

LIFETIME BRANDS, INC  
Form 10-Q  
November 08, 2018  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended: September 30, 2018**

**or**

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

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

**Commission File Number: 0-19254**

**LIFETIME BRANDS, INC.**

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

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**1000 Stewart Avenue, Garden City, New York, 11530**  
**(Address of principal executive offices) (Zip Code)**  
**(516) 683-6000**  
**(Registrant's telephone number, including area code)**

**11-2682486**  
**(I.R.S. Employer**  
**Identification No.)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's common stock outstanding as of October 31, 2018 was 20,762,149.



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**LIFETIME BRANDS, INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

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

(In thousands, except share data)

|  | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|-------------------------------|------------------------------|
|  | (unaudited)                   |                              |
| <b>ASSETS</b>  |                               |                              |
| <b>CURRENT ASSETS</b>  |                               |                              |
| Cash and cash equivalents  | \$ 5,763                      | \$ 7,600                     |
| Accounts receivable, less allowances of \$6,546 at September 30, 2018 and \$6,190 at December 31, 2017 | 147,520                       | 108,033                      |
| Inventory  | 209,203                       | 132,436                      |
| Prepaid expenses and other current assets  | 13,290                        | 10,354                       |
| Income taxes receivable  | 2,952                         |                              |
| <b>TOTAL CURRENT ASSETS</b>  | <b>378,728</b>                | <b>258,423</b>               |
| <b>PROPERTY AND EQUIPMENT, net</b>   | <b>26,455</b>                 | <b>23,065</b>                |
| <b>INVESTMENTS</b>   | <b>24,987</b>                 | <b>23,978</b>                |
| <b>INTANGIBLE ASSETS, net</b>  | <b>359,369</b>                | <b>88,479</b>                |
| <b>DEFERRED INCOME TAXES</b>   | <b>9,070</b>                  | <b>5,826</b>                 |
| <b>OTHER ASSETS</b>  | <b>1,825</b>                  | <b>1,750</b>                 |
| <b>TOTAL ASSETS</b>  | <b>\$ 800,434</b>             | <b>\$ 401,521</b>            |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                               |                              |
| <b>CURRENT LIABILITIES</b>   |                               |                              |
| Current maturity of term loan  | \$ 1,249                      | \$                           |
| Short term loan  | 73                            | 69                           |
| Accounts payable   | 60,026                        | 25,461                       |
| Accrued expenses   | 61,293                        | 44,121                       |
| Income taxes payable   |                               | 1,864                        |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>122,641</b>                | <b>71,515</b>                |
| <b>DEFERRED RENT &amp; OTHER LONG-TERM LIABILITIES</b>   | <b>21,166</b>                 | <b>20,249</b>                |
| <b>DEFERRED INCOME TAXES</b>   | <b>34,070</b>                 | <b>4,423</b>                 |
| <b>INCOME TAXES PAYABLE, LONG-TERM</b>   | <b>311</b>                    | <b>311</b>                   |
| <b>REVOLVING CREDIT FACILITY</b>   | <b>87,227</b>                 | <b>94,744</b>                |
| <b>TERM LOAN</b>   | <b>263,009</b>                |                              |
| <b>STOCKHOLDERS EQUITY</b>   |                               |                              |

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|   |                   |                   |
|---|-------------------|-------------------|
| 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  |                   |                   |
| Common stock, \$.01 par value, shares authorized: 50,000,000 at September 30, 2018 and December 31, 2017; shares issued and outstanding: 20,762,149 at September 30, 2018 and 14,902,527 at December 31, 2017 | 208               | 149               |
| Paid-in capital   | 257,547           | 178,909           |
| Retained earnings   | 46,169            | 60,546            |
| Accumulated other comprehensive loss  | (31,914)          | (29,325)          |
| <b>TOTAL STOCKHOLDERS EQUITY</b>  | <b>272,010</b>    | <b>210,279</b>    |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>  | <b>\$ 800,434</b> | <b>\$ 401,521</b> |

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

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

(In thousands, except per share data)

(unaudited)

|  | <b>Three Months Ended</b> |                 | <b>Nine Months Ended</b> |                |
|--|---------------------------|-----------------|--------------------------|----------------|
|  | <b>September 30,</b>      |                 | <b>September 30,</b>     |                |
|  | <b>2018</b>               | <b>2017</b>     | <b>2018</b>              | <b>2017</b>    |
| Net sales  | \$ 209,448                | \$ 165,957      | \$ 476,268               | \$ 396,706     |
| Cost of sales  | 135,663                   | 108,769         | 305,318                  | 252,780        |
| Gross margin   | 73,785                    | 57,188          | 170,950                  | 143,926        |
| Distribution expenses                                    | 16,612                    | 13,495          | 49,376                   | 39,510         |
| Selling, general and administrative expenses             | 42,113                    | 34,088          | 122,330                  | 99,572         |
| Restructuring expenses                                   | 552                       | 272             | 1,353                    | 526            |
| Impairment of goodwill                                   | 2,205                     |                 | 2,205                    |                |
| Income (loss) from operations                            | 12,303                    | 9,333           | (4,314)                  | 4,318          |
| Interest expense   | (5,634)                   | (1,172)         | (12,413)                 | (3,114)        |
| Loss on early retirement of debt                         |                           |                 | (66)                     | (110)          |
| Income (loss) before income taxes and equity in earnings | 6,669                     | 8,161           | (16,793)                 | 1,094          |
| Income tax (provision) benefit                           | (906)                     | (3,505)         | 4,669                    | (863)          |
| Equity in earnings (losses), net of taxes                | 185                       | (326)           | 417                      | 672            |
| <b>NET INCOME (LOSS)</b>                                 | <b>\$ 5,948</b>           | <b>\$ 4,330</b> | <b>\$ (11,707)</b>       | <b>\$ 903</b>  |
| <b>BASIC INCOME (LOSS) PER COMMON SHARE</b>              | <b>\$ 0.29</b>            | <b>\$ 0.30</b>  | <b>\$ (0.61)</b>         | <b>\$ 0.06</b> |
| <b>DILUTED INCOME (LOSS) PER COMMON SHARE</b>            | <b>\$ 0.29</b>            | <b>\$ 0.29</b>  | <b>\$ (0.61)</b>         | <b>\$ 0.06</b> |

See accompanying independent registered public accounting firm review report and notes to the 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>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2018</b>               | <b>2017</b> | <b>2018</b>              | <b>2017</b> |
| Net income (loss)                                | \$ 5,948                  | \$ 4,330    | \$ (11,707)              | \$ 903      |
| Other comprehensive income (loss), net of taxes: |                           |             |                          |             |
| Translation adjustment                           | 124                       | 2,246       | (1,985)                  | 7,534       |
| Derivative fair value adjustment                 | (381)                     | (4)         | (658)                    | 10          |
| Effect of retirement benefit obligations         | 19                        | 16          | 54                       | 47          |
| Other comprehensive income (loss), net of taxes  | (238)                     | 2,258       | (2,589)                  | 7,591       |
| Comprehensive income (loss)                      | \$ 5,710                  | \$ 6,588    | \$ (14,296)              | \$ 8,494    |

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



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(In thousands)

(unaudited)

|  | <b>Nine Months Ended<br/>September 30,</b> |                 |
|--|--|-----------------|
|  | <b>2018</b>                                | <b>2017</b>     |
| <b>OPERATING ACTIVITIES</b>  |  |                 |
| Net income (loss)  | \$ (11,707)                                | \$ 903          |
| Adjustments to reconcile net income (loss) to net cash used in operating activities:         |  |                 |
| Depreciation and amortization  | 16,807                                     | 10,697          |
| Impairment of goodwill   | 2,205                                      |                 |
| Amortization of financing costs  | 1,103                                      | 401             |
| Deferred rent  | 357  | (469)           |
| Stock compensation expense   | 3,027                                      | 2,482           |
| Undistributed equity in earnings, net of taxes   | (417)                                      | (644)           |
| Loss on early retirement of debt   | 66   | 110             |
| Changes in operating assets and liabilities (excluding the effects of business acquisitions) |  |                 |
| Accounts receivable  | (13,245)                                   | (10,524)        |
| Inventory  | (51,392)                                   | (32,508)        |
| Prepaid expenses, other current assets and other assets                                      | 905  | 1,901           |
| Accounts payable, accrued expenses and other liabilities                                     | 29,059                                     | 14,539          |
| Income taxes receivable  | (2,952)                                    | (862)           |
| Income taxes payable   | (4,245)                                    | (6,949)         |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>   | <b>(30,429)</b>                            | <b>(20,923)</b> |
| <b>INVESTING ACTIVITIES</b>  |  |                 |
| Purchases of property and equipment  | (5,420)                                    | (4,269)         |
| Filament acquisition, net of cash acquired   | (217,521)                                  |                 |
| Other acquisition, net of cash acquired  |  | (9,072)         |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   | <b>(222,941)</b>                           | <b>(13,341)</b> |
| <b>FINANCING ACTIVITIES</b>  |  |                 |
| Proceeds from revolving credit facility  | 203,237                                    | 191,087         |
| Repayments of revolving credit facility  | (210,271)                                  | (149,289)       |
| Proceeds from Term Loan  | 275,000                                    |                 |
| Repayment of Term Loan   | (1,375)                                    |                 |
| Repayment of Credit Agreement term loan  |  | (9,500)         |
| Proceeds from short term loan  | 216  | 119             |

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|  |                 |                 |
|--|-----------------|-----------------|
| Payments on short term loan                              | (206)           | (114)           |
| Payment of financing costs                               | (11,171)        | (39)            |
| Payment of equity issuance costs                         | (936)           |                 |
| Payments for capital leases                              | (67)            | (72)            |
| Payments of tax withholding for stock based compensation | (442)           | (188)           |
| Proceeds from exercise of stock options                  | 143             | 1,453           |
| Cash dividends paid                                      | (2,405)         | (1,855)         |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>         | <b>251,723</b>  | <b>31,602</b>   |
| Effect of foreign exchange on cash                       | (190)           | 312             |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>             | <b>(1,837)</b>  | <b>(2,350)</b>  |
| Cash and cash equivalents at beginning of period         | 7,600           | 7,883           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>        | <b>\$ 5,763</b> | <b>\$ 5,533</b> |

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

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**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2018**

(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 third parties and its own internet websites.

On March 2, 2018, the Company expanded its portfolio of products and brands through the acquisition of Taylor Holdco LLC and its subsidiaries (doing business as Filament Brands) ( Filament ). Filament primarily designs, markets, and distributes consumer and food service precision measurement products, including kitchen scales, thermometers and timers, bath scales, wine accessories, kitchen tools, hydration products, and select outdoor products. The nine months ended September 30, 2018 includes the operations of Filament for the period from March 2, 2018 to September 30, 2018. See Note C Acquisition to the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q ( Quarterly Report ) for additional information.

**Basis of presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) 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. GAAP for complete financial statements. In the opinion of management, all estimates and adjustments, which consist only of normal recurring accruals, considered necessary for a fair presentation of the financial position have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited 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, 2017.

Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The Company's business and working capital needs are highly seasonal, with a majority of sales occurring in the third and fourth quarters. In 2017 and 2016, net sales for the third and fourth quarters accounted for 60% and 61% 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 at the point in time the customer obtains control of the products, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products.

The Company offers various sales incentives and promotional programs to its customers 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 returns are reflected as reductions of revenue at the time of sale. See Note B Revenue to the unaudited condensed consolidated financial statements included in this Quarterly Report for additional information.

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**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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(unaudited)

**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.

**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. 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 unaudited 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 unaudited condensed consolidated statements of operations. Pursuant to this agreement, the Company sold to HSBC \$20.7 million and \$59.4 million of receivables during the three and nine months ended September 30, 2018, respectively, and \$23.6 million and \$62.8 million of receivables during the three and nine months ended September 30, 2017, respectively. At September 30, 2018, \$13.6 million of receivables sold are outstanding and are due to HSBC from customers. Charges of \$111,000 and \$300,000 related to the sale of the receivables are included in selling, general and administrative expenses in the unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2018, respectively. Charges of \$88,000 and \$218,000 related to the sale of the receivables are included in selling, general and administrative expenses in the unaudited condensed consolidated statements of operations for the three and nine months ended September 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.

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(unaudited)

The components of inventory are as follows:

|                 | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|-----------------|-------------------------------|------------------------------|
|                 | (in thousands)                |                              |
| Finished goods  | \$ 199,583                    | \$ 125,355                   |
| Work in process | 398                           | 86                           |
| Raw materials   | 9,222                         | 6,995                        |
| Total           | \$ 209,203                    | \$ 132,436                   |

**Fair value of financial instruments**

The Company determined that 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, based on a recognized index rate.

**Derivatives**

The Company accounts for derivative instruments in accordance with Accounting Standard Codification ( ASC ) Topic No. 815, *Derivatives and Hedging*, ( ASC Topic No. 815 ). 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 until the hedged item is recognized in earnings. The change in the fair value of hedges are included in accumulated other comprehensive income (loss) and is subsequently recognized in the Company's unaudited condensed consolidated statements of operations to mirror the location of the hedged items impacting earnings.

For derivatives that do not qualify or are not designated as hedging instruments for accounting purposes, changes in fair value are recorded in operations.

**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 quantitative 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 quantitative 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, the Company will proceed with performing the quantitative impairment test. In January 2017, the Financial Accounting Standards Board ( FASB ) issued revised guidance that simplifies the test for goodwill impairment, effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company elected to early adopt the guidance in the third quarter of 2018. Under the revised guidance, if a reporting unit's carrying value exceeds its fair value, an impairment charge will be recorded to reduce the reporting unit to fair value. Prior to the revised guidance, the amount of the impairment was the difference between the carrying value of the goodwill and the implied fair value, which was calculated as if the reporting unit had just been acquired and accounted for as a business combination.



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**September 30, 2018**

(unaudited)

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.

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 carrying amount of the asset is not recoverable, the impairment to be recognized is measured by the amount by which the carrying amount of each long-lived asset exceeds the fair value of the asset.

During the third quarter of 2018, in advance of its October 1, 2018 annual impairment test, the Company performed an interim impairment assessment of its European tableware reporting unit, which resulted in a \$2.2 million non-cash impairment charge to reduce goodwill. See Note E Intangible assets to the unaudited condensed consolidated financial statements included in this Quarterly Report for additional information

**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 claims IBNR, actual claims may vary significantly from estimated claims.

**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 connection with the Company's March 2018 acquisition of Filament, the Company commenced a restructuring plan to integrate the operations of Filament with the Company's operations and realize the savings expected from the synergies of the acquisition. During the three and nine months ended September 30, 2018 the Company incurred \$0.6 million and \$1.4 million, respectively, of severance restructuring charges. At September 30, 2018, \$0.8 million of restructuring changes were accrued.

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 nine months ended September 30, 2017, the Company recorded \$272,000

and \$526,000, respectively, of restructuring expense related to the execution of this plan, primarily related to severance.

**Adoption of new accounting pronouncements**

Effective January 1, 2018, the Company adopted Accounting Standards Update ( ASU ) 2017-01, *Clarifying the Definition of a Business*. This standard assists with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This standard will be applied prospectively to acquisitions and has not had an impact on the Company's unaudited condensed consolidated financial statements.

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**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2018**

(unaudited)

Effective January 1, 2018, the Company adopted ASC Topic 606, *Revenue from Contracts with Customers*. 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. The Company adopted the new guidance under the modified retrospective approach. The adoption of this guidance did not have a significant impact on the Company's unaudited condensed consolidated financial statements. The adoption resulted in the recognition of right of a return asset related to certain product returns by increasing the returns liability; this gross up had no corresponding impact on the Condensed Consolidated Statement of Operations.

Effective January 1, 2018, the Company adopted ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which expands and refines hedge accounting for both non-financial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The guidance also makes certain improvements to simplify the application of hedge accounting guidance and ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness. The Company applied the new guidance to existing cash flow hedge relationships using a modified retrospective approach. No adjustment was recorded to opening retained earnings on the date of adoption, as there was no ineffectiveness previously recorded in retained earnings that would have been included in other comprehensive income if the new guidance had been applied since hedge inception. The adoption of this ASU did not have a material impact on the Company's financial condition, results of operations or cash flows.

Effective September 30, 2018, the Company adopted ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): 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. The Company adopted this standard early and used it for the interim goodwill impairment test performed as of September 30, 2018.

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

Updates not listed below were assessed and either determined to not be applicable or are expected to have a minimal effect on the Company's financial position, results of operations, and disclosures.

In February 2018, the FASB issued ASU 2018-02, *Income Statement- Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which addresses the effect on items within accumulated other comprehensive income (loss) of the change in the U.S. federal corporate tax rate due to the enactment of the Tax Cuts and Jobs Act (the Tax Act) on December 22, 2017. The guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is evaluating the effect

of adopting this pronouncement.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): 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.

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In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires a lessee, in most leases, 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. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within with those years. Early adoption is permitted. The Company will adopt the standard in the first quarter of fiscal 2019. The Company developed a project team to assess the effect of the adoption of this standard on its existing accounting policies, business processes, internal controls over financial reporting and related disclosures. While the assessment is not complete, the Company expects the adoption will result in a material increase in assets and liabilities on the consolidated balance sheet, with an immaterial impact on the consolidated statement of operations and consolidated statement of cash flow. The increase in assets and liabilities on the consolidated balance sheet will be due to the recording of the right-of-use assets and corresponding lease liabilities.

**NOTE B REVENUE**

The Company sells products wholesale, to retailers and distributors, and sells products retail, directly to consumers. Wholesale sales and retail sales are recognized at the point in time the customer obtains control of the products in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products. To indicate the transfer of control, the Company must have a present right to payment, legal title must have passed to the customer, the customer must have the significant risks and rewards of ownership, and where acceptance is not a formality, the customer must have accepted the product or service. The Company's principal terms of sale are FOB Shipping Point, or equivalent, and, as such, the Company primarily transfers control and records revenue for product sales upon shipment. Sales arrangements with delivery terms that are not FOB Shipping Point are not recognized upon shipment and the transfer of control for revenue recognition is evaluated based on the associated shipping terms and customer obligations. Shipping and handling fees that are billed to customers in sales transactions are included in net sales and amounted to \$0.9 million and \$2.2 million for the three and nine months ended September 30, 2018, respectively and \$0.5 million and \$1.7 million for the three and nine months ended September 30, 2017, 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 represent forms of variable consideration, and an estimate of sales returns are reflected as reductions in net sales in the Company's unaudited condensed consolidated statements of operations. These estimates are based on historical experience and other known factors or as the most likely amount in a range of possible outcomes. On a quarterly basis, variable consideration is assessed on a portfolio approach in estimating the extent to which the components of variable consideration are constrained.

Payment terms with customers vary by customer, but generally range from 30 to 90 days or at the point of sale for the Company's retail direct sales. The Company incurs certain direct incremental costs to obtain contracts with customers, such as sales-related commissions, where the recognition period for the related revenue is less than one year. These

costs are expensed as incurred and recorded within selling, general and administrative expenses in the unaudited condensed consolidated statement of operations. Incidental items that are immaterial in the context of the contract are expensed as incurred.

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The following tables present the Company's net sales disaggregated by segment, product category and geographic region for the three and nine months ended September 30, 2018 (in thousands).

|                        | <b>Three Months Ended<br/>September 30,<br/>2018</b> | <b>Nine Months Ended<br/>September 30,<br/>2018</b> |
|------------------------|--|---|
| <b>U.S. Wholesale</b>  |  |   |
| Kitchenware            | \$ 96,265  | \$ 220,863  |
| Tableware              | 53,646   | 106,765   |
| Home Solutions         | 28,607   | 66,033  |
| <b>International</b>   |  |   |
| Kitchenware            | 13,843   | 38,782  |
| Tableware              | 8,617  | 24,607  |
| <b>Retail Direct</b>   | <b>8,470</b>   | <b>19,218</b>                                       |
| <b>Total net sales</b> | <b>\$ 209,448</b>                                    | <b>\$ 476,268</b>                                   |
|                        |  |   |
| United States          | \$ 175,540   | \$ 386,913  |
| United Kingdom         | 17,432   | 47,409  |
| Rest of World          | 16,476   | 41,946  |
| <b>Total net sales</b> | <b>\$ 209,448</b>                                    | <b>\$ 476,268</b>                                   |

**NOTE C ACQUISITION**

On December 22, 2017, the Company entered into an agreement providing for the acquisition of Filament by the Company. The acquisition was completed on March 2, 2018. The aggregate consideration for Filament, after taking into account certain adjustments, was \$295.4 million, consisting of \$218.5 million of cash consideration and 5,593,116 newly issued shares of the Company's common stock, with a value equal to \$76.9 million based on the market value of the Company's common stock as of March 2, 2018. The cash portion of the consideration was revised for certain adjustments as defined in the agreement.

The purchase price, as adjusted, has been determined to be as follows (in thousands):

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|                             |                   |
|-----------------------------|-------------------|
| Cash                        | \$ 218,506        |
| Share consideration         | 76,905            |
| <b>Total purchase price</b> | <b>\$ 295,411</b> |

The purchase price was allocated based on the Company's preliminary estimate of the fair value of the assets acquired and liabilities assumed, as follows (in thousands):

|                                |                   |
|--------------------------------|-------------------|
| Accounts receivable            | \$ 26,453         |
| Inventory                      | 26,696            |
| Other assets                   | 8,663             |
| Other liabilities              | (24,746)          |
| Deferred income tax            | (26,633)          |
| Goodwill and other intangibles | 284,978           |
| <b>Total allocated value</b>   | <b>\$ 295,411</b> |

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The acquisition is being accounted for as a business combination using the acquisition method of accounting in accordance with FASB ASC Topic 805, *Business Combinations* ( ASC Topic 805 ), which established a new basis of accounting for all identifiable assets acquired and liabilities assumed at fair value. ASC Topic 805 allows the acquiring Company to adjust preliminary amounts recognized at the acquisition date to their subsequently determined final fair values during a measurement period, generally up to one year from the date of acquisition. The fair values of net assets acquired are based on the Company's preliminary estimate of the respective fair values. The final valuation of net assets may result in material adjustments to the respective fair values and resulting goodwill. During the three months ended September 30, 2018, the Company increased goodwill by approximately \$4.9 million, due to certain adjustments primarily related to the valuation of certain intangible assets. Goodwill results from such factors as an assembled workforce. The total amount of goodwill is not expected to be deductible for tax purposes. The goodwill and other intangible assets are primarily included in the U.S. Wholesale segment. Customer relationships and certain trade names, which are included in intangible assets, net, are amortized on a straight-line basis over their estimated useful lives (see Note E Intangible Assets to the unaudited condensed consolidated financial statements included in this Quarterly Report).

The nine months ended September 30, 2018 includes the operations of Filament for the period from March 2, 2018, the date of acquisition, to September 30, 2018. The unaudited condensed consolidated statement of operations for the three and nine months ended September 30, 2018, includes \$38.6 million and \$77.2 million, respectively of net sales contributed by Filament.

Unaudited Pro forma Results

The following table presents the Company's pro forma consolidated net sales, income (loss) before income taxes and equity in earnings and net income (loss) for the three and nine months ended September 30, 2018 and 2017. The unaudited pro forma results include the historical statement of operations information of the Company and of Filament, giving effect to the Filament acquisition and related financing as if they had occurred at the beginning of the periods presented.

The unaudited pro forma results do not include any revenue or cost reductions that may be achieved through the business combination or the impact of non-recurring items directly related to the business combination.

The unaudited pro forma results are not necessarily indicative of the operating results that would have occurred if the Filament acquisition had been completed as of the date for which the pro forma financial information is presented. In addition, the unaudited pro forma results do not purport to project the future condensed consolidated operating results of the combined company.

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|  | Three Months Ended                    |            | Nine Months Ended |            |
|--|---------------------------------------|------------|-------------------|------------|
|  | September 30,                         |            | September 30,     |            |
|  | 2018                                  | 2017       | 2018              | 2017       |
|  | (In thousands, except per share data) |            |                   |            |
| Net sales  | \$ 209,448                            | \$ 209,119 | \$ 502,079        | \$ 516,432 |
| Income (loss) before income taxes and equity in earnings | 6,956                                 | 9,742      | (15,416)          | (1,238)    |
| Net income (loss)  | 6,145                                 | 5,009      | (10,671)          | (801)      |
| Diluted income (loss) per common share                   | 0.30                                  | 0.24       | (0.52)            | (0.04)     |

**NOTE D INVESTMENTS**

The Company owns approximately a 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

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related to the customer relationships acquired) for the three and nine months ended September 30, 2018 and 2017 in the accompanying unaudited 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 18.69 and MXN 19.68 at September 30, 2018 and December 31, 2017, 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 18.94 and MXN 17.81 during the three months ended September 30, 2018 and 2017, respectively, and MXN 18.71 to MXN 19.38 and MXN 17.81 to MXN 20.30 during the nine months ended September 30, 2018 and 2017, respectively. The effect of the translation of the Company's investment resulted in an increase to the investment of \$0.8 million during the nine months ended September 30, 2018 and an increase to the investment of \$1.3 million during the nine months ended September 30, 2017. These translation effects are recorded in accumulated other comprehensive income (loss). Included within prepaid expenses and other current assets at September 30, 2018 and December 31, 2017 are amounts due from Vasconia of \$147,000 and \$64,000, respectively. No amounts were due to Vasconia at September 30, 2018 or December 31, 2017.

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

|                        | <b>Three Months Ended<br/>September 30,</b> |            |             |            |
|------------------------|---|------------|-------------|------------|
|                        | <b>2018</b>                                 |            | <b>2017</b> |            |
|                        | (in thousands)                              |            |             |            |
|                        | USD   | MXN        | USD         | MXN        |
| Net sales              | \$ 41,222                                   | \$ 780,938 | \$ 40,184   | \$ 715,577 |
| Gross profit           | 7,762                                       | 147,039    | 7,553       | 134,507    |
| Income from operations | 1,063                                       | 20,136     | 1,766       | 31,440     |
| Net income (loss)      | (1,233)                                     | (23,361)   | (648)       | (11,538)   |

|                        | <b>Nine Months Ended<br/>September 30,</b> |              |             |              |
|------------------------|--|--------------|-------------|--------------|
|                        | <b>2018</b>                                |              | <b>2017</b> |              |
|                        | (in thousands)                             |              |             |              |
|                        | USD  | MXN          | USD         | MXN          |
| Net Sales              | \$ 128,853                                 | \$ 2,452,673 | \$ 118,743  | \$ 2,236,897 |
| Gross Profit           | 24,867                                     | 473,763      | 23,162      | 437,718      |
| Income from operations | 5,867                                      | 112,466      | 5,881       | 112,027      |
| Net Income             | 862  | 17,484       | 1,754       | 35,168       |

The Company recorded equity in earnings of Vasconia, net of taxes, of \$185,000 and \$417,000, for the three and nine months ended September 30, 2018, respectively. The Company recorded equity in losses of Vasconia of \$326,000 and equity in earnings of Vasconia of \$672,000 for the three and nine months ended September 30, 2017, respectively. Equity in earnings for the three and nine months ended September 30, 2018, includes deferred tax benefit of \$580,000 and \$274,000, respectively, due to the requirement to record tax benefits for foreign currency translation gains and losses through other comprehensive income (loss), with a corresponding adjustment to deferred tax liabilities. Equity in earnings for the three and nine months ended September 30, 2017, includes deferred tax expense of \$0.1 million and a deferred tax benefit of \$0.2 million, respectively.

As of September 30, 2018 and December 31, 2017, the fair value (based upon Vasconia's quoted stock price) of the Company's investment in Vasconia was \$32.8 million and \$31.8 million, respectively. The carrying value of the Company's investment in Vasconia was \$24.8 million and \$23.8 million as of September 30, 2018 and December 31, 2017, respectively.

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## LIFETIME BRANDS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## NOTE E INTANGIBLE ASSETS

Intangible assets consist of the following (in thousands):

|  | September 30, 2018 |                   |                          | December 31, 2017 |                   |                          |                  |
|--|--------------------|-------------------|--------------------------|-------------------|-------------------|--------------------------|------------------|
|  | Gross              | Impairment        | Accumulated Amortization | Net               | Gross             | Accumulated Amortization | Net              |
| <b>Goodwill</b>                            | \$ 104,232         | \$ (2,205)        | \$                       | \$ 102,027        | \$ 15,772         | \$                       | \$ 15,772        |
| <b>Indefinite-lived intangible assets:</b> |                    |                   |                          |                   |                   |                          |                  |
| Trade names                                | 62,216             |                   |                          | 62,216            | 7,616             |                          | 7,616            |
| <b>Finite-lived intangible assets:</b>     |                    |                   |                          |                   |                   |                          |                  |
| Licenses                                   | 15,847             |                   | (9,717)                  | 6,130             | 15,847            | (9,375)                  | 6,472            |
| Trade names                                | 38,355             |                   | (13,084)                 | 25,271            | 33,368            | (11,109)                 | 22,259           |
| Customer relationships                     | 183,250            |                   | (24,861)                 | 158,389           | 52,961            | (16,966)                 | 35,995           |
| Other                                      | 6,434              |                   | (1,098)                  | 5,336             | 1,165             | (800)                    | 365              |
| <b>Total</b>                               | <b>\$ 410,334</b>  | <b>\$ (2,205)</b> | <b>\$ (48,760)</b>       | <b>\$ 359,369</b> | <b>\$ 126,729</b> | <b>\$ (38,250)</b>       | <b>\$ 88,479</b> |

A summary of the activities related to the Company's intangible assets for the nine months ended September 30, 2018 consists of the following (in thousands):

|   |                   |
|---|-------------------|
| <b>Goodwill and Intangible Assets, December 31, 2017</b>  | <b>\$ 88,479</b>  |
| Goodwill acquired   | 88,898            |
| Trade names acquired                                      | 60,000            |
| Customer relationships acquired                           | 131,450           |
| Other intangibles acquired                                | 5,292             |
| Impairment of goodwill                                    | (2,205)           |
| Foreign currency translation adjustment                   | (1,391)           |
| Amortization  | (11,154)          |
| <b>Goodwill and intangible assets, September 30, 2018</b> | <b>\$ 359,369</b> |

The Company's European tableware business has experienced a decline in operating performance and has reduced its expectations for future cash flows. Therefore, the Company performed an interim impairment assessment in the third quarter, which resulted in a \$2.2 million non-cash goodwill impairment charge.

The European tableware business is a reporting unit within the International segment. The fair value of the reporting unit was determined based on a combined income and market approach. The significant assumption used under the income approach, or discounted cash flow method, was projected net sales, projected earnings before interest, tax, depreciation and amortization ( EBITDA ), terminal growth rates, and the cost of capital. Projected net sales, projected EBITDA and terminal growth rates were determined to be significant assumptions because they are three primary drivers of the projected cash flows in the discounted cash flow fair value model. Cost of capital was also determined to be a significant assumption as it is the discount rate used to calculate the current fair value of those projected cash flows. The market approach is based on a market multiple (revenue and EBITDA) and requires an estimate of appropriate multiples based on market data. The resulting fair value was approximately 12% below the reporting units carrying value.

In accordance with ASC 360-10, the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. During the three months ended September 30, 2018, events and circumstances indicated that \$22.9 million of assets of the European

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tableware reporting unit might be impaired. However, the Company's estimate of undiscounted cash flows indicated that such carrying amounts were expected to be recovered. Nonetheless, it is reasonably possible that the estimate of undiscounted cash flows may change in the near term resulting in the need to write down those assets to fair value.

**NOTE F DEBT**

In connection with the Company's acquisition of Filament, on March 2, 2018, the Company entered into a credit agreement (the "ABL Agreement") with JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent, and the lenders and issuing banks party thereto, evidencing a senior secured asset-based revolving credit facility provided to the Company in the maximum aggregate principal amount of \$150.0 million, which facility will mature on March 2, 2023, and a new loan agreement (the "Term Loan" and together with the ABL Agreement, the "Debt Agreements") with the Company, as the borrower and a guarantor, the other guarantors, JPMorgan, as administrative agent, Golub Capital LLC, as syndication agent, and the lenders party thereto, providing for a senior secured term loan credit facility to the Company in the original principal amount of \$275.0 million, which will mature on February 28, 2025. The Term Loan facility requires quarterly payments of principal equal to 0.25% of the original aggregate principal amount of the term loan facility beginning June 30, 2018. The maximum borrowing under the ABL Agreement may be increased to up to \$200.0 million if certain conditions are met. One or more tranches of additional term loans (the "Incremental Facilities") may be added under the Term Loan if certain conditions are met. The Incremental Facilities may not exceed the sum of (i) \$50.0 million, plus (ii) an unlimited amount so long as, in the case of (ii) only, the Company's secured net leverage ratio, as defined in and computed pursuant to the Term Loan, is no greater than 3.75 to 1.00 subject to certain limitations and for the period defined pursuant to the Term Loan.

At September 30, 2018, borrowings outstanding under the ABL Agreement were \$87.2 million, and open letters of credit were \$3.1 million. At September 30, 2018, availability under the ABL Agreement was approximately \$59.6 million. Availability under the ABL Agreement depends on the valuation of certain current assets comprising the borrowing base. Due to the seasonality of the Company's business, this may mean that the Company will have greater borrowing availability during the third and fourth quarters of each year. The borrowing capacity under the ABL Agreement will depend, in part, on eligible levels of accounts receivable and inventory that fluctuate regularly. Consequently, the \$150.0 million commitment thereunder may not represent actual borrowing capacity at any given time.

At September 30, 2018, \$273.6 million was outstanding under the Term Loan. At September 30, 2018, unamortized debt issuance costs of \$1.5 million and \$7.9 million offset the short-term and long-term outstanding balances, respectively, of the Term Loan.

The Company's payment obligations under its Debt Agreements are unconditionally guaranteed by its existing and future U.S. subsidiaries, with certain minor exceptions. Certain payment obligations under the ABL Agreement are also direct obligations of its foreign subsidiary borrowers designated as such under the ABL Agreement and, subject

to limitations on such guaranty, are guaranteed by the foreign subsidiary borrowers, as well as by the Company. The obligations of the Company under the Debt Agreements 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 interest consists of (1) a first-priority lien, subject to certain permitted liens, with respect to certain assets of the Company and its domestic subsidiaries (the ABL Collateral ) pledged as collateral in favor of lenders under the ABL Agreement and a second-priority lien in the ABL Collateral in favor of the lenders under the Term Loan and (2) a first-priority lien, subject to certain permitted liens, with respect to certain assets of the Company and its domestic subsidiaries (the Term Loan Collateral ) pledged as collateral in favor of lenders under the Term Loan and a second-priority lien in the Term Loan Collateral in favor of the lenders under the ABL Agreement.



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Borrowings under the revolving credit facility bear interest, at the Company's option, at one of the following rates: (i) alternate base rate, defined, for any day, as the greater of the prime rate, a federal funds and overnight bank funding based rate plus 0.5% or one-month LIBOR, plus 1.0%, plus a margin of 0.25% to 0.75%, or (ii) LIBOR plus a margin of 1.25% to 1.75%. The respective margins are based upon the Company's total leverage ratio, as defined in and computed pursuant to the ABL Agreement. Interest rates on outstanding borrowings under the ABL Agreement at September 30, 2018 ranged from 2.5% to 6.0%. In addition, the Company paid a commitment fee of 0.375% on the unused portion of the ABL Agreement during the three months ended September 30, 2018.

The Term Loan facility bears interest, at the Company's option, at one of the following rates: (i) alternate base rate, defined, for any day, as the greater of the prime rate, a federal funds and overnight bank funding based rate, plus 0.5% or one-month LIBOR (at the Company's option), plus 1.0%, plus a margin of 2.50% or (ii) LIBOR plus a margin of 3.50%. The interest rate on outstanding borrowings under the Term Loan at September 30, 2018 was 5.7%.

The Debt Agreements provide for customary restrictions and events of default. Restrictions include limitations on additional indebtedness, acquisitions, investments and payment of dividends, among other things. Further, the ABL Agreement provides that during any period (a) commencing on the last day of the most recently-ended four consecutive fiscal quarters on or prior to the date that availability under the ABL Agreement is less than the greater of \$15.0 million and 10% of the aggregate commitment under the ABL Agreement at any time and (b) ending on the day after such availability has exceeded the greater of \$15.0 million and 10% of the aggregate commitment under the ABL Agreement for forty-five (45) consecutive days, the Company is required to maintain a minimum fixed charge coverage ratio of 1.10 to 1.00 as of the last day of any period of four consecutive fiscal quarters.

The Company was in compliance with the covenants of the Debt Agreements at September 30, 2018.

At December 31, 2017, borrowings outstanding under the Company's former credit facility were \$94.7 million and open letters of credit were \$3.2 million. Availability under the former credit agreement was approximately \$58.0 million at December 31, 2017. Upon entering into the Debt Agreements in March 2018 the Company repaid its outstanding borrowings under its former credit agreement. In connection therewith, debt issuance costs of \$66,000 were written off.

**NOTE G DERIVATIVES**

The Company is a party to interest rate swap agreements, with an aggregate notional value of \$125.0 million at September 30, 2018. The Company designated the interest rate swaps as cash flow hedges of the Company's exposure to the variability of the payment of interest on a portion of its Term Loan borrowings. The hedge periods of these agreements commenced in April 2018 and will expire in March 2023. The notional amounts are reduced over these periods.

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 inventory purchases denominated in foreign currencies. The aggregate gross notional values of foreign exchange contracts at September 30, 2018 and December 31, 2017 were \$9.7 million and \$34.9 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 values of these contracts are recorded in earnings immediately.

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

| <b>Derivatives designated as hedging instruments</b> | <b>Balance Sheet</b>                        |  | <b>September 30, 2018</b> | <b>December 31, 2017</b> |
|--|---|--|---------------------------|--------------------------|
|  | <b>Location</b>                             |  |                           |                          |
| Interest rate swaps                                  | Prepaid Expenses                            |  | \$                        | \$ 11                    |
|  | Accrued Expenses                            |  | 168                       |                          |
|  | Deferred rent & other long-term liabilities |  | 691                       |                          |

| <b>Derivatives not designated as hedging instruments</b> | <b>Balance Sheet</b> |  | <b>September 30, 2018</b> | <b>December 31, 2017</b> |
|--|----------------------|--|---------------------------|--------------------------|
|  | <b>Location</b>      |  |                           |                          |
| Foreign exchange contracts                               | Accrued expenses     |  | \$ 4                      | \$ 1,951                 |

The fair values of the derivative financial instruments 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 counterparties to the derivative financial instruments are major international financial institutions. The Company is exposed to credit risk for the net exchanges under these agreements, but not for the notional amounts. The Company does not anticipate non-performance by any of its counterparties.

The amounts of 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 September 30,</b> |             | <b>Nine Months Ended September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2018</b>                             | <b>2017</b> | <b>2018</b>                            | <b>2017</b> |
| Interest rate swaps                                  | \$ (381)                                | \$ (4)      | \$ (658)                               | \$ 10       |

During the three and nine months ended September 30, 2018 the Company recognized \$0.3 million of interest expense related to the interest rate swaps. Gains or losses on the interest rate swaps will be reclassified into earnings as interest expense as the interest expense on the debt is recognized in earnings.

In connection with the financing transaction described in Note F Debt, to the unaudited condensed consolidated financial statements included in this Quarterly Report, in March 2018 the Company settled its outstanding interest rate swaps, which had been accounted for as hedges and had an aggregate notional value of \$5.3 million. The net gain at such time in accumulated other comprehensive income at December 31, 2017 related to the interest rate swaps was reclassified into interest expense during the three months ended March 31, 2018.

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(unaudited)

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)</b>              | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---|---------------------------|-------------|--------------------------|-------------|
|  |   | <b>September 30,</b>      | <b>2017</b> | <b>September 30,</b>     | <b>2017</b> |
| Foreign exchange contracts                               | Selling, general and administrative expense | \$ (193)                  | \$ (1,082)  | \$ (240)                 | \$ (2,648)  |

**NOTE H STOCK COMPENSATION**

On June 28, 2018, the shareholders of the Company approved an amendment and restatement of the Company's Amended and Restated 2000 Long-Term Incentive Plan (the "Plan"). The amendment and restatement of the Plan revised the terms and conditions of the Plan to, among other things, increase the shares available for grant under the Plan by 900,000 shares. As of September 30, 2018, there were 900,439 shares available for the grant of awards under the Plan.

*Option Awards*

A summary of the Company's stock option activity and related information for the nine months ended September 30, 2018 is as follows:

|   | <b>Options</b> | <b>Weighted-average exercise price</b> | <b>Weighted-average remaining contractual life (years)</b> | <b>Aggregate intrinsic value</b> |
|---|----------------|--|--|----------------------------------|
| <b>Options outstanding, January 1, 2018</b> | 1,456,200      | \$ 13.64                               |  |                                  |
| Grants                                      | 205,750        | 13.56                                  |  |                                  |
| Exercises                                   | (31,000)       | 4.60                                   |  |                                  |
| Cancellations                               | (15,250)       | 17.66                                  |  |                                  |
| Expirations                                 | (14,250)       | 17.39                                  |  |                                  |

|  |           |          |     |            |
|--|-----------|----------|-----|------------|
| <b>Options outstanding, September 30, 2018</b> | 1,601,450 | 13.73    | 4.4 | \$ 695,000 |
| <b>Options exercisable, September 30, 2018</b> | 1,281,020 | \$ 13.53 | 3.4 | \$ 695,000 |

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 September 30, 2018. 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 September 30, 2018 and the exercise price.

The total intrinsic value of those stock options that were exercised in the nine months ended September 30, 2018 and 2017 was \$221,000 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 September 30, 2018, before the effect of income taxes, was \$1.2 million and is expected to be recognized over a weighted-average period of 1.7 years.

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(unaudited)

*Restricted Stock*

A summary of the Company's restricted stock activity and related information for the nine months ended September 30, 2018 is as follows:

|  | <b>Restricted<br/>Shares</b> | <b>Weighted-<br/>average<br/>grant<br/>date<br/>fair value</b> |
|--|------------------------------|--|
| <b>Non-vested restricted shares, January 1, 2018</b>         | 219,317                      | \$ 17.12   |
| Grants   | 223,759                      | 13.25  |
| Vested   | (85,927)                     | 17.23  |
| Cancellations  | (12,302)                     | 15.21  |
| <b>Non-vested restricted shares, September 30, 2018</b>      | 344,847                      | \$ 14.65   |
| <b>Total unrecognized compensation expense remaining</b>     | \$ 4,228,000                 |  |
| <b>Weighted-average years expected to be recognized over</b> | 1.7                          |  |

The fair value of restricted stock that vested during the nine months ended September 30, 2018 was \$1.0 million.

*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, as determined by the Compensation Committee, by the end of the performance period. 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 nine months ended September 30, 2018 is as follows:

| <b>Performance-<br/>based stock</b> | <b>Weighted-<br/>average</b> |
|-------------------------------------|------------------------------|
|-------------------------------------|------------------------------|

|  | awards <sup>(1)</sup> | grant<br>date<br>fair value |
|--|-----------------------|-----------------------------|
| <b>Non-vested performance-based awards, January 1, 2018</b>    | 228,892               | \$ 16.49                    |
| Grants   | 182,175               | 12.81                       |
| Vested   | (58,888)              | 14.84                       |
| Cancellations  | (8,397)               | 16.13                       |
| <b>Non-vested performance-based awards, September 30, 2018</b> | 343,782               | \$ 14.83                    |
| <b>Total unrecognized compensation expense remaining</b>       | \$ 3,012,000          |                             |
| <b>Weighted-average years expected to be recognized over</b>   | 1.9                   |                             |

(1) Represents the target number of shares to be issued for each performance-based award. The total fair value of performance-based awards that vested during the nine months ended September 30, 2018 was \$792,000.

The Company recognized total stock compensation expense of \$1.3 million for the three months ended September 30, 2018, of which \$0.2 million represents stock option compensation expense and \$1.1 million represents restricted stock and performance based stock compensation expense. For the nine months ended September 30, 2018, the Company recognized total stock compensation expense of \$3.0 million, of which \$0.6 million represents stock option compensation expense and \$2.4 million represents restricted stock and performance based stock compensation expense.



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(unaudited)

The Company recognized total stock compensation expense of \$1.0 million for the three months ended September 30, 2017, of which \$0.2 million represents stock option compensation expense and \$0.8 million represents restricted stock and performance based stock compensation expense. For the nine months ended September 30, 2017, the Company recognized total stock compensation expense of \$2.5 million, of which \$0.8 million represents stock option compensation expense and \$1.7 million represents restricted stock and performance based stock compensation expense.

**NOTE I INCOME (LOSS) PER COMMON SHARE**

Basic income (loss) per common share has been computed by dividing net income (loss) by the weighted-average number of shares of the Company's common stock outstanding during the relevant period. Diluted income (loss) per common share adjusts net income (loss) and basic income (loss) per common share for the effect of all potentially dilutive shares of the Company's common stock. The calculations of basic and diluted income (loss) per common share for the three and nine months ended September 30, 2018 and 2017 are as follows:

|  | <b>Three Months<br/>Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2018</b>                                     | <b>2017</b> | <b>2018</b>                                | <b>2017</b> |
|  | (in thousands, except per share amounts)        |             |  |             |
| <b>Net income (loss) basic and diluted</b>                   | \$ 5,948  | \$ 4,330    | \$ (11,707)                                | \$ 903      |
| <b>Weighted-average shares outstanding basic</b>             | 20,357  | 14,572      | 19,123                                     | 14,422      |
| Effect of dilutive securities:                               |   |             |  |             |
| Stock options and other stock awards                         | 124   | 471         |  | 478         |
| <b>Weighted-average shares outstanding basic and diluted</b> | 20,481  | 15,043      | 19,123                                     | 14,900      |
| <b>Basic income (loss) per common share</b>                  | \$ 0.29   | \$ 0.30     | \$ (0.61)                                  | \$ 0.06     |
| <b>Diluted income (loss) per common share</b>                | \$ 0.29   | \$ 0.29     | \$ (0.61)                                  | \$ 0.06     |

The computation of diluted income (loss) per common share for the three and nine months ended September 30, 2018 excludes 1,361,494 shares and 1,745,914 shares, respectively, related to options to purchase shares and other stock awards. The computation of diluted income per common share for the three and nine months ended September 30, 2017 excludes 390,950 shares and 1,461,698 shares, respectively, related to options to purchase shares and other stock

awards. These shares were excluded due to their antidilutive effects.

## **NOTE J INCOME TAXES**

On December 22, 2017, the Tax Act was enacted. The Tax Act revised the U.S. corporate income tax by, among other things, lowering the corporate income tax rate from 35% to 21%, adopting a quasi-territorial income tax system and imposing a one-time transition tax on foreign unremitted earnings, and setting limitations on deductibility of certain costs (e.g., interest expense).

The Securities and Exchange Commission issued Staff Accounting Bulletin 118 ( SAB 118 ) to provide guidance to companies that have not yet completed their accounting for the Tax Act in the period of enactment. SAB 118 provides that the Company include in its financial statements a reasonable estimate of the impact of the Tax Act on earnings to the extent such estimate has been determined. Accordingly, in the year ended December 31, 2017, the Company recorded a provisional income tax expense of \$3.3 million associated with the re-measurement of the Company's deferred tax assets stemming from the reduction of the U.S. federal income tax rate and one-time transition tax on the Company's material wholly owned foreign subsidiaries' accumulated, unremitted earnings, based on the reasonable estimate guidance provided by SAB 118.

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**LIFETIME BRANDS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2018**

(unaudited)

As of September 30, 2018 the Company has not changed the provisional estimates recognized in 2017, and the Company is not yet able to calculate a reasonable estimate for the impact of the one-time transition tax on the Company's equity investment due to the complexity of calculating accumulated foreign earnings and profits, foreign tax paid, and other tax components involved in foreign tax credit calculations for applicable years after 1986.

Pursuant to SAB 118, the Company is allowed a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. The Company will continue to calculate the impact of the Tax Act and will record any resulting tax adjustments during 2018.

Since January 1, 2018, the Tax Act has subjected the Company to a tax on global intangible low-taxed income ( GILTI ), earned by certain foreign subsidiaries, base erosion anti-abuse tax ( BEAT ), foreign derived intangible income tax ( FDII ), and IRC Section 163(j) interest limitation ( Interest Limitation ). Entities can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. Given the complexity of the GILTI provisions, the Company is still evaluating the tax impact and has not yet made the accounting policy election. As of September 30, 2018, the Company was able to reasonably estimate provisional adjustments, based on current year operations only, related to GILTI and FDII that have been recognized in the Company's financial statements. For the BEAT and Interest Limitation impact of the Tax Act, the Company has not recorded a provisional estimate in its effective tax rate for the nine months ended September 30, 2018 because the Company does not currently estimate that these provisions of the Tax Act will apply in 2018.

Income tax provision of \$0.9 million, an effective income tax rate of 13.6%, for the three months ended September 30, 2018, reflects the reduced U.S. corporate income tax rate offset by state taxes and non-deductible expenses in the U.S. and non-U.S. jurisdictions, and increased by foreign income taxes relating to uncertain tax positions and a reduced benefit on a carryback claim in a foreign jurisdiction. The income tax benefit of \$4.7 million, an effective benefit income tax rate of 27.8%, for the nine months ended September 30, 2018, reflects the reduced U.S. corporate income tax rate increased by state and non-deductible expenses in the U.S. and non-U.S. jurisdictions, and offset by foreign taxes.

Income tax provision of \$3.5 million and \$0.9 million for the three and nine months ended September 30, 2017, respectively, represent taxes on both U.S. and foreign earnings at a combined effective income tax benefit rates of 42.9% and 78.8%, respectively.

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 September 30, 2018 is a gross liability of \$4.0 million. The Company believes that \$3.0 million 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, Illinois and the United Kingdom. The Company is no longer subject to U.S. Federal income tax examinations for the years prior to 2015. At September 30, 2018, the periods subject to examination for the Company's major state jurisdictions are the years ended 2013 through 2017.

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 results of operations or cash flows as of and for the three and nine months ended September 30, 2018 and 2017. At September 30, 2018, interest and penalties included in the Company's uncertain tax position gross liability was approximately \$1.2 million.

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(unaudited)

**NOTE K BUSINESS SEGMENTS**

The Company has 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 third party and its own 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.

|                                      | <b>Three Months Ended</b> |                   | <b>Nine Months Ended</b> |                   |
|--------------------------------------|---------------------------|-------------------|--------------------------|-------------------|
|                                      | <b>September 30,</b>      |                   | <b>September 30,</b>     |                   |
|                                      | <b>2018</b>               | <b>2017</b>       | <b>2018</b>              | <b>2017</b>       |
|                                      | (in thousands)            |                   |                          |                   |
| <b>Net sales</b>                     |                           |                   |                          |                   |
| U.S. Wholesale                       | \$ 178,518                | \$ 137,096        | \$ 393,661               | \$ 319,258        |
| International                        | 22,460                    | 25,330            | 63,389                   | 65,923            |
| Retail Direct                        | 8,470                     | 3,531             | 19,218                   | 11,525            |
| <b>Total net sales</b>               | <b>\$ 209,448</b>         | <b>\$ 165,957</b> | <b>\$ 476,268</b>        | <b>\$ 396,706</b> |
| <b>Income (loss) from operations</b> |                           |                   |                          |                   |
| U.S. Wholesale                       | \$ 18,505                 | \$ 14,798         | \$ 15,078                | \$ 20,745         |
| International                        | (2,628)                   | (1,573)           | (6,052)                  | (6,473)           |
| Retail Direct                        | 1,610                     | (259)             | 1,465                    | (420)             |
| Unallocated corporate expenses       | (5,184)                   | (3,633)           | (14,805)                 | (9,534)           |
| <b>Income (loss) from operations</b> | <b>\$ 12,303</b>          | <b>\$ 9,333</b>   | <b>\$ (4,314)</b>        | <b>\$ 4,318</b>   |

**Depreciation and amortization**

|                                     |          |          |           |           |
|-------------------------------------|----------|----------|-----------|-----------|
| U.S. Wholesale                      | \$ 5,006 | \$ 3,010 | \$ 13,435 | \$ 7,613  |
| International                       | 1,067    | 1,048    | 3,359     | 3,013     |
| Retail Direct                       | 3        | 5        | 13        | 71        |
| Total depreciation and amortization | \$ 6,076 | \$ 4,063 | \$ 16,807 | \$ 10,697 |

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(unaudited)

|                               | <b>September 30,</b> | <b>December 31,</b> |
|-------------------------------|----------------------|---------------------|
|                               | <b>2018</b>          | <b>2017</b>         |
|                               | (in thousands)       |                     |
| <b>Assets</b>                 |                      |                     |
| U.S. Wholesale                | \$ 681,388           | \$ 281,398          |
| International                 | 100,324              | 105,984             |
| Retail Direct                 | 901                  | 613                 |
| Unallocated/ Corporate/ Other | 17,821               | 13,526              |
| Total assets                  | \$ 800,434           | \$ 401,521          |

**NOTE L 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 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. The 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 an initial operable unit, 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 has and

will continue to 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 the 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.

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(unaudited)

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 consolidated financial position, results of operations or cash flows.

**NOTE M OTHER****Cash dividends**

Dividends declared in the nine months ended September 30, 2018 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, 2018        | May 1, 2018           | May 15, 2018        |
| \$ 0.0425                 | June 28, 2018        | August 1, 2018        | August 15, 2018     |
| \$ 0.0425                 | July 31, 2018        | November 1, 2018      | November 15, 2018   |

On February 15, 2018, May 15, 2018 and August 15, 2018, the Company paid dividends of \$0.6 million, \$0.9 million and \$0.9 million respectively, to shareholders of record on February 1, 2018, May 1, 2018 and August 1, 2018 respectively. In the three months ended September 30, 2018, the Company reduced retained earnings for the accrual of \$0.9 million relating to the dividend payable on November 15, 2018.

On November 7, 2018 the Board of Directors declared a quarterly dividend of \$0.0425 per share payable on February 15, 2019 to shareholders of record on February 1, 2019.

**Supplemental cash flow information**

**Nine Months  
Ended  
September 30,  
2018      2017**

(in thousands)

|  |            |          |
|--|------------|----------|
| <b>Supplemental disclosure of cash flow information:</b> |            |          |
| Cash paid for interest                                   | \$ 11,003  | \$ 2,695 |
| Cash paid for taxes                                      | 2,527      | 8,675    |
| <b>Non-cash investing activities:</b>                    |            |          |
| Translation gain (loss) adjustment                       | \$ (1,985) | \$ 7,534 |

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## LIFETIME BRANDS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

(unaudited)

## Components of accumulated other comprehensive loss, net

|  | Three Months Ended<br>September 30,<br>2018 |             | Nine Months Ended<br>September 30,<br>2018 |             |
|--|---|-------------|--|-------------|
|  | 2018  | 2017        | 2018                                       | 2017        |
|  | (in thousands)                              |             |  |             |
| <i>Accumulated translation adjustment:</i>   |   |             |  |             |
| Balance at beginning of period   | \$ (29,930)                                 | \$ (30,356) | \$ (27,821)                                | \$ (35,644) |
| Translation gain (loss) during period  | 124   | 2,246       | (1,985)                                    | 7,534       |
| Balance at end of period   | \$ (29,806)                                 | \$ (28,110) | \$ (29,806)                                | \$ (28,110) |
| <i>Accumulated deferred gains (losses) on cash flow hedges:</i>  |   |             |  |             |
| Balance at beginning of period   | \$ (263)                                    | \$ 11       | \$ 14                                      | \$ (3)      |
| Amounts reclassified from accumulated other comprehensive loss: <sup>(1)</sup>   |   |             |  |             |
| Settlement of cash flow hedge  |   |             | (14)                                       |             |
| Derivative fair value adjustment, net of taxes of \$127 and \$2 for the three month periods ended September 30, 2018 and 2017, respectively and \$215 and \$7 for the nine months ended September 30, 2018 and 2017, respectively. | (381)                                       | (4)         | (644)                                      | 10          |
| Balance at end of period   | \$ (644)                                    | \$ 7        | \$ (644)                                   | \$ 7        |
| <i>Accumulated effect of retirement benefit obligations:</i>   |   |             |  |             |
| Balance at beginning of period   | \$ (1,483)                                  | \$ (1,321)  | \$ (1,518)                                 | \$ (1,352)  |
| Amounts reclassified from accumulated other comprehensive loss: <sup>(2)</sup>   |   |             |  |             |
| Amortization of actuarial losses, net of taxes of \$12 and \$10 for the three month periods ended September 30, 2018 and 2017, respectively and \$36 and \$31 for the nine months ended September 30, 2018 and 2017, respectively. | 19  | 16          | 54   | 47          |

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|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| Balance at end of period                                    | \$ (1,464)  | \$ (1,305)  | \$ (1,464)  | \$ (1,305)  |
| Total accumulated other comprehensive loss at end of period | \$ (31,914) | \$ (29,408) | \$ (31,914) | \$ (29,408) |

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

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**Report of Independent Registered Public Accounting Firm**

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

**Results of Review of Interim Financial Statements**

We have reviewed the accompanying condensed consolidated balance sheet of Lifetime Brands, Inc. (the Company) as of September 30, 2018, the related condensed consolidated statements of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2018 and 2017, the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2018 and 2017 and the related notes (collectively referred to as the condensed consolidated interim financial statements ). Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements 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) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2017, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the year then ended, and the related notes and schedule (not presented herein); and in our report dated March 16, 2018, we expressed an unqualified audit opinion on those consolidated financial statements and included an explanatory paragraph for reference to other auditors. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

**Basis for Review Results**

These financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the SEC and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial statements 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 PCAOB, 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.

/s/ Ernst & Young LLP

Jericho, New York

November 8, 2018

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

This Quarterly Report on Form 10-Q ( Quarterly Report ) 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, the words estimates, expects, will, anticipates, projects, plans, intends, believes, may, should, assumes, seeks, and variations of such words and expressions, and the negatives thereof, are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, those based on 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 this Quarterly Report in Part II, Item 1A. Risk Factors, in Part II, Item 1A. Risk Factors in the Form 10Q filed for the quarter ended June 30, 2018 and in Part I, Item 1A. Risk Factors included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 ( Annual Report ). Such risks, uncertainties and other important factors include, among others, risks related to:

Tax reform;

Tariffs;

General economic factors and political conditions;

Indebtedness;

Seasonality;

Liquidity;

Interest;

Acquisition integration;

Competition;

Customer practices;

Intellectual property, brands and licenses;

Goodwill;

International operations;

Supply chain;

Foreign exchange rates;

International trade and transportation;

Product liability;

Regulatory matters;

Product development;

Reputation;

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Technology;

Personnel;

Price fluctuations;

Business interruptions;

Projections;

Fixed costs;

Governance; 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. The Company, however, reserves the right to update such statements, or any portion thereof, at any time for any reason.

**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, kitchen scales, thermometers, timers, cookware, pantryware, spice racks, wine accessories and bakeware) and Tableware (dinnerware, stemware, flatware, and giftware); and one category, Home Solutions, which comprises other products used in the home (thermal beverageware, food storage, neoprene travel products, bath scales, and home décor). In 2017, Kitchenware products and Tableware products accounted for approximately 89% of the Company's U.S. Wholesale segment's net sales and 88% of the Company's consolidated net sales.

On March 2, 2018, the Company completed the acquisition of Taylor Holdco LLC and its subsidiaries (doing business as Filament Brands) (Filament). Filament primarily designs, markets and distributes consumer and food service precision measurement products, including kitchen scales, thermometers and timers, bath scales, wine accessories, kitchen tools, hydration products, and select outdoor products. The nine months ended September 30, 2018 includes the operations of Filament for the period from March 2, 2018 to September 30, 2018.

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 2018. Newly introduced products



generally 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®, Taylor®, KitchenAid®, Pfaltzgraff®, KitchenCraft®, Fitz and Floyd®, Sabatier®, Kamenstein®, Built NY®, MasterClass®, Fred®, Rabbit® and LaCafetière®. 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.

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### **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 third party and its own internet websites. The Company has segmented its operations to reflect the manner in which management reviews and evaluates its results of operations.

### **EQUITY INVESTMENT**

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.

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 in the Company's 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 September 30, 2018, Vasconia's board of directors was comprised of eleven 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 2017 and 2016, net sales for the third and fourth quarters accounted for 60% and 61% 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 connection with the Company's March 2018 acquisition of Filament, the Company commenced a restructuring plan to integrate the operations of Filament with the Company's operations and realize the savings expected from the synergies of the acquisition. During the three and nine months ended September 30, 2018, the Company incurred \$0.6 million and \$1.4 million, respectively, of restructuring charges primarily related to severance.

### **RECENT DEVELOPMENTS**

The U.S. government recently announced and, in some cases, implemented additional tariffs on certain foreign goods, including certain finished products and raw materials such as steel and aluminum. These tariffs and potential tariffs have resulted or may result in increased prices for these imported goods and materials and may limit the amount of these goods and materials that may be imported into the U.S. A substantial majority of the Company's products are sourced from vendors in the People's Republic of China.

Tariffs were imposed on certain finished products imported by the Company into the U.S. from China. The tariffs have been implemented in multiple phases, with effective dates of July and August 2018, for a 25% tariff on certain products, and with an effective date of September 2018 for a 10% tariff on certain other products. The 10% tariff

effective in September 2018 will be increased to 25% in January 2019. The Company is developing a plan to mitigate the impact of the increase on the price of certain finished goods imported by the Company into the U.S. The Company may seek to increase prices to its customers, which may diminish demand. Additionally, if the Company is unable to increase prices, it may result in the lowering the gross margin that the Company realizes from the sale of its products. The results of either could adversely affect the Company's results of operations and financial condition.

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### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The following is an update to the corresponding critical accounting policies and estimates set forth in the Company's Annual Report. 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.

#### **Revenue recognition**

The Company sells products:

Wholesale, to retailers and distributors, and

Retail, directly to consumers.

Effective January 1, 2018, the Company adopted Accounting Standards Codification (ASC) Topic 606, discussed in Note A - Basis of Presentation and Summary Accounting Policies to the unaudited condensed consolidated financial statements included in this Quarterly Report, regarding revenue recognition. Wholesale sales and retail sales are recognized at the point in time the customer obtains control of the products in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products. The Company primarily transfers control and records revenue for product sales upon shipment. Sales arrangements with delivery terms that are not FOB Shipping Point are not recognized upon shipment and the transfer of control for revenue recognition is evaluated based on the associated shipping terms and customer obligations. Shipping and handling fees that are billed to customers in sales transactions are included in net sales. Net sales exclude taxes that are collected from customers and remitted to the respective taxing authorities.

The Company offers various sales incentives and promotional programs to its wholesale customers in the normal course of business. These incentives and promotions typically include arrangements such as cooperative advertising, buydowns, volume rebates and discounts. These arrangements represent forms of variable consideration, and an estimate of sales returns are reflected as reductions in net sales in the Company's condensed consolidated statements of operations. These estimates are based on historical experience and other known factors or as the most likely amount in a range of possible outcomes. On a quarterly basis, variable consideration is assessed on a portfolio approach in estimating the extent to which the components of variable consideration are constrained.

Payment terms with customers vary by customer, but generally range from 30 to 90 days or at the point of sale for the Company's retail direct sales. The Company incurs certain direct incremental costs to obtain contracts with customers, such as sales-related commissions, where the recognition period for the related revenue is less than one year. These costs are expensed as incurred and recorded within selling, general and administrative expenses in the condensed consolidated statement of operations. Incidental items that are immaterial in the context of the contract are expensed as incurred.

#### **Derivatives**

The Company accounts for derivative instruments in accordance with ASC Topic No. 815, Derivatives and Hedging, discussed in Note A - Basis of Presentation and Summary Accounting Policies to the unaudited condensed consolidated financial statements included in this Quarterly Report. 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 until the hedged item is recognized in earnings. The change in the fair value of hedges are included in accumulated other comprehensive income (loss) and is subsequently recognized in the Company's condensed consolidated statements of operations to mirror the location of the hedged items impacting earnings.

For derivatives that do not qualify or are not designated as hedging instruments for accounting purposes, changes in fair value are recorded in operations.

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**Table of Contents****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 quantitative 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 quantitative 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, the Company will proceed with performing the quantitative impairment test. In January 2017, the Financial Accounting Standards Board issued revised guidance that simplifies the test for goodwill impairment, effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company elected to early adopt the guidance in the third quarter of 2018. Under the revised guidance, if a reporting unit's carrying value exceeds its fair value, an impairment charge will be recorded to reduce the reporting unit to fair value. Prior to the revised guidance, the amount of the impairment was the difference between the carrying value of the goodwill and the implied fair value, which was calculated as if the reporting unit had just been acquired and accounted for as a business combination.

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.

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.

During the third quarter of 2018 the Company performed an interim impairment assessment of its European tableware reporting unit, which resulted in a \$2.2 million non-cash goodwill impairment charge. See Note E Intangible assets to the unaudited condensed consolidated financial statements included in this Quarterly Report for additional information.

**Table of Contents****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:

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2018</b>                                 | <b>2017</b> | <b>2018</b>                                | <b>2017</b> |
| Net sales  | 100.0%                                      | 100.0%      | 100.0%                                     | 100.0%      |
| Cost of sales  | 64.8  | 65.5        | 64.1                                       | 63.7        |
| Gross margin   | 35.2  | 34.5        | 35.9                                       | 36.3        |
| Distribution expenses                                    | 7.9   | 8.1         | 10.4                                       | 10.0        |
| Selling, general and administrative expenses             | 20.1  | 20.5        | 25.7                                       | 25.1        |
| Restructuring expenses                                   | 0.3   | 0.2         | 0.3  | 0.1         |
| Impairment of goodwill                                   | 1.1   |             | 0.5  |             |
| Income (loss) from operations                            | 5.9   | 5.6         | (0.9)                                      | 1.1         |
| Interest expense   | (2.7)                                       | (0.7)       | (2.6)                                      | (0.8)       |
| Loss on early retirement of debt                         |   |             |  |             |
| Income (loss) before income taxes and equity in earnings | 3.2   | 4.9         | (3.5)                                      | 0.3         |
| Income tax (provision) benefit                           | (0.4)                                       | (2.1)       | 1.0  | (0.2)       |
| Equity in earnings (losses), net of taxes                | 0.1   | (0.2)       | 0.1  | 0.2         |
| Net income (loss)  | 2.9%  | 2.6%        | (2.4)%                                     | 0.3%        |

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**THREE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED TO THE THREE MONTHS ENDED  
SEPTEMBER 30, 2017**

**Net Sales**

Net sales for the three months ended September 30, 2018 were \$209.4 million, an increase of \$43.4 million, or 26.1%, as compared to net sales of \$166.0 million for the corresponding period in 2017. The three months ended September 30, 2018 includes net sales of \$38.6 million from Filament.

Net sales for the U.S. Wholesale segment for the three months ended September 30, 2018 were \$178.5 million, an increase of \$41.4 million, or 30.2%, as compared to net sales of \$137.1 million for the corresponding period in 2017.

Net sales for the U.S. Wholesale segment's Kitchenware product category were \$96.3 million for the three months ended September 30, 2018, an increase of \$21.4 million, or 28.6%, as compared to \$74.9 million for the corresponding period in 2017. The increase in the U.S. Wholesale segment's Kitchenware product category was primarily attributable to contributions from Filament and an increase in pantryware, bakeware and cutlery sales. The increases were partially offset by a decrease in tools and gadget sales.

Net sales for the U.S. Wholesale segment's Tableware product category were \$53.6 million for the three months ended September 30, 2018, an increase of \$7.1 million, or 15.3%, as compared to \$46.5 million for the corresponding period in 2017. The increase was mainly attributable to new tableware programs and contributions from the Fitz and Floyd product line acquired on August 31, 2017.

Net sales for the U.S. Wholesale segment's Home Solutions product category were \$28.6 million for the three months ended September 30, 2018, an increase of \$12.9 million, as compared to \$15.7 million for the corresponding period in 2017. The increase primarily reflects contributions from Filament, partially offset by a decrease in home décor sales due to a customer bankruptcy and a decline in a customer program.

Net sales for the International segment were \$22.5 million for the three months ended September 30, 2018, a decrease of \$2.8 million, or 11.3%, as compared to net sales of \$25.3 million for the corresponding period in 2017. In constant currency, net sales decreased approximately 10.7%. The decrease was due to the closing of the Netherlands operations and a decline in tableware sales to U.K. national customers which was partially offset by an increase in ecommerce sales.

Net sales for the Retail Direct segment were \$8.5 million for the three months ended September 30, 2018, as compared to net sales of \$3.5 million for the corresponding period in 2017. The increase reflects contributions from Filament's retail websites.

**Gross margin**

Gross margin for the three months ended September 30, 2018 was \$73.8 million, or 35.2%, as compared to \$57.2 million, or 34.5%, for the corresponding period in 2017.

Gross margin for the U.S. Wholesale segment was \$60.7 million, or 34.0%, for the three months ended September 30, 2018, as compared to \$47.0 million, or 34.2%, for the corresponding period in 2017. Gross margin may fluctuate from



period to period based on a number of factors, including product and customer mix. The decrease in margin primarily reflects both product and customer mix related to tableware products, partially offset by the addition of Filament products.

Gross margin for the International segment was \$7.8 million, or 34.6%, for the three months ended September 30, 2018, as compared to \$7.9 million, or 31.2%, for the corresponding period in 2017. The increase in margin is mainly attributable to the tableware products favorable customer and product mix.

Gross margin for the Retail Direct segment was \$5.3 million, or 62.9%, for the three months ended September 30, 2018, as compared to \$2.3 million, or 65.9%, for the corresponding period in 2017. The decrease in gross margin in the Retail Direct segment primarily reflects a change in product mix due to the addition of Filament products.

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

Distribution expenses for the three months ended September 30, 2018 were \$16.6 million, as compared to \$13.5 million for the corresponding period in 2017. Distribution expenses as a percentage of net sales were 7.9% for the three months ended September 30, 2018, as compared to 8.1% for the three months ended September 30, 2017.

Distribution expenses as a percentage of net sales for the U.S. Wholesale segment was approximately 6.8% and 7.3% for the three months ended September 30, 2018 and 2017, respectively. As a percentage of sales shipped from the Company's warehouses, distribution expenses excluding the relocation costs for the U.S. Wholesale segment, were 8.5% and 8.4% for the three months ended September 30, 2018 and 2017, respectively. An increase in expenses was offset by improved labor efficiency and lower freight costs.

Distribution expenses as a percentage of net sales for the International segment were approximately 12.0% and 9.5% for the three months ended September 30, 2018 and 2017, respectively. Distribution expenses as a percentage of sales shipped from the Company's U.K. warehouses were 12.4% and 10.8% for the three months ended September 30, 2018 and 2017, respectively. The increase in distribution expenses as a percentage of net sales reflects higher labor and facility expenses, as well as higher freight expenses on increased sales to continental Europe.

Distribution expenses as a percentage of net sales for the Retail Direct segment were approximately 20.0% and 34.3% for the three months ended September 30, 2018 and 2017, respectively. The decrease primarily reflects the addition of Filament, which has less distribution expense as a percentage of net sales than the Company's historical operations.

**Selling, general and administrative expenses**

Selling, general and administrative expenses for the three months ended September 30, 2018 were \$42.1 million, an increase of \$8.0 million, or 23.5%, as compared to \$34.1 million for the corresponding period in 2017.

Selling, general and administrative expenses for the U.S. Wholesale segment were \$29.4 million for the three months ended September 30, 2018, as compared to \$22.2 million for the three months ended September 30, 2017. The 2018 period reflects an increase related to the Company's acquisition of Filament, including an increase in intangible amortization expense related to the acquisition. The acquisition related increases offset a decrease in legacy U.S. Wholesale employee, office and selling expenses. As a percentage of net sales, selling, general and administrative expenses were 16.5% and 16.2% for the three months ended September 30, 2018 and 2017, respectively.

Selling, general and administrative expenses for the three months ended September 30, 2018 for the International segment were \$5.5 million, a decrease of \$1.4 million, from \$6.9 million for the corresponding period in 2017. The decrease in selling, general and administrative expenses in the 2018 quarter was primarily due to the change in market to market valuation of foreign currency contracts and the closure of the Netherlands operations.

Selling, general and administrative expenses for the Retail Direct segment were \$2.1 million for the three months ended September 30, 2018, as compared to \$1.4 million for the three months ended September 30, 2017. The increase in expenses was primarily due to the acquisition of Filament's retail direct operations. As a percentage of net sales, selling, general and administrative expenses were 24.3% and 24.7% for the three months ended September 30, 2018 and 2017, respectively.

Unallocated corporate expenses for the three months ended September 30, 2018 were \$5.2 million, as compared to \$3.6 million for the corresponding period in 2017. The increase reflects an increase in professional fees, share based compensation expense and insurance expenses.

**Restructuring expense**

During the three months ended September 30, 2018, the Company incurred \$0.6 million of restructuring expense, primarily for severance, related to the Company's Filament integration.

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

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### **Impairment of goodwill**

During the third quarter of 2018 the Company performed an interim impairment assessment of the European tableware reporting unit which resulted in a \$2.2 million non-cash goodwill impairment charge. No impairment charges were recorded in the 2017 period.

### **Interest expense**

Interest expense for the three months ended September 30, 2018 was \$5.6 million, an increase of \$4.4 million, from \$1.2 million for the three months ended September 30, 2017. The increase in expense was attributable to the financing obtained in connection with the acquisition of Filament.

### **Income tax provision**

Income tax provision for the three months ended September 30, 2018 was \$0.9 million, as compared to \$3.5 million for the corresponding period in 2017. The Company's effective tax rate for the three months ended September 30, 2018 was 13.6%, as compared to 42.9% for the corresponding 2017 period. The effective tax rate for the three months ended September 30, 2018 reflects the reduced statutory U.S. corporate income tax rate of 21%, offset by state taxes and non-deductible expenses in the U.S. and non-U.S. jurisdictions, and increased by foreign income taxes related to uncertain tax positions, and reduced benefit on a carryback claim in a foreign jurisdiction. The effective tax rate for the three months ended September 30, 2017 reflects the U.S. corporate income tax rate of 35%, increased by state taxes, a shortfall recognized on share base compensation and by foreign losses for which no benefit was recorded.

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

Equity in earnings (losses) of Vasconia, net of taxes, was earnings of \$185,000, for the three months ended September 30, 2018, as compared to a loss of \$326,000 for the three months ended September 30, 2017. Equity in earnings (losses) for the three months ended September 30, 2018 and 2017 includes a deferred tax benefit (expense) of \$0.6 million and (\$0.1) million, respectively, due to the requirement to record tax benefits for foreign currency translation losses and gains through other comprehensive income (loss), with a corresponding adjustment to deferred tax liabilities. Vasconia reported income from operations of \$1.1 million for the three months ended September 30, 2018, as compared to income from operations of \$1.8 million for the three months ended September 30, 2017. The decrease in income from operations is primarily due to a decrease in gross margin in the kitchenware division.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**NINE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED TO THE NINE MONTHS ENDED  
SEPTEMBER 30, 2017**

**Net Sales**

Net sales for the nine months ended September 30, 2018 were \$476.3 million, an increase of \$79.6 million, or 20.1%, as compared to net sales of \$396.7 million for the corresponding period in 2017. The nine months ended September 30, 2018 includes net sales of \$77.2 million from Filament for the period from March 2, 2018, the date of acquisition.

Net sales for the U.S. Wholesale segment for the nine months ended September 30, 2018 were \$393.7 million, an increase of \$74.4 million, or 23.3%, as compared to net sales of \$319.3 million for the corresponding period in 2017.

Net sales for the U.S. Wholesale segment's Kitchenware product category were \$220.9 million for the nine months ended September 30, 2018, an increase of \$28.1 million, or 14.6%, as compared to \$192.8 million for the corresponding period in 2017. The increase in the U.S. Wholesale segment's Kitchenware product category was primarily attributable to contributions from Filament, partially offset by a decrease in tools and gadget sales with certain retailers.

Net sales for the U.S. Wholesale segment's Tableware product category were \$106.8 million for the nine months ended September 30, 2018, an increase of \$18.1 million, or 20.4%, as compared to \$88.7 million for the corresponding period in 2017. The increase was primarily attributable to new houseware and tableware programs and contributions from the Fitz and Floyd product line acquired on August 31, 2017.

Net sales for the U.S. Wholesale segment's Home Solutions product category were \$66.0 million for the nine months ended September 30, 2018, an increase of \$28.2 million, or 74.6%, as compared to \$37.8 million for the corresponding period in 2017. The increase primarily reflects contributions from Filament and BuiltNY product launches, partially offset by a decrease in home décor sales due to a customer bankruptcy and decline in a customer program.

Net sales for the International segment were \$63.4 million for the nine months ended September 30, 2018, a decrease of \$2.5 million, or 3.8%, as compared to net sales of \$65.9 million for the corresponding period in 2017. In constant currency, net sales decreased approximately 8.9%. The decrease, in constant currency, was in part due to the closing of the Netherlands operations and a decrease in tableware sales to national customers.

Net sales for the Retail Direct segment were \$19.2 million for the nine months ended September 30, 2018, as compared to net sales of \$11.5 million for the corresponding period in 2017. The increase primarily reflects contributions from Filament's retail websites.

**Gross margin**

Gross margin for the nine months ended September 30, 2018 was \$170.9 million, or 35.9%, as compared to \$143.9 million, or 36.3%, for the corresponding period in 2017.

Gross margin for the U.S. Wholesale segment was \$137.1 million, or 34.8%, for the nine months ended September 30, 2018, as compared to \$115.1 million, or 36.0%, for the corresponding period in 2017. Gross margin may fluctuate from period to period based on a number of factors, including product and customer mix. The decrease in margin primarily reflects both product and customer mix related to tableware products, partially offset by the addition of Filament products.

Gross margin for the International segment was \$21.7 million, or 34.3%, for the nine months ended September 30, 2018, as compared to \$21.2 million, or 32.1%, for the corresponding period in 2017. The increase in margin is mainly attributable to favorable customer and product mix.

Gross margin for the Retail Direct segment was \$12.1 million, or 63.0%, for the nine months ended September 30, 2018, as compared to \$7.6 million, or 66.6%, for the corresponding period in 2017. The decrease in gross margin in the Retail Direct segment reflects a change in product mix due to the addition of Filament products.

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**Distribution expenses**

Distribution expenses for the nine months ended September 30, 2018 were \$49.4 million, as compared to \$39.5 million for the corresponding period in 2017. Distribution expenses as a percentage of net sales were 10.4% for the nine months ended September 30, 2018, as compared to 10.0% for the nine months ended September 30, 2017.

Distribution expenses as a percentage of net sales for the U.S. Wholesale segment was approximately 9.2% and 9.1% for the nine months ended September 30, 2018 and 2017, respectively. The increase reflects expenses associated with the Company's west coast distribution facility relocation of approximately \$2.6 million. As a percentage of sales shipped from the Company's warehouses, distribution expenses excluding the relocation costs for the U.S. Wholesale segment, were 9.8% for the nine months ended September 30, 2018 and 9.9% for the nine months ended September 30, 2017.

Distribution expenses as a percentage of net sales for the International segment were approximately 12.8% and 10.3% for the nine months ended September 30, 2018 and 2017, respectively. Distribution expenses as a percentage of sales shipped from the Company's U.K. warehouses were 13.4% and 11.8% for the nine months ended September 30, 2018 and 2017, respectively. The increase in distribution expenses as a percentage of net sales reflects higher labor and facility expenses, as well as higher freight expenses on increased sales to continental Europe.

Distribution expenses as a percentage of net sales for the Retail Direct segment were approximately 26.6% and 31.3% for the nine months ended September 30, 2018 and 2017, respectively. The decrease primarily reflects the addition of Filament, which has less distribution expenses as a percentage of net sales than the Company's historical operations.

**Selling, general and administrative expenses**

Selling, general and administrative expenses for the nine months ended September 30, 2018 were \$122.3 million, an increase of \$22.7 million, or 22.8%, as compared to \$99.6 million for the corresponding period in 2017.

Selling, general and administrative expenses for the U.S. Wholesale segment were \$84.5 million for the nine months ended September 30, 2018, as compared to \$65.3 million for the nine months ended September 30, 2017. The 2018 period primarily reflects an increase related to the Company's acquisition of Filament. The increase also reflects employee and intangible amortization expenses related to the Company's acquisition of Fitz and Floyd in 2017. The Filament and Fitz and Floyd related increases offset a decrease in legacy U.S. Wholesale employee, office and selling expenses. As a percentage of net sales, selling, general and administrative expenses were 21.5% and 20.5% for the nine months ended September 30, 2018 and 2017, respectively.

Selling, general and administrative expenses for the nine months ended September 30, 2018 for the International segment were \$17.4 million, a decrease of \$2.9 million, from \$20.3 million for the corresponding period in 2017. The decrease in selling, general and administrative expenses in the 2018 period was primarily due to the change in mark to market valuation of foreign currency contracts and settlement of foreign currency contracts.

Selling, general and administrative expenses for the Retail Direct segment were \$5.6 million for the nine months ended September 30, 2018, as compared to \$4.4 million for the nine months ended September 30, 2017. The increase in expenses was primarily due to the acquisition of Filament's retail direct operations. As a percentage of net sales, selling, general and administrative expenses were 29.0% and 38.3% for the nine months ended September 30, 2018 and 2017, respectively.

Unallocated corporate expenses for the nine months ended September 30, 2018 were \$14.8 million, as compared to \$9.5 million for the corresponding period in 2017. The increase was primarily attributable to an increase in acquisition related expenses, professional fees, share based compensation expense and insurance expense.



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### **Restructuring expense**

During the nine months ended September 30, 2018, the Company incurred \$1.4 million of restructuring expense, primarily for severance, related to the Company's Filament integration.

During the nine months ended September 30, 2017, the Company incurred \$0.5 million of restructuring expense, primarily for severance, related to the integration of legal entities operating in Europe.

### **Impairment**

During the nine months ended September 30, 2018, the Company performed an interim impairment assessment of the European tableware reporting unit which resulted in a \$2.2 million non-cash goodwill impairment charge. No impairment charges were recorded in the 2017 period.

### **Interest expense**

Interest expense for the nine months ended September 30, 2018 was \$12.4 million, an increase of \$9.3 million, from \$3.1 million for the nine months ended September 30, 2017. The increase in interest expense was primarily attributable to the financing obtained in connection with the acquisition of Filament.

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

In connection with the financing obtained for the acquisition of Filament, the Company wrote-off \$0.1 million of the debt issuance costs.

### **Income tax benefit (provision)**

Income tax benefit for the nine months ended September 30, 2018 was \$4.7 million as compared to income tax provision of \$0.9 million for the corresponding period in 2017. The Company's effective tax rate for the nine months ended September 30, 2018 was 27.8%, as compared to 78.9% for the corresponding 2017 period. The effective tax rate for the nine months ended September 30, 2018 reflects the reduced statutory U.S. corporate income tax rate of 21% increased by state taxes and non-deductible expenses in the U.S. and non-U.S. jurisdictions, offset by foreign taxes. The effective tax rate for the nine months ended September 30, 2017, reflects the U.S. corporate income tax rate of 35% increased by state taxes and shortfalls recognized for share based compensation, as well as foreign losses for which no benefit was recorded.

### **Equity in earnings**

Equity in earnings of Vasconia, net of taxes, was \$417,000 for the nine months ended September 30, 2018, as compared to \$672,000 for the nine months ended September 30, 2017. Equity in earnings for the nine months ended September 30, 2018 and 2017 includes a deferred tax benefit of \$0.3 million and \$0.2 million, respectively, due to the requirement to record tax benefits for foreign currency translation gains and losses through other comprehensive income (loss), with a corresponding adjustment to deferred tax liabilities. Vasconia reported income from operations of \$5.9 million for both the nine months ended September 30, 2018 and 2017.

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**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 revolving credit facility under the ABL Agreement, as defined below. The Company's primary uses of funds consist of working capital requirements, capital expenditures, acquisitions and investments and payments of principal and interest on its debt.

At September 30, 2018, the Company had cash and cash equivalents of \$5.8 million, compared to \$7.6 million at December 31, 2017. Working capital was \$256.1 million at September 30, 2018, compared to \$186.9 million at December 31, 2017. Liquidity, which includes cash and cash equivalents and availability under the ABL Agreement was \$65.4 million at September 30, 2018.

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 turns due to lower minimum order quantities or trending sale demands. For the three months ended September 30, 2018 inventory turnover was 2.7 times, or 137 days, as compared to 2.5 times, or 144 days, for the three months ended September 30, 2017. The increase in turnover and decrease in turnover days primarily reflects the inclusion of Filament.

**Credit Facilities**

On March 2, 2018, the Company entered into a new credit agreement (the "ABL Agreement") with JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent, and the lenders and issuing banks party thereto, evidencing a senior secured asset-based revolving credit facility provided to the Company in the maximum aggregate principal amount of \$150.0 million, which facility will mature on March 2, 2023, and the Company entered into a new loan agreement (the "Term Loan" and together with the ABL Agreement, the "Debt Agreements") with the Company, as the borrower and a guarantor, the other guarantors, JPMorgan, as administrative agent, Golub Capital LLC, as syndication agent, and the lenders party thereto, providing for a senior secured term loan credit facility to the Company in the principal amount of \$275.0 million, which will mature on February 28, 2025. The Term Loan facility will be repaid, commencing June 30, 2018, in quarterly payments of principal equal to 0.25% of the original aggregate principal amount of the term loan facility. The maximum borrowing under the ABL Agreement may be increased to up to \$200.0 million if certain conditions are met. One or more tranches of additional term loans (the "Incremental Facilities") may be added under the Term Loan if certain conditions are met. The Incremental Facilities may not exceed the sum of (i) \$50.0 million plus (ii) an unlimited amount so long as, in the case of (ii) only, the Company's secured net leverage ratio, as defined in and computed pursuant to the Term Loan, is no greater than 3.75 to 1.00 subject to certain limitations and for the period defined pursuant to the Term Loan.

At September 30, 2018, borrowings outstanding under the ABL Agreement were \$87.2 million and open letters of credit were \$3.1 million. At September 30, 2018, availability under the ABL Agreement was approximately \$59.6 million. The borrowing capacity under the ABL Agreement depends, in part, on eligible levels of certain current assets comprising the borrowing base and the Company's ability to meet and maintain a financial ratio, if and when applicable. Due to the seasonality of the Company's business, this may mean that the Company will have greater borrowing availability during the third and fourth quarters of each year. The borrowing capacity under the ABL Agreement will depend, in part, on eligible levels of accounts receivable and inventory that fluctuate regularly. Consequently, the \$150.0 million commitment thereunder may not represent actual borrowing capacity.

At September 30, 2018, \$273.6 million was outstanding under the Term Loan. At September 30, 2018, unamortized debt issuance costs of \$1.5 million and \$7.9 million offset the short-term and long-term outstanding balances, respectively, of the Term Loan.

The Company's payment obligations under its Debt Agreements are unconditionally guaranteed by its existing and future U.S. subsidiaries with certain minor exceptions. Certain payment obligations under the ABL Agreement are also direct obligations of its foreign subsidiary borrowers designated as such under the ABL Agreement and, subject to limitations on such guaranty, are guaranteed by the foreign subsidiary borrowers, as well as by the Company. The obligations of the Company under the Debt Agreements and any hedging arrangements and cash management

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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 interest consists of (1) a first-priority lien, subject to certain permitted liens, with respect to certain assets of the Company and its domestic subsidiaries (the ABL Collateral ) pledged as collateral in favor of lenders under the ABL Agreement and a second-priority lien in the ABL Collateral in favor of the lenders under the Term Loan and (2) a first-priority lien, subject to certain permitted liens, with respect to certain assets of the Company and its domestic subsidiaries (the Term Loan Collateral ) pledged as collateral in favor of lenders under the Term Loan and a second-priority lien in the Term Loan Collateral in favor of the lenders under the ABL Agreement.

Borrowings under the revolving credit facility bear interest, at the Company's option, at one of the following rates: (i) alternate base rate, defined, for any day, as the greater of the prime rate, a federal funds and overnight bank funding based rate plus 0.5% or one-month LIBOR plus 1.0%, plus a margin of 0.25% to 0.75%, or (ii) LIBOR plus a margin of 1.25% to 1.75%. The respective margins are based upon the Company's total leverage ratio, as defined in and computed pursuant to the ABL Agreement. Interest rates on outstanding borrowings under the ABL Agreement at September 30, 2018 ranged from 2.5% to 6.0%. In addition, the Company paid a commitment fee of 0.375% on the unused portion of the ABL Agreement during the nine months ended September 30, 2018.

The Term Loan facility bears interest, at the Company's option, at one of the following rates: (i) alternate base rate, defined, for any day, as the greater of the prime rate, a federal funds and overnight bank funding based rate plus 0.5% or one-month LIBOR plus 1.0%, plus a margin of 2.50% or (ii) LIBOR plus a margin of 3.50%. The interest rate on outstanding borrowings under the Term Loan at September 30, 2018 was 5.7%.

The Debt Agreements provide for customary restrictions and events of default. Restrictions include limitations on additional indebtedness, acquisitions, investments and payment of dividends, among other things. Further, the ABL Agreement provides that during any period (a) commencing on the last day of the most recently ended four consecutive fiscal quarters on or prior to the date availability under the ABL Agreement is less than the greater of \$15.0 million and 10% of the aggregate commitment under the ABL Agreement at any time and (b) ending on the day after such availability has exceeded the greater of \$15.0 million and 10% of the aggregate commitment under the ABL Agreement for forty-five (45) consecutive days, the Company is required to maintain a minimum fixed charge coverage ratio of 1.10 to 1.00 as of the last day of any period of four consecutive fiscal quarters.

The Company was in compliance with the covenants of the Debt Agreements at September 30, 2018.

The Company expects that it will continue to borrow, subject to availability, and repay funds under the ABL Agreement based on working capital and other corporate needs.

*Covenant Calculations*

Consolidated adjusted EBITDA (a non-GAAP financial measure), which is defined in the Company's Debt Agreements, is used in the calculation of the Fixed Charge Coverage Ratio, Secured Net Leverage Ratio, Total Leverage Ratio and Total Net Leverage Ratio, which are required to be provided to the Company's lenders pursuant to its Debt Agreements.

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The following is the Company's consolidated adjusted EBITDA, for the last four fiscal quarters:

|  | <b>Consolidated adjusted<br/>EBITDA for the<br/>Four<br/>Quarters Ended<br/>September 30,<br/>2018</b> |               |
|--|--|---------------|
|  | (in thousands)   |               |
| Three months ended September 30, 2018      | \$   | 22,722        |
| Three months ended June 30, 2018           |  | 3,910         |
| Three months ended March 31, 2018          |  | (529)         |
| Three months ended December 31, 2017       |  | 29,767        |
| Pro forma projected synergies              |  | 9,423         |
| Permitted non-recurring charge limitations |  | (508)         |
| <b>Total for the four quarters</b>         | <b>\$</b>  | <b>64,785</b> |

Capital expenditures for the nine months ended September 30, 2018 were \$5.4 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 income (loss), as reported, to consolidated adjusted EBITDA, for the four quarters ended September 30, 2018:

|  | <b>September 30,<br/>2018</b> | <b>June 30,<br/>2018</b> | <b>March 31,<br/>2018</b> | <b>December 31,<br/>2017</b> | <b>Twelve Months<br/>ended<br/>September 30,<br/>2018</b> |
|--|-------------------------------|--------------------------|---------------------------|------------------------------|---|
| Net income (loss) as reported                        | \$ 5,948                      | \$ (6,057)               | \$ (11,598)               | \$ 1,251                     | \$ (10,456)   |
| Subtract out:  |                               |                          |                           |                              |   |
| Undistributed equity in (earnings) losses, net       | (185)                         | (155)                    | (77)                      | 265                          | (152)   |
| Add back:  |                               |                          |                           |                              |   |
| Income tax expense (benefit)                         | 906                           | (1,765)                  | (3,810)                   | 8,169                        | 3,500   |
| Interest expense                                     | 5,634                         | 4,676                    | 2,103                     | 1,177                        | 13,590  |
| Loss on early retirement of debt                     |                               |                          | 66                        |                              | 66  |
| Depreciation and amortization                        | 6,076                         | 6,422                    | 4,309                     | 3,468                        | 20,275  |
| Stock compensation expense                           | 1,268                         | 921                      | 838                       | 908                          | 3,935   |
| Impairment of goodwill                               | 2,205                         |                          |                           |                              | 2,205   |
| Unrealized (gain) loss on foreign currency contracts | (190)                         | (2,112)                  | 393                       | 169                          | (1,740)   |
| Other permitted non-cash charges <sup>(1)</sup>      | 307                           | 916                      | 287                       |                              | 1,510   |

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|  |           |          |          |           |           |
|--|-----------|----------|----------|-----------|-----------|
| Permitted acquisition related expenses   | 43        | 391      | 809      | 2,424     | 3,667     |
| Permitted non-recurring charges <sup>(2)</sup>                                       | 710       | 673      | 2,825    | 1,331     | 5,539     |
| Pro forma Filament adjustment <sup>(3)</sup>   |           |          | 3,326    | 10,605    | 13,931    |
| Twelve Months ended September 30, 2018, Pro forma projected synergies <sup>(4)</sup> |           |          |          |           | 9,423     |
| Consolidated adjusted EBITDA, before limitations                                     | \$ 22,722 | \$ 3,910 | \$ (529) | \$ 29,767 | \$ 65,293 |
| Permitted non-recurring charge limitation <sup>(2)</sup>                             |           |          |          |           | (508)     |
| Consolidated adjusted EBITDA   |           |          |          |           | \$ 64,785 |

- (1) Other permitted non-cash charges includes non-cash purchase accounting adjustment to step-up the fair value of acquired inventory, a permitted exclusion from the Company's Consolidated adjusted EBITDA, pursuant to the Company's Debt Agreements.
- (2) Permitted non-recurring charges include severance expense, warehouse relocation costs, transition expenses and restructuring expenses. These are permitted exclusions from the Company's consolidated adjusted EBITDA, subject to limitations, pursuant to the Company's Debt Agreements.
- (3) Pro forma Filament adjustment represents permitted adjustment to the Company's consolidated adjusted EBITDA for the acquisition of Filament on March 2, 2018 pursuant to the Company's Debt Agreements.
- (4) Pro forma projected synergies represents the amount of projected cost savings, operating expense reductions, restructuring charges and expenses and cost saving synergies projected by the Company as a result of actions taken through September 30, 2018 or expected to be taken as of September 30, 2018, net of the benefits realized during the nine months ended September 30, 2018. Pro forma projected synergies is a permitted exclusion from the Company's consolidated adjusted EBITDA, subject to limitations, pursuant to the Company's Debt Agreements.

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

To improve its liquidity during seasonally high working capital periods, the Company has 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 \$20.7 million and \$59.4 million of receivables during the three and nine months ended September 30, 2018, respectively, and \$23.6 million and \$62.8 million of receivables during the three and nine months ended September 30, 2017, respectively. At September 30, 2018 \$13.6 million of receivables sold are outstanding and are due to HSBC from customers. Charges of \$111,000 and \$300,000 related to the sale of the receivables are included in selling, general and administrative expenses in the unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2018, respectively. Charges of \$88,000 and \$218,000 related to the sale of the receivables are included in selling, general and administrative expenses in the unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2017, respectively.

**Derivatives**

In April 2018, the Company entered into interest rate swap agreements with an aggregate notional amount of \$125.0 million. The Company designated the interest rate swaps as cash flow hedges of the Company s exposure to the variability of the payment of interest on a portion of its Term Loan borrowings. The hedge periods in these agreements are set to expire in March 2023, and amortize over this period.

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 unaudited condensed consolidated statement of operations.

**Operating activities**

Net cash used in operating activities was \$30.4 million for the nine months ended September 30, 2018, as compared to \$20.9 million for the corresponding 2017 period. The change in operating cash flow was primarily due to the net loss, an increase in inventory purchases and the timing of the payment of accounts payable and accrued expenses in the current period as compared to the 2017 period.

**Investing activities**

Net cash used in investing activities was \$222.9 million and \$13.3 million for the nine months ended September 30, 2018 and 2017, respectively. The 2018 investing activity includes the cash consideration paid for the acquisition of Filament and capital expenditures related to the Company s relocation of its west coast distribution facility.

**Financing activities**

Net cash provided by financing activities was \$251.7 million for the nine months ended September 30, 2018, as compared to \$31.6 million for the corresponding 2017 period. The change in financing activities was attributable to the repayment of the Company's former revolving credit facility and borrowings under the Debt Agreements, the proceeds of which were principally used to finance the acquisition of Filament.

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**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, except as follows:

On March 2, 2018, the Company acquired Filament, pursuant to a merger agreement dated December 22, 2017, as discussed in Note C- Acquisition to the unaudited condensed consolidated financial statements included in this Quarterly Report. In connection with this acquisition, the Company entered into new Debt Agreements. In April 2018, the Company entered into interest rate swap agreements to manage interest rate exposure in connection with its variable interest rate borrowings. As of September 30, 2018, approximately \$235.9 million of the Company's debt carries a variable rate of interest, as compared to \$90.7 million at December 31, 2017. The remainder of the debt at September 30, 2018 and December 31, 2017 (approximately \$125.0 million and \$5.3 million, respectively) carries a fixed rate of interest through the use of interest rate swaps.

**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 September 30, 2018, 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**

On March 2, 2018, the Company acquired Filament, pursuant to a merger agreement dated December 22, 2017. The Company has begun to integrate policies, processes, people, technology and operations for the post-acquisition combined company, and it will continue to evaluate the impact of any related changes to internal control over financial reporting. Except for changes in internal controls that we have made related to the integration of Filament into the post-acquisition combined company, during the quarter ended September 30, 2018, there has been no change in the Company's internal control over financial reporting 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**

For a description of certain legal proceedings affecting the Company, refer to Note L Contingencies to the unaudited condensed consolidated financial statements included in this Quarterly Report, which is incorporated by reference herein.



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**Item 1A. Risk Factors**

The following is an update to the corresponding risk factor set forth in the Company's Annual Report and the Company's Form 10-Q filed for the quarter ended June 30, 2018. Except as modified below, there have been no other material changes in the Company's risk factors from those disclosed in the Company's Annual Report and the Company's Form 10Q filed for the quarter ended June 30, 2018.

***The Company's business may be materially adversely affected by market conditions and by global and economic conditions and other factors beyond its control.***

The Company's performance is affected by general economic factors, the strength of retail economies and political conditions that are beyond its control. Retail economies are impacted by factors such as consumer demand and the condition of the retail industry, which in turn, are affected by general economic factors. These general economic factors include, among other factors:

recession, inflation, deflation, unemployment and other factors adversely affecting consumer spending patterns generally;

conditions affecting the retail environment for the home and other matters that influence consumer spending in the home retail industry specifically;

conditions affecting the housing markets;

consumer credit availability and consumer debt levels;

material input costs, including fuel and energy costs and labor cost inflation;

foreign currency translation;

interest rates and the ability to hedge interest rate risks;

government policies including tax policies relating to value-added taxes, import and export duties and quotas, antidumping regulations and related tariffs, import and export controls and social compliance standards;

the impact of natural disasters, conflicts and terrorist activities;

unfavorable economic conditions in the United States, the United Kingdom, Continental Europe, Asia and elsewhere; and

unstable economic and political conditions, lack of legal regulation enforcement, civil unrest and political activism, particularly in Asia.

The referendum held in the United Kingdom ( U.K. ) on June 23, 2016 resulted in a determination that the U.K. should exit the European Union. Such an exit from the European Union would be unprecedented and it is unclear what impact this would have on the U.K. 's access to the EU Single Market and on the legal and regulatory environment in which the Company operates, as well as its effect on the global macroeconomic environment. Net sales attributable to U.K. domiciled businesses were \$95.9 million for the year ended December 31, 2017, and represent approximately 17% of the Company 's consolidated net sales for the period. The uncertainty surrounding the terms of the U.K. 's exit and its consequences could adversely impact the U.K. economy, customers and investor confidence. It may contribute to additional market volatility, including volatility in the value of the British pound and European euro, and adversely affect the Company 's businesses, results of operations, and financial condition.

Recently, the U.S. government announced and, in some cases, implemented additional tariffs on certain foreign goods, including finished products and raw materials such as steel and aluminum. These tariffs and potential tariffs have resulted or may result in increased prices for these imported goods and materials and may limit the amount of these goods and materials that may be imported into the U.S. A substantial majority of the Company 's products are sourced from vendors in the People 's Republic of China.

Tariffs were imposed on certain finished products imported by the Company into the U.S. from China. The tariffs have been implemented in multiple phases, with effective dates of July and August 2018, for a 25% tariff on certain products, and with an effective date of September 2018 for a 10% tariff on certain other products. The 10% tariff effective in September 2018 will be increased to 25% in January 2019. The Company may seek to increase prices to its customers, which may diminish demand. Additionally, if the Company is unable to increase prices it may result in the lowering of the gross margin that the Company realizes from the sale of its products. The results of either could adversely affect the Company 's results of operations and financial condition.

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Various countries and regions have announced plans or intentions to impose or have imposed tariffs on a wide range of U.S. products in retaliation for new U.S. tariffs. The reciprocal tariffs are not expected to have a material impact on the Company because the Company contracts to manufacture most of its products outside the U.S.; however, these conditions and future actions could have a significant adverse effect on world trade and the world economy and such global macro-economic factors could adversely affect the Company's results of operations and financial condition.

The adoption and expansion of trade restrictions, the occurrence of a trade war, or other governmental action related to tariffs or trade agreements or policies has the potential to adversely impact demand for the Company's products, the costs of its products and the U.S. economy, which in turn could adversely impact the Company's business, financial condition and results of operations.

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**Item 6. Exhibits**

See Exhibit Index below, which is incorporated by reference herein.

**Exhibit Index**

**Exhibit No.**

|         |   |
|---------|---|
| 31.1    | <u>Certification by Robert B. Kay, Chief Executive Officer and Director, 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</u>  |
| 31.2    | <u>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</u>     |
| 32.1    | <u>Certification by Robert B. Kay, Chief Executive Officer and Director, 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</u> |
| 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  |

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**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/ Robert B. Kay

November 8, 2018

Robert B. Kay

Chief Executive Officer and Director

(Principal Executive Officer)

/s/ Laurence Winoker

November 8, 2018

Laurence Winoker

Senior Vice President Finance, Treasurer and Chief Financial Officer

(Principal Financial and Accounting Officer)

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