions

The Company's performance is affected by general economic factors and political conditions that are beyond its control. These factors include, among other factors, recession, inflation, deflation, housing markets, consumer credit availability, consumer debt levels, fuel and energy costs, material input costs, foreign currency translation, labor cost inflation, interest rates, tax rates and policy, unemployment trends, the impact of natural disasters and terrorist activities, conditions affecting the retail environment for the home and other matters that influence consumer spending. Unfavorable economic conditions in the United States adversely affected the Company's performance in 2008 and 2009 and could continue to adversely affect the Company's performance in the future. Unstable economic and political conditions, civil unrest and political activism, particularly in Asia, could adversely impact the Company's businesses.

### Liquidity

The Company has substantial indebtedness and depends upon its bank lenders to finance its liquidity needs. In June 2010, the Company entered into a new \$125.0 million secured credit agreement (the "Revolving Credit Facility") and a \$40.0 million second lien credit agreement (the "Term Loan"). Amounts loaned under these agreements bear interest at floating rates. Therefore, an increase in interest rates would adversely affect the Company's performance. To the extent that the Company's access to credit was to be restricted because of its own performance, its bank lenders' performances, or conditions in the markets generally, the Company would not be able to operate normally.

### Competition

The markets for the Company's products are intensely competitive and the Company competes with numerous other suppliers, some of which are larger than the Company, have greater financial and other resources or employ brands that are more established, have greater consumer recognition or are more favorably perceived by consumers or retailers than the Company's brands.

The Company believes it possesses certain competitive advantages; however, many factors could erode these competitive advantages or prevent their strengthening. Accordingly, future operating results will depend on the Company's ability to protect or enhance its competitive advantages.

### Customers

The Company's wholesale customers include mass merchants, specialty stores, national chains, department stores, warehouse clubs, supermarkets, off-price retailers, and Internet retailers. Unanticipated changes in purchasing and other practices by its customers, including customers' pricing and other requirements, could adversely affect the Company. In its e-commerce and catalog businesses, the Company sells to individual consumers nationwide.

Many of the Company's wholesale customers are significantly larger than the Company, have greater financial and other resources and also purchase goods directly from vendors in Asia and elsewhere. Decisions by large customers to increase their purchases directly from overseas vendors could have a materially adverse affect on the Company.

Significant changes or financial difficulties, including consolidations of ownership, restructurings, bankruptcies, liquidations or other events that affect retailers could result in fewer stores selling the Company's products, the Company having to rely on a smaller group of customers, an increase in the risk of extending credit to these customers or limitations on the Company's ability to collect amounts due from these customers.

In 2010, Wal-Mart Stores, Inc. (including Sam's Club) accounted for 15% of the Company's sales. A material reduction in purchases by Wal-Mart Stores, Inc. could have a significant adverse effect on the Company's business and operating results. In addition, pressures by Wal-Mart Stores, Inc. that would cause the Company to materially reduce the price of the Company's products could result in reductions of the Company's operating margin.

### Supply Chain

The Company sources its products from suppliers located principally in Asia and, to a lesser extent, in Europe and in the United States. The Company's Asia vendors are located primarily in the People's Republic of China. Interruption of supply from any of the Company's suppliers, or the loss of one or more key vendors, could have a negative effect on the Company's business and operating results.

Changes in currency exchange rates might negatively affect the profitability and business prospects of the Company and its overseas vendors. The Company does not have access to its vendors' financial information and is unable to assess its vendors' financial conditions including their liquidity.

The Company is subject to risks and uncertainties associated with economic and political conditions in foreign countries, including but not limited to, foreign government regulations, taxes, import and export duties and quotas, anti-dumping regulations, incidents and fears involving security, terrorism and wars, political unrest and other restrictions on trade and travel.

The Company imports its products for delivery to its distribution centers as well as arranges for its customers to import goods to which title has passed overseas. For purchases that are to be delivered to its distribution centers, the Company arranges for transportation, primarily by sea, from ports in Asia and Europe to ports in the United States, principally New York/Newark/Elizabeth and Los Angeles/Long Beach. Accordingly, the Company is subject to risks incidental to such transportation. These risks include, but are not limited to, increases in fuel costs, the availability of ships, increased security restrictions, work stoppages and carriers' ability to provide delivery services to meet the Company's shipping needs. Transportation disruptions and increased transportation costs could adversely affect the Company's business.

The Company delivers its products to its customers or makes such products available for customer pickup from its distribution centers. Prolonged domestic transportation disruptions, as well as workforce or systems issues related to the Company's distribution centers, could have a negative affect on the Company's ability to deliver goods to its customers.

### Intellectual Property

Significant portions of the Company's business are dependent on trade names, trademarks and patents, some of which are licensed from third-parties. Several of these license agreements are subject to termination by the licensor. The loss of certain licenses or a material increase in the royalties the Company pays under such licenses upon renewal could result in a reduction of the Company's operating margin.

### Regulatory

The Company is subject in the ordinary course of its business, in the United States and elsewhere, to many statutes, ordinances, rules and regulations that if violated by the Company could have a material adverse effect on the Company's business. The Company's operations could be conducted by its employees, contractors, representatives, or agents in ways which violate the Foreign Corrupt Practices Act or other similar anti-bribery laws.

The marketing of certain of the Company's consumer products involve an inherent risk of product liability claims or recalls or other regulatory or enforcement actions initiated by the U.S. Consumer Product Safety Commission, by state regulatory authorities or through private causes of action. Any defects in products the Company markets could harm the Company's credibility, adversely affect its relationship with its customers and decrease market acceptance of the Company's products and the strength of the brand names under which the Company markets such products. Potential product liability claims may exceed the amount of the Company's insurance coverage and could materially damage the Company's business and its financial condition.

The Company is subject to significant regulations, including the Sarbanes-Oxley Act of 2002. The Company cannot assure that it will not find material weaknesses in the future or that the Company's independent registered public accounting firm will conclude that the Company's internal control over financial reporting is operating effectively.

The Company is subject to general business regulations and laws, as well as regulations and laws specifically governing the Internet and e-commerce. Such existing and future laws and regulations may impede the growth of the Internet or other online services. These regulations and laws may cover taxation, user privacy, data protection,

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

#### Technology

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

The Company has made significant efforts to secure its computer network. However, the Company's computer network could be compromised and confidential information such as customer credit card information could be misappropriated. This could lead to adverse publicity, loss of sales and profits or cause the Company to incur significant costs to reimburse third-parties for damages which could adversely impact profits.

In addition, although the Company's systems and procedures comply with Payment Card Industry ("PCI") data security standards, failure by the Company to maintain compliance with the PCI requirements or rectify a security issue could result in fines and the imposition of restrictions on the Company's ability to accept credit cards.

#### Personnel

The Company's success depends on its ability to identify, hire and retain skilled personnel. The Company's industry is characterized by a high level of employee mobility and aggressive recruiting among competitors for personnel with successful track records. The Company may not be able to attract and retain skilled personnel or may incur significant costs in order to do so. If Jeffrey Siegel, the Company's Chairman, President and Chief Executive Officer, was no longer employed by the Company, it could have a material adverse effect on the Company.



Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The following table lists the principal properties at which the Company operates its business at December 31, 2010:

Location