LIFETIME BRANDS, INC
Form 10-Q
November 07, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

OR

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

Commission file number 0-19254

LIFETIME BRANDS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**11-2682486**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1000 Stewart Avenue, Garden City, New York, 11530

(Address of principal executive offices, including Zip Code)

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

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

Yes x No o

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

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if smaller reporting company)	Small reporting company	o

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

Yes o No x

The number of shares of the registrant’s common stock outstanding as of November 7, 2008 was 11,985,123.

LIFETIME BRANDS, INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2008

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LIFETIME BRANDS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2008	**December 31, 2007**
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 160	$ 4,172
Accounts receivable, less allowances of $15,193 at 2008 and $16,400 at 2007	85,055	65,030
Inventory	170,633	143,684
Deferred income taxes	8,067	7,925
Prepaid expenses and other current assets	9,407	7,267
Prepaid income taxes	9,061	
TOTAL CURRENT ASSETS	282,383	228,078
PROPERTY AND EQUIPMENT, net	49,688	54,332
GOODWILL	27,432	27,432
OTHER INTANGIBLES, net	34,645	35,383
INVESTMENT IN GRUPO VASCONIA, S.A.B.	24,357	22,950
OTHER ASSETS	3,122	3,240
TOTAL ASSETS	$421,627	$371,415
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 60,700	$ 13,500
Accounts payable	34,735	21,759
Accrued expenses	30,492	31,504
Income taxes payable		4,520
TOTAL CURRENT LIABILITIES	125,927	71,283
DEFERRED RENT & OTHER LONG-TERM LIABILITIES	19,369	14,481
DEFERRED INCOME TAX	8,527	8,211
LONG-TERM DEBT	55,200	55,200
CONVERTIBLE NOTES	75,000	75,000
STOCKHOLDERS’ EQUITY		
Common stock, $.01 par value, shares authorized: 25,000,000; shares issued and outstanding: 11,985,123 in 2008 and 11,964,388 in 2007	120	120
Paid-in capital	115,903	113,995
Retained earnings	21,898	33,250
Accumulated other comprehensive loss	(317)	(125)
TOTAL STOCKHOLDERS’ EQUITY	137,604	147,240
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$421,627	$371,415

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

LIFETIME BRANDS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Net sales	$140,624	$143,470	$331,217	$ 338,628
Cost of sales	86,096	84,534	200,989	197,537
Distribution expenses	14,104	13,068	40,260	38,100
Selling, general and administrative expenses	32,464	32,116	94,750	91,541
Restructuring expenses	4,595		7,582	
Income (loss) from operations	3,365	13,752	(12,364)	11,450
Interest expense	(2,255)	(2,578)	(6,401)	(5,659)
Other expense		(121)		(121)
Income (loss) before income taxes and equity in earnings of Grupo Vasconia, S.A.B.	1,110	11,053	(18,765)	5,670
Income tax benefit (provision)	(2,174)	(4,258)	7,557	(2,184)
Equity in earnings of Grupo Vasconia, S.A.B., net of taxes	390		1,354	
NET INCOME (LOSS)	$ (674)	$ 6,795	$ (9,854)	$ 3,486
BASIC INCOME (LOSS) PER COMMON SHARE	$ (0.06)	$ 0.52	$ (0.82)	$ 0.26
DILUTED INCOME (LOSS) PER COMMON SHARE	$ (0.06)	$ 0.47	$ (0.82)	$ 0.26

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

LIFETIME BRANDS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Nine Months Ended September 30,	
	2008	**2007**
OPERATING ACTIVITIES		
Net income (loss)	$ (9,854)	$ 3,486
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	7,953	6,486
Deferred rent	1,612	1,143
Deferred income taxes		381
Stock compensation expense	1,898	1,641
Undistributed earnings of Grupo Vasconia, S.A.B.	(1,091)	
Fixed asset impairment charges	4,274	
Changes in operating assets and liabilities (excluding the effect of business acquisitions):		
Accounts receivable, net	(20,024)	(21,029)
Inventory	(14,636)	(15,511)
Prepaid expenses, other current assets and other assets	(2,016)	(23)
Accounts payable, accrued expenses and other liabilities	15,997	(10,121)
Prepaid income taxes	(9,061)	
Income tax payable	(4,520)	(4,433)
NET CASH USED IN OPERATING ACTIVITIES	(29,468)	(37,980)
INVESTING ACTIVITIES		
Purchase of property and equipment	(6,850)	(15,149)
Business acquisitions	(12,312)	(10,680)
NET CASH USED IN INVESTING ACTIVITIES	(19,162)	(25,829)
FINANCING ACTIVITIES		
Proceeds of short-term borrowings, net	47,200	82,000
Proceeds from exercise of stock options	8	232
Excess tax benefits from stock compensation		115
Payment of capital lease obligations	(344)	(340)
Cash dividends paid	(2,246)	(2,518)
Repurchases of common stock		(15,066)
NET CASH PROVIDED BY FINANCING ACTIVITIES	44,618	64,423
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,012)	614
Cash and cash equivalents at beginning of period	4,172	150
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 160	$ 764

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

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

NOTE A - BASIS OF PRESENTATION AND SUMMARY ACCOUNTING POLICIES

Organization and business

Lifetime Brands, Inc. (the "Company") designs, markets and distributes a broad range of consumer products used in the home, including food preparation, tabletop and home décor products and markets its products under a number of brand names and trademarks, which are either owned or licensed. The Company sells its products wholesale to retailers throughout North America and directly to the consumer through Company-operated factory, outlet and clearance stores, mail order catalogs, and the Internet.

As more fully described in Note C, during the three months ended September 30, 2008, the Company commenced a plan to close all of its factory, clearance and outlet stores.

Basis of presentation

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

Seasonality

The Company's business and working capital needs are highly seasonal, with a majority of sales occurring in the third and fourth quarters. In 2007, 2006 and 2005, net sales for the third and fourth quarters accounted for 61%, 65% and 71% of total annual net sales, respectively. Operating profits earned in the third and fourth quarters of 2007, 2006 and 2005 accounted for 111%, 99% and 83% of total annual operating profits, respectively. In anticipation of the pre-holiday shipping season, inventory levels increase primarily in the June through October time period.

Revenue recognition

Wholesale sales are recognized when title of merchandise passes and the risks and rewards of ownership have transferred to the customer. Store sales are recognized at the time of sale. Catalog and Internet sales are recognized upon receipt by the customer. Shipping and handling fees that are billed to customers in sales transactions are included in net sales and amounted to $1.1 million and $1.3 million for the three months ended September 30, 2008 and 2007, respectively, and $3.2 million and $3.1 million for the nine months ended September 30, 2008 and 2007, respectively. Net sales exclude taxes that are collected from customers and remitted to the taxing authorities.

Distribution expenses

Distribution expenses consist primarily of warehousing expenses, handling costs of products sold and freight-out expenses. Freight-out expenses amounted to $2.2 million and $1.9 million for the three months ended September 30, 2008 and 2007, respectively, and $5.6 million and $5.8 million, for the nine months ended September 30, 2008 and 2007, respectively.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

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

Inventory

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

The components of inventory are as follows:

	September 30, 2008	**December 31, 2007**
	(in thousands)	
Finished goods	$166,289	$139,042
Work in process	2,148	2,412
Raw materials	2,196	2,230
Total	$170,633	$143,684

Derivatives

The Company accounts for derivative instruments in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and subsequent amendments ("SFAS 133"). SFAS 133 requires that all derivative instruments be recognized on the balance sheet at fair value as either an asset or a liability. Accounting for changes in the fair value of a derivative depends on whether it qualifies and has been designated as part of a hedging relationship. For derivatives that qualify and have been designated as hedges for accounting purposes, changes in fair value have no net impact on earnings to the extent the derivative is considered perfectly effective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged, until the hedged item is recognized in earnings. For derivatives that do not qualify or are not designated as hedging instruments for accounting purposes, changes in fair value are recorded in current period earnings.

Fair value measurements

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

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

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

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

New accounting pronouncements

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

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

In May 2008, the FASB issued FASB Staff Position Accounting Principles Board ("APB") No. 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash, or other assets, on conversion (including partial cash settlement), to separately account for the liability (debt) and equity (conversion option) components in a manner that reflects the issuer's non-convertible debt borrowing rate. The resulting debt discount (equity portion) is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retrospective basis and will be adopted by the Company on January 1, 2009. The Company is currently evaluating the impact that FSP APB 14-1 will have on its consolidated financial statements.

Reclassifications

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

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

NOTE B – MIKASA ACQUISITION

On June 6, 2008, the Company acquired the business and certain assets of Mikasa, Inc. ("Mikasa") from Arc International SA ("ARC"). Mikasa is a leading provider of dinnerware, crystal stemware, barware, flatware and decorative accessories. Mikasa's products are distributed through department stores, specialty stores and big box chains, as well as through the Internet. The preliminary purchase price was $20.7 million, consisting of (i) $12.3 million of cash paid at closing, (ii) $3.3 million of certain liabilities assumed at closing, (iii) $5.0 million of cash to be paid on December 15, 2008, and (iv) acquisition related costs of $127,000. The agreement also requires the Company to pay ARC an amount by which the sum of 5% of the annual net sales of Mikasa products for 2009, 2010 and 2011, exceeds the $5.0 million payment due on December 15, 2008.

The Company accounted for its acquisition of the business and certain assets of Mikasa under the purchase method of accounting in accordance with SFAS No. 141. Accordingly, the results of operations of Mikasa have been included in the Company's condensed consolidated statement of operations from June 6, 2008. The cash purchase price was funded by borrowings under the Company's Credit Facility. The Mikasa acquisition was not deemed material; accordingly, summary *pro forma* financial information has not been presented.

A preliminary valuation of the assets acquired from Mikasa indicated an excess of the fair value of the assets acquired from Mikasa over the preliminary purchase price. The Company expects to complete the determination of the fair value of the assets acquired and the related allocation of the purchase price during the quarter ending December 31, 2008. In accordance with SFAS No. 141, since the Company is subject to potential contingent consideration that could result in an addition to the preliminary purchase price, to the extent that the fair value of the assets acquired exceeds the total purchase price, after a reduction to the carrying value of the non current assets acquired, at the end of the contingency period, the Company will recognize the excess value as an extraordinary gain. To the extent that the additional purchase price, if any, at the end of the contingency period exceeds the excess value, the Company will record additional purchase price related to the Mikasa acquisition.

NOTE C - RESTRUCTURING

December 2007 store closings

In December 2007, management of the Company commenced a plan to close 27 underperforming Farberware® outlet stores and 3 underperforming Pfaltzgraff® factory stores. All 30 stores were closed by the end of the first quarter of 2008. In connection with the store closings, the Company incurred certain restructuring related costs for store lease obligations, consulting fees, retention bonuses and severance, and other incremental costs related to the closures. Through September 30, 2008, the Company has recognized $3.0 million of such costs consisting of the following:

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

There were no costs associated with the December 2007 store closings recognized during the three months ended September 30, 2008.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

NOTE C - RESTRUCTURING (continued)

December 2007 store closings (continued)

The following is a roll-forward of the amounts included in accrued expenses related to the December 2007 store closures:

	Balance March 31, 2008	Charges	Payments	Balance September 30, 2008
	(in thousands)			
Store lease obligations	$2,300	$	$(1,734)	$566
Consulting fees	192		(192)	
Retention bonuses and severance	188		(188)	
Other related costs	49	107	(156)	
Total	$2,729	$107	$(2,270)	$566

September 2008 restructuring initiative

In September 2008, management of the Company commenced a plan to close all 53 of its remaining Farberware® outlet stores and Pfaltzgraff® factory and clearance stores and its York, PA distribution center. In connection with this restructuring initiative, the Company expects that it will incur restructuring related costs for lease obligations, consulting fees, retention bonuses and severance, and other incremental costs of $14.0 million and non-cash fixed asset impairment charges of $5.6 million.

During the three months ended September 30, 2008, the Company recognized $337,000 of restructuring related costs consisting of the following:

	Three Months Ended September 30, 2008
	(in thousands)
Retention bonuses and severance	$195
Other related costs	142
Total	$337

At September 30, 2008 the above amounts are included in accrued expenses.

Due to the change in circumstances as a result of the restructuring initiative, the Company reviewed the fixed assets related to the stores and the York, PA distribution center for impairment and determined that the net book value of certain fixed assets would not be recoverable. Accordingly, the Company recorded a non-cash fixed asset impairment charge of $4.3 million during the quarter ended September 30, 2008.

The above restructuring related costs and non-cash fixed asset impairment charge are included within restructuring expenses in the accompanying condensed consolidated statement of operations.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

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

In December 2007, the Company acquired approximately 30% of the capital stock of Grupo Vasconia, S.A.B. ("Vasconia"), (formerly known as, Ekco, S.A.B.), a manufacturer and distributor of aluminum disks, cookware and related items. Shares of Vasconia's capital stock are traded on the Bolsa Mexicana de Valores, S.A. de C.V., the Mexico Stock Exchange, under the symbol BMV: EKCO. The Company has allocated the purchase price of Vasconia as follows (in thousands):

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

The Company accounts for its investment in Vasconia using the equity method of accounting. Accordingly, the Company has recorded its proportionate share of Vasconia's net income (reduced for amortization expense related to the customer relationships acquired), net of taxes of $90,000 and $316,000 for the three and nine month periods ended September 30, 2008, respectively, in the accompanying condensed consolidated statement of operations. During the three months ended September 30, 2008 the Company received a cash dividend in the amount of $263,000 from Vasconia.

Summarized income statement information for Vasconia is as follows:

	Three Months Ended September 30, 2008	**Nine Months Ended September 30, 2008**
	(in thousands)	
Net sales	$23,911	$85,630
Gross profit	6,712	20,944
Income from operations	2,217	8,212
Net income	1,691	5,843

NOTE E - INTANGIBLE ASSETS

Intangible assets

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

	September 30 , 2008			**December 31, 2007**		
	Gross	**Accumulated Amortization**	**Net**	**Gross**	**Accumulated Amortization**	**Net**
Indefinite-lived intangible assets:						
Trade names	$21,443	$	$21,443	$21,443	$	$21,443
Finite-lived intangible assets:						
Licenses	15,847	(4,965)	10,882	15,847	(4,490)	11,357

Trade names	2,477	(1,082)	1,395	2,477	(1,020)	1,457
Customer relationships	886	(575)	311	886	(451)	435
Patents	584	(49)	535	584	(23)	561
Designs	460	(381)	79	460	(330)	130
Total	$41,697	$(7,052)	$34,645	$41,697	$(6,314)	$35,383

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

NOTE F - BANK CREDIT FACILITY

The Company has a $150 million secured credit facility, with an accordion feature for an additional $50 million, that expires in April 2011 (the "Credit Facility"). Borrowings under the Credit Facility are secured by all assets of the Company. Under the terms of the Credit Facility, the Company is required to satisfy certain financial covenants, including covenants providing limitations on indebtedness, sale of assets and capital expenditures, a maximum leverage ratio and a minimum interest coverage ratio. At September 30, 2008, the Company was in compliance with these covenants. Borrowings under the Credit Facility have different interest rate options that are based on either: (i) an alternate base rate, (ii) the LIBOR rate, or (iii) the lender's cost of funds rate, plus in each case a margin based on a leverage ratio. In April 2008, the Credit Facility was amended to: (i) establish a borrowing base calculation to determine availability under the Credit Facility, (ii) increase the applicable margin rates and (iii) revise certain financial covenants. In September 2008, the Credit Facility was further amended to revise, among other things: (i) the borrowing base calculation, (ii) certain financial covenants and (iii) the applicable margin rates.

At September 30, 2008, the Company had $2.2 million of open letters of credit and $115.9 million of borrowings outstanding under the Credit Facility. Interest rates on outstanding borrowings at September 30, 2008 ranged from 4.44% to 6.41%. The availability under the Credit Facility at September 30, 2008 was $31.9 million. The Company has interest rate swap and collar agreements (see Note H) with an aggregate notional amount of $55.2 million. The Company entered into these agreements to effectively fix the interest rate on a portion of its borrowings under the Credit Facility. The agreements have maturity dates that exceed one year from September 30, 2008 as the Company does not intend to repay an equivalent amount of debt within one year. Accordingly, $55.2 million of debt outstanding under the Credit Facility at September 30, 2008 and December 31, 2007, has been classified as long-term debt.

NOTE G - CONVERTIBLE NOTES

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

The Notes are convertible at the option of the holder anytime prior to the close of business on the business day prior to the maturity date. Upon conversion, the Company may elect to deliver either shares of the Company's common stock, cash or a combination of cash and shares of the Company's common stock in satisfaction of the Company's obligations upon conversion of the Notes. At any time prior to the 25th trading day preceding the maturity date, the Company may irrevocably elect to satisfy in cash the Company's conversion obligation with respect to the principal amount of the Notes to be converted after the date of such election, with any remaining amount to be satisfied in shares of the Company's common stock. The election would be in the Company's sole discretion without the consent of the holders of the Notes. The conversion rate of the Notes may be adjusted upon the occurrence of certain events that would dilute the Company's outstanding common stock. In addition, holders that convert their Notes in connection with certain fundamental changes, such as a change in control, may be entitled to a make whole premium in the form of an increase in the conversion rate. If the Notes are not converted prior to the maturity date the Company is required to pay the holders of the Notes the principal amount of the Notes in cash upon maturity.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

NOTE G - CONVERTIBLE NOTES (continued)

The Company has reserved 2,678,571 shares of common stock for issuance upon conversion of the Notes. Such shares have been registered and the Notes include a registration rights agreement that would require the Company to pay liquidated damages to the holders of the Notes if the Company fails to keep the registration statement effective.

NOTE H - DERIVATIVES

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

Certain interest rate swap agreements with an aggregate notional amount of $35 million and the credit default swap were not designated as hedges under SFAS 133 and the fair value gains or losses from these swap agreements are recognized in earnings. The effect of recording these interest rate swap agreements at fair value resulted in unrealized gains of $58,000 and $67,000 for the three and nine months ended September 30, 2008, respectively, which is included in interest expense.

An interest rate swap agreement with a notional amount of $15 million and the interest rate collar agreements were designated as cash flow hedges under SFAS 133. The effective portion of the fair value gains or losses on these agreements is recorded in other comprehensive loss. The effect of recording these agreements at fair value resulted in an unrealized loss of $114,000 (net of taxes of $84,000) for the three months ended September 30, 2008 and an unrealized loss of $192,000 (net of taxes of $142,000) for the nine months ended September 30, 2008. No amounts recorded in other comprehensive loss are expected to be reclassified to interest expense in the next twelve months.

The fair value of the above derivatives have been obtained from the counterparties to the agreements and are based on Level 2 observable inputs using proprietary models and reasonable estimates about relevant future market conditions. The aggregate fair value of the Company’s derivative instruments at September 30, 2008 was a liability of $1.0 million, which is included in deferred rent & other long-term liabilities.

LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

NOTE I - STOCK OPTIONS

A summary of the Company's stock option activity and related information for the nine months ended September 30, 2008 is as follows:

	Options	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Options outstanding, January 1, 2008	1,808,900	$22.69		
Grants	20,000	10.32		
Exercises	(1,750)	5.50		
Cancellations	(41,000)	27.49		
Options outstanding, September 30, 2008	1,786,150	22.45	5.74	$918,000
Options exercisable, September 30, 2008	1,106,507	21.37	5.19	$918,000

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, 2008. The intrinsic value is calculated for each in-the-money stock option as the difference between the closing price of the Company's common stock on September 30, 2008 and the exercise price of the stock option.

The total intrinsic value of stock options exercised during the nine months ended September 30, 2008 was $9,900. The intrinsic value of a stock option that is exercised is calculated as the difference between the quoted market price of the Company's common stock at the date of exercise and the exercise price of the stock option multiplied by the number of shares exercised.

The Company recognized stock option expense of $615,000 for each of the three months ended September 30, 2008 and 2007, and $1.8 million and $1.6 million for the nine months ended September 30, 2008 and 2007, respectively. Total unrecognized compensation cost related to unvested stock options at September 30, 2008, before the effect of income taxes, was $5.4 million and is expected to be recognized over a weighted average period of 2.58 years.

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

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

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

NOTE J – 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. 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, 2008 and 2007 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
	(in thousands, except per share amounts)			
Net income (loss)- basic	$ (674)	$ 6,795	$(9,854)	$ 3,486
Net interest expense, 4.75% Convertible Notes		654		
Net income (loss)- diluted	$ (674)	$ 7,449	$(9,854)	$ 3,486
Weighted average shares outstanding – basic	11,985	13,002	11,973	13,197
Effect of dilutive securities:				
Stock options		139		147
4.75% Convertible Notes		2,679		
Weighted average shares outstanding – diluted	11,985	15,820	11,973	13,344
Basic income (loss)- per common share	$ (0.06)	$ 0.52	$ (0.82)	$ 0.26
Diluted income (loss) – per common share	$ (0.06)	$ 0.47	$ (0.82)	$ 0.26

The computation of diluted income (loss) per common share for the three months ended September 30, 2008 and 2007 excludes: (i) options to purchase 1,786,150 shares and 1,495,500 shares, respectively; and (ii) 2,678,571 shares of the Company's common stock issuable upon the conversion of the Company's 4.75% Convertible Notes and related interest expense. The computation of diluted income (loss) per common share for the nine months ended September 30, 2008 and 2007 excludes: (i) options to purchase 1,791,650 shares and 1,560,767 shares, respectively; and (ii) 2,678,571 shares of the Company's common stock issuable upon the conversion of the Company's 4.75% Convertible Notes and related interest expense. These shares were excluded due to their antidilutive effect.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

NOTE K– INCOME TAXES

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*. FIN 48 provides guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes.* Tax positions must meet a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken. The Company adopted FIN 48 on January 1, 2007.

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

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

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

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

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

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

NOTE L – BUSINESS SEGMENTS

The Company operates in two reportable business segments — wholesale and direct-to-consumer. The wholesale segment is the Company's primary business that designs, markets and distributes household products to retailers and distributors. The direct-to-consumer segment is comprised of the Company's business that sells household products directly to the consumer through Company-operated factory, outlet and clearance stores, and catalog and Internet operations. At September 30, 2008, the Company operated 45 factory and clearance stores utilizing the Pfaltzgraff® brand name and 8 outlet stores utilizing the Farberware® brand name. As described in Note C, the Company had closed 30 underperforming Farberware® outlet stores and Pfaltzgraff® factory stores during the period from December 2007 to March 2008 and during the three months ended September 30, 2008, commenced a plan to close all 53 of its remaining stores. The Company will continue to operate its catalog and Internet businesses.

The Company has segmented its operations in a manner that reflects how management reviews and evaluates the results of its operations. While both segments distribute similar products, the segments are distinct due to their different types of customers and the different methods used to sell, market and distribute the products.

Management evaluates the performance of the wholesale and direct-to-consumer segments based on net sales and income (loss) from operations. Such measures give recognition to specifically identifiable operating costs such as cost of sales, distribution expenses and selling, general and administrative expenses. Certain general and administrative expenses such as senior executive salaries and benefits, stock compensation, director fees and accounting, legal and consulting fees are not allocated to the specific segments and are reflected as unallocated corporate expenses. Assets in each segment consist of assets used in its operations, acquired intangible assets and goodwill. Assets in the unallocated corporate category consist of cash and tax related assets that are not allocated to the segments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in thousands)			
Net sales				
Wholesale	$ 124,265	$123,174	$ 284,499	$289,768
Direct-to-consumer	16,359	20,296	46,718	48,860
Total net sales	$140,624	$143,470	$ 331,217	$338,628
Income (loss) from operations				
Wholesale	$ 12,145	$ 17,657	$ 11,268	$ 26,670
Direct-to-consumer (1)	(6,103)	(1,132)	(15,571)	(8,192)
Unallocated corporate expenses	(2,677)	(2,773)	(8,061)	(7,028)
Total income (loss) from operations	$ 3,365	$ 13,752	$ (12,364)	$ 11,450
Depreciation and amortization				
Wholesale	$ (2,325)	$ (1,833)	$ (7,272)	$ (5,465)
Direct-to-consumer	(232)	(352)	(681)	(1,021)
Total depreciation and amortization	$ (2,557)	$ (2,185)	$ (7,953)	$ (6,486)

Note:

(1) Loss from operations for the Direct-to-consumer segment for three and nine months ended September 30, 2008 includes restructuring and impairment expenses of $4.6 million and $7.6 million, respectively. See Note C.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

NOTE L – BUSINESS SEGMENTS (continued)

	September 30, 2008	December 31, 2007
Assets	(in thousands)	
Wholesale	$389,580	$337,156
Direct-to-consumer	14,759	22,163
Unallocated/ corporate/other	17,288	12,096
Total assets	$421,627	$371,415

NOTE M - CONTINGENCIES

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

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

NOTE N - OTHER

Change in accounting principle

During the quarter ended September 30, 2008, the Company changed the date of its annual goodwill impairment assessment from December 31 to October 1. This change was performed to better support the completion of the assessment prior to the Company's filing requirement for its Annual Report on Form 10-K as an accelerated filer, and in order to better align the timing of this assessment with the Company's normal process for updating its strategic plan and forecasts. The Company believes that the resulting change in accounting principle related to the annual testing date will not delay, accelerate or avoid an impairment charge. The goodwill impairment tests performed in fiscal years 2007 and 2006 did not result in any impairment of goodwill. The Company determined that the change in accounting principle related to the annual testing date is preferable under the circumstances and does not result in adjustments to the financial statements when applied retrospectively. The change is not expected to have any impact on the Company's impairment test for 2008.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

NOTE N - OTHER (continued)

Dividends

Dividends declared in 2008 are as follows:

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

Stock repurchase plan

The Board of Directors of the Company has authorized a program to repurchase up to $40.0 million of the Company's common stock through open market purchases or privately-negotiated transactions. Through September 30, 2008 the Company has purchased in the open market and retired a total of 1,362,505 shares of its common stock for a total cost of $22.7 million under the program. There were no purchases during the nine months ended September 30, 2008.

Supplemental cash flow information

	Nine Months Ended September 30,	
	2008	**2007**
	(in thousands)	
Supplemental disclosure of cash flow information:		
Cash paid for interest	$6,767	$ 4,275
Cash paid for taxes	5,933	5,776
Non-cash investing activities:		
Liabilities assumed in business acquisition	$3,264	$
Deferred cash purchase price of business acquisition	5,000	
Reclassification of property and equipment to building held for sale		5,073
Equipment acquired under capital leases		34
Non-cash financing activities:		
Director restricted stock grant	$ 150	$ 150

Comprehensive income (loss)

Three Months Ended

	September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
	(in thousands)			
Net income (loss)	$(674)	$6,795	$ (9,854)	$3,486
Derivative fair value adjustment, net of taxes	(114)		(192)	
Total comprehensive income (loss)	$(788)	$6,795	$(10,046)	$3,486

Report of Independent Registered Public Accounting Firm

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

We have reviewed the condensed consolidated balance sheet of Lifetime Brands, Inc. and subsidiaries (the "Company") as of September 30, 2008 and the related condensed consolidated statements of operations for the three and nine month periods ended September 30, 2008 and 2007 and cash flows for the nine month periods ended September 30, 2008 and 2007. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended not presented herein and in our report dated March 14, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2007, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it was derived.

/s/ ERNST & YOUNG LLP

Melville, New York

November 4, 2008

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

There are a number of risks and uncertainties that could cause the Company's actual results to differ materially from the forward-looking statements contained in this Quarterly Report. Important factors that could cause the Company's actual results to differ materially from those expressed as forward-looking statements are set forth in the Company's 2007 Annual Report on Form 10-K in Part I, Item 1A under the heading *Risk Factors*. Such risks, uncertainties and other important factors include, among others:

- Changes in demand for the Company's products and the success of new products;
- The level of competition in the Company's industry;
- Changes in general economic and business conditions which could affect customer payment practices or consumer spending;
- Industry trends;
- The Company's dependence on third party foreign sources of supply and foreign manufacturing;
- Fluctuations in costs of raw materials;
- Increases in costs relating to manufacturing and transportation of products;
- Complexities associated with a multi-channel and multi-brand business;
- Limited experience in the tabletop and home décor product categories;
- The Company's relationship with key licensors;
- Encroachments on the Company's intellectual property;
- The Company's relationship with key customers;
- Product liability claims or product recalls;
- The timing of delivery of products to customers;
- The Company's restructuring of its direct-to-consumer retail business;
- Departure of key personnel;
- Internal development of products by the Company's customers;
- Noncompliance with applicable regulations including the Sarbanes-Oxley Act of 2002;
- Risks associated with the Company's Internet operations;
- Future acquisitions and integration of acquired businesses;
- Technological risks;
- Network security risks;

- Risks associated with indebtedness; and
- The seasonal nature of the Company's business.

There may be other factors that may cause the Company's actual results to differ materially from the forward-looking statements. Except as may be required by law, the Company undertakes no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

ABOUT THE COMPANY

The Company is one of North America's leading resources for nationally branded kitchenware, tabletop and home décor products. The Company's three major product categories are Food Preparation, Tabletop and Home Décor. The Company markets several product lines within each of these product categories and under each of the Company's brands, primarily targeting moderate to premium price points, through every major level of trade. The Company's competitive advantage is based on strong brands, an emphasis on innovation and new product development and excellent sourcing capabilities. The Company owns or licenses many of the leading brands in its industries including Farberware®, KitchenAid®, Cuisinart®, Pfaltzgraff® and in June 2008 added Mikasa®. Over the last several years, the Company's sales growth has come from expanding product offerings within the Company's current categories by developing existing brands, and acquiring new brands and product categories. Key factors in the Company's growth strategy have been, and will continue to be, the selective use and management of the Company's strong brands, and the Company's ability to provide a steady stream of new products and designs. A significant element of this strategy is the Company's in-house design and development team that creates new products, packaging and merchandising concepts.

BUSINESS SEGMENTS

The Company operates in two reportable business segments — wholesale and direct-to-consumer. The wholesale segment is the Company's primary business that designs, markets and distributes household products to retailers and distributors. The direct-to-consumer segment is comprised of the Company's business that sells household products directly to the consumer through 53 Company-operated factory, outlet and clearance stores operated utilizing the Pfaltzgraff® and Farberware® names, and its catalog and Internet operations.

December 2007 store closings

During the first quarter of 2008, the Company closed 27 underperforming Farberware® outlet stores and 3 underperforming Pfaltzgraff® factory stores. During the nine months ended September 30, 2008, the Company has recognized $3.0 million in pre-tax charges in connection with these store closings. The Company did not recognize any costs associated with these store closings during the three months ended September 30, 2008.

September 2008 restructuring initiative

During the three months ended September 30, 2008, the Company commenced a plan to close all 53 of its remaining stores and its York, PA distribution center. The Company will continue to operate its catalog and Internet businesses. In connection with this restructuring initiative, the Company expects that it will incur restructuring related costs for lease obligations, consulting fees, retention bonuses and severance, and other incremental costs of $14.0 million and non-cash fixed asset impairment charges of $5.6 million. During the three months ended September 30, 2008 the Company has recognized $4.3 million of non-cash impairment charges and $337,000 of restructuring related expenses.

MIKASA ACQUISITION

On June 6, 2008, the Company acquired the business and certain assets of Mikasa, Inc. ("Mikasa") from Arc International SA. Mikasa is a leading provider of dinnerware, crystal stemware, barware, flatware and decorative accessories. Mikasa's products are distributed through department stores, specialty stores and big box chains, as well as through the Internet. Net sales from the Mikasa business were $17.0 million and $20.1 million for the three and nine months ended September 30, 2008.

INVESTMENT IN GRUPO VASCONIA S.A.B.

In December 2007, the Company acquired approximately 30% of the capital stock of Grupo Vasconia, S.A.B. ("Vasconia"), (formerly known as, Ekco, S.A.B.), a manufacturer and distributor of aluminum disks, cookware and related items. Shares of Vasconia's capital stock are traded on the Bolsa Mexicana de Valores, S.A. de C.V., the Mexico Stock Exchange, under the symbol BMV: EKCO. The Company accounts for its investment in Vasconia using the equity method of accounting and has recorded its proportionate share of Vasconia's net income for the three and nine months ended September 30, 2008, net of taxes, as equity in earnings of Vasconia in the Company's statement of operations.

SEASONALITY

The Company's business and working capital needs are highly seasonal, with a majority of sales occurring in the third and fourth quarters. In 2007, 2006 and 2005, net sales for the third and fourth quarters accounted for 61%, 65% and 71% of total annual net sales, respectively. Operating profits earned in the third and fourth quarters of 2007, 2006 and 2005 accounted for 111%, 99% and 83% of total annual operating profits, respectively. In anticipation of the pre-holiday shipping season, inventory levels increase primarily in the June through October time period.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes to the Company's critical accounting policies and estimates from the information provided in Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates* included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

RESULTS OF OPERATIONS

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	61.2	58.9	60.7	58.3
Distribution expenses	10.0	9.1	12.2	11.3
Selling, general and administrative expenses	23.1	22.4	28.6	27.0
Restructuring expenses	3.3		2.3	
Income (loss) from operations	2.4	9.6	(3.8)	3.4
Interest expense	(1.6)	(1.9)	(1.9)	(1.7)
Income (loss) before income taxes and equity in earnings of Grupo Vasconia, S.A.B.	0.8	7.7	(5.7)	1.7
Income tax benefit (provision)	(1.6)	(3.0)	2.3	(0.6)
Equity in earnings of Grupo Vasconia, S.A.B., net of taxes	0.3		0.4	
Net income (loss)	(0.5) %	4.7 %	(3.0) %	1.1 %

Management's Discussion and Analysis

THREE MONTHS ENDED SEPTEMBER 30, 2008 AS COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2007

Net Sales

Net sales for the three months ended September 30, 2008 were $140.6 million, a decrease of 2.0% compared to net sales of $143.5 million for the 2007 period.

Net sales for the wholesale segment for the three months ended September 30, 2008 were $124.3 million, an increase of $1.1 million or 0.9% compared to net sales of $123.2 million for the 2007 period. Excluding Mikasa net sales of $17.0 million, net sales for the wholesale segment were $107.3 million for the three months ended September 30, 2008, a decrease of $15.9 million or 12.9% compared to the 2007 period. The decrease is the result of volume declines in most of the Company's product categories. Management attributes these declines primarily to the economic slowdown's effect on consumer spending. In addition, reported sales were lower in the 2008 period as Canadian customers are now served through the Company's alliance with Accent Fairchild Group.

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Net sales for the direct-to-consumer segment for the three months ended September 30, 2008 were $16.4 million compared to $20.3 million for the 2007 period. The decrease was due to the 30 stores the Company closed during the first quarter of 2008 and to a lesser extent, lower comparable store sales which management attributes to the economic slowdown's effect on consumer spending.

Cost of sales

Cost of sales for the three months ended September 30, 2008 were $86.1 million compared to $84.5 million for the 2007 period. Cost of sales as a percentage of net sales was 61.2% for the three months ended September 30, 2008 compared to 58.9% for the 2007 period.

Cost of sales as a percentage of net sales for the wholesale segment was 64.1% for the three months ended September 30, 2008 compared to 62.4% for the 2007 period. The reduction in gross margin was due primarily to the Company's continued effort to reduce inventory levels and higher sales allowances.

Cost of sales as a percentage of net sales for the direct-to-consumer segment increased to 39.0% for the three months ended September 30, 2008 from 37.9% for the 2007 period. The increase was primarily due to higher freight costs in the 2008 period.

Distribution expenses

Distribution expenses for the three months ended September 30, 2008 were $14.1 million compared to $13.1 million for the 2007 period. Distribution expenses as a percentage of net sales were 10.0% for the three months ended September 30, 2008 and 9.1% for the 2007 period.

Distribution expenses as a percentage of net sales for the wholesale segment were 9.0% for the three months ended September 30, 2008 compared to 7.8% for the 2007 period. The increase in distribution expenses as a percentage of net sales was due primarily to transitional service expenses related to the Mikasa business the Company acquired in June 2008 and to a lesser extent duplicative expenses related to the consolidation of the Company's West Coast distribution centers. Excluding the effects of the transitional services and duplicative expenses, distribution expenses as a percentage of net sales for the wholesale segment were 7.9% for the three months ended September 30, 2008. The increase was due to a lower volume of product shipped substantially offset by improved labor efficiency.

Distribution expenses as a percentage of net sales for the direct-to-consumer segment were 17.7% for the three months ended September 30, 2008 compared to 16.7% for the 2007 period. The increased percentage is due to a greater proportion of sales from the Company's Internet and catalog business which structurally has higher distribution expenses as compared to the stores operations. The increase was partially offset by lower inventory levels and improved labor efficiency.

Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended September 30, 2008 were $32.5 million, an increase of 1.2% over $32.1 million for the 2007 period.

Selling, general and administrative expenses for the three months ended September 30, 2008 for the wholesale segment were $21.2 million, an increase of $2.2 million or 11.6% over the $19.0 million for the 2007 period. As a percentage of net sales, selling, general and administrative expenses were 17.1% for the three months ended September 30, 2008 compared to 15.4% for the 2007 period. The increase was primarily due to transitional service and employee and selling expenses related to the Mikasa business acquired in June 2008.

Selling, general and administrative expenses for the three months ended September 30, 2008 for the direct-to-consumer segment were $8.6 million compared to $10.3 million for the 2007 period. The decrease was due primarily to operating fewer stores, 30 of which were closed during the first quarter of 2008.

Unallocated corporate expenses for the three months ended September 30, 2008 and 2007 were $2.7 million and $2.8 million, respectively.

Restructuring expenses

During the three months ended September 30, 2008 the Company recorded restructuring expenses of $4.6 million consisting principally of a non-cash fixed asset impairment charge of $4.3 million related to the 2008 restructuring initiative that commenced during the three months ended September 30, 2008.

Interest expense

Interest expense for the three months ended September 30, 2008 was $2.3 million compared to $2.6 million for the 2007 period. The decrease in interest expense was primarily attributable to lower average interest rates during the three months ended September 30, 2008 compared to the 2007 period. The decrease was offset in part by higher average borrowings outstanding under the Company's Credit Facility during the 2008 period.

Income tax provision

The income tax provision for the three months ended September 30, 2008 was $2.2 million compared to $4.3 million for the 2007 period. The Company's effective income tax rate was 195.9% for the three months ended September 30, 2008 compared to 38.5% for the 2007 period. The increase in the Company's effective tax rate in the 2008 period was due primarily to a change in the Company's expected annual effective tax rate since the Company does not expect to realize a tax benefit for the 2008 restructuring expenses in certain state jurisdictions.

NINE MONTHS ENDED SEPTEMBER 30, 2008 AS COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2007

Net Sales

Net sales for the nine months ended September 30, 2008 were $331.2 million, a decrease of 2.2% compared to net sales of $338.6 million for the 2007 period.

Net sales for the wholesale segment for the nine months ended September 30, 2008 were $284.5 million, a decrease of $5.3 million or 1.8% compared to net sales of $289.8 million for the 2007 period. Excluding Mikasa net sales of $20.1 million, net sales for the wholesale segment were $264.4 million for the nine months ended September 30, 2008, a decrease of $25.4 million or 8.8% compared to the 2007 period. The decrease is the result of volume declines in most of the Company's product categories. Management attributes these declines primarily to the economic slowdown's effect on consumer spending.

Net sales for the direct-to-consumer segment for the nine months ended September 30, 2008 were $46.7 million compared to $48.9 million for the 2007 period. The decrease was due to the 30 stores the Company closed during the first quarter of 2008.

Cost of sales

Cost of sales for the nine months ended September 30, 2008 were $201.0 million compared to $197.5 million for the 2007 period. Cost of sales as a percentage of net sales was 60.7% for the nine months ended September 30, 2008 compared to 58.3% for the 2007 period.

Cost of sales as a percentage of net sales for the wholesale segment was 63.6% for the nine months ended September 30, 2008 compared to 61.9% for the 2007 period. The increase in cost of sales as a percentage of net sales was primarily attributable to lower margins associated with the Company's continued effort during the 2008 period to reduce inventory levels.

Cost of sales as a percentage of net sales for the direct-to-consumer segment increased to 43.3% for the nine months ended September 30, 2008 from 37.4% for the 2007 period. The increase was primarily due to lower margins as a result of increased promotional activity and the going-out-of-business sales at the 30 stores the Company closed during the first quarter of 2008 and to a lesser extent higher freight costs.

Distribution expenses

Distribution expenses for the nine months ended September 30, 2008 were $40.3 million compared to $38.1 million for the 2007 period. Distribution expenses as a percentage of net sales were 12.2% for the nine months ended September 30, 2008 and 11.3% for the 2007 period.

Distribution expenses as a percentage of net sales for the wholesale segment were 11.1% for the nine months ended September 30, 2008 compared to 9.9% for the 2007 period. The increase was due primarily to the integration expenses in the first half of the year of consolidating the Company's West Coast distribution facilities into the Company's new main West Coast distribution center located in Fontana, California and transitional service expenses related to the Mikasa business acquired in June 2008. Excluding the effects of the transitional services and duplicative expenses, distribution expenses as a percentage of net sales for the wholesale segment were 9.9% for the nine months ended September 30, 2008.

Distribution expenses as a percentage of net sales for the direct-to-consumer segment were approximately 18.6% for the nine months ended September 30, 2008 compared to 19.2% for the 2007 period. The decrease was due primarily to reduced third party warehouse costs as a result of planned decreases in inventory levels and improved labor efficiency.

Selling, general and administrative expenses

Selling, general and administrative expenses for the nine months ended September 30, 2008 were $94.8 million, an increase of 3.6% over $91.5 million for the 2007 period.

Selling, general and administrative expenses for the nine months ended September 30, 2008 for the wholesale segment were $60.9 million, an increase of $5.7 million or 10.3% over the $55.2 million for the 2007 period. As a percentage of net sales, selling, general and administrative expenses were 21.4% for the nine months ended September 30, 2008 compared to 19.0% for the 2007 period. The increase was primarily due to transitional service and employee expenses related to the Mikasa business acquired in June 2008.

Selling, general and administrative expenses for the nine months ended September 30, 2008 for the direct-to-consumer segment were $25.8 million compared to $29.3 million for the 2007 period. The decrease was due primarily to operating fewer stores, 30 of which were closed during the first quarter of 2008.

Unallocated corporate expenses for the nine months ended September 30, 2008 and 2007 were $8.1 million and $7.0 million, respectively. The increase was primarily due to higher professional fees and stock option expense.

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Restructuring expenses

During the nine months ended September 30, 2008 the Company recorded restructuring expenses of $7.6 million consisting of a non-cash fixed asset impairment charge of $4.3 million recognized during the third quarter of 2008 and restructuring related expenses of $3.3 million consisting primarily of restructuring related expenses recognized during the first quarter of 2008 in connection with the store closings that began in the fourth quarter of 2007. The restructuring related costs consisted of lease obligations, consulting fees, retention bonuses and severance, and other incremental costs related to the store closures.

Interest expense

Interest expense for the nine months ended September 30, 2008 was $6.4 million compared to $5.7 million for the 2007 period. The increase in interest expense was attributable to higher average borrowings outstanding under the Company's Credit Facility during the 2008 period. The increase was offset in part by lower average interest rates in the 2008 period.

Income tax benefit (provision)

The income tax benefit for the nine months ended September 30, 2008 was $7.6 million compared to an income tax provision of $2.2 million for the 2007 period. The Company's effective income tax rate was 40.3% for the nine months ended September 30, 2008 compared to 38.5% for the 2007 period. The increase in the Company's effective tax rate in the 2008 period was due primarily to a change in the Company's expected annual effective tax rate since the Company does not expect to realize a tax benefit for the 2008 restructuring expenses in certain state jurisdictions.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of cash to fund liquidity needs are: (i) cash provided by operating activities and (ii) borrowings available under its Credit Facility. The Company's primary uses of funds consist of working capital requirements, capital expenditures, payment of principal and interest on its debt, payment of cash dividends and business acquisitions.

At September 30, 2008, the Company had cash and cash equivalents of $160,000, compared to $4.2 million at December 31, 2007.

Borrowings under the Company's Credit Facility increased to $115.9 million at September 30, 2008 which represents an increase of $47.2 million from December 31, 2007. The increase was primarily due to working capital uses, the acquisition of Mikasa, the operating loss during the period and capital expenditures.

Credit facility

The Company has a $150 million secured credit facility, with an accordion feature for an additional $50 million, that expires in April 2011 (the "Credit Facility"). Borrowings under the Credit Facility are secured by all assets of the Company. Under the terms of the Credit Facility, the Company is required to satisfy certain financial covenants, including covenants providing limitations on indebtedness, sale of assets and capital expenditures, a maximum leverage ratio and a minimum interest coverage ratio. At September 30, 2008, the Company was in compliance with these covenants. Borrowings under the Credit Facility have different interest rate options that are based on either: (i) an alternate base rate, (ii) the LIBOR rate, or (iii) the lender's cost of funds rate, plus in each case a margin based on a leverage ratio. In April 2008, the Credit Facility was amended to: (i) establish a borrowing base calculation to determine availability under the Credit Facility, (ii) increase the applicable margin rates and (iii) revise certain financial covenants. In September 2008, the Credit Facility was further amended to revise, among other things: (i) the borrowing base calculation, (ii) certain financial covenants and (iii) the applicable margin rates.

At September 30, 2008, the Company had $2.2 million of open letters of credit and $115.9 million of borrowings outstanding under the Credit Facility. Interest rates on outstanding borrowings at September 30, 2008 ranged from 4.44% to 6.41%. The availability under the Credit Facility at September 30, 2008 was $31.9 million. The Company has interest rate swap and collar agreements with an aggregate notional amount of $55.2 million. The Company entered into these agreements to effectively fix the interest rate on a portion of its borrowings under the Credit Facility. The agreements have maturity dates that exceed one year from September 30, 2008 as the Company does not intend to repay an equivalent amount of debt within one year. Accordingly, $55.2 million of debt outstanding under the Credit Facility at September 30, 2008 and December 31, 2007, has been classified as long-term debt.

Convertible Notes

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

Share repurchase program

The Board of Directors of the Company has authorized a program to repurchase up to $40.0 million of the Company's common stock through open market purchases or privately-negotiated transactions. As of September 30, 2008 the Company had purchased in the open market and retired a total of 1,362,505 shares of its common stock for a total cost of $22.7 million under the program. There were no purchases during the nine months ended September 30, 2008.

Dividends

The Company has declared the following dividends in 2008:

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

Operating activities

Cash used by operating activities was $29.5 million for the nine months ended September 30, 2008 compared to $38.0 million in the 2007 period. Working capital increased $34.3 million during the 2008 period compared to an increase of $51.1 million during the 2007 period.

Investing activities

Cash used in investing activities was $19.2 million for the nine months ended September 30, 2008 compared to $25.8 million in the 2007 period. 2008 investing activities include cash paid by the Company of $12.3 million to acquire the business and certain assets of Mikasa and capital expenditures of $6.9 million related primarily to the Company's new West Coast distribution center located in Fontana, California. 2007 investing activities included capital expenditures of $15.1 million relating primarily to leasehold improvements at the Company's then new corporate headquarters and amounts paid in connection with the Company's implementation of its SAP business enterprise system and cash of $10.7 million the Company paid to acquire certain assets from Lenox Group, Inc. and the Pomerantz and Design for Living brands. The Company's 2008 planned capital expenditures are estimated to be $9 million. These expenditures are expected to be funded from current operations and, if necessary, borrowings under the Company's Credit Facility.

Financing activities

Cash provided by financing activities was $44.6 million for the nine months ended September 30, 2008 compared to $64.4 million for the 2007 period. In 2008, net borrowings under the Company's Credit Facility were $47.2 million compared to $82.0 million for the 2007 period.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact the consolidated financial position, results of operations or cash flows of the Company. The Company is exposed to market risk associated with changes in interest rates. The Company's Credit Facility bears interest at variable rates and, therefore, the Company is subject to increases and decreases in interest expense resulting from fluctuations in interest rates. The Company has interest rate swap agreements with an aggregate notional amount of $50 million and interest rate collar agreements with an aggregate notional amount of $40.2 million to manage interest rate exposure in connection with these variable interest rate borrowings. There have been no changes in interest rates that would have a material impact on the consolidated financial position, results of operations or cash flows of the Company for the three months ended September 30, 2008.

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, 2008, that the Company's controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed by it under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer of the Company, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls

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

PART II - OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes in the Company's risk factors from those disclosed in the Company's 2007 Annual Report on Form 10-K.

Item 6. Exhibits

Exhibit No.	
18	Letter re change in accounting principle
31.1	Certification by Jeffrey Siegel, Chief Executive Officer and President, pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Laurence Winoker, Senior Vice President – Finance, Treasurer and Chief Financial Officer, pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Jeffrey Siegel, Chief Executive Officer and President, and Laurence Winoker, Senior Vice President – Finance, Treasurer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Lifetime Brands, Inc.

/s/ Jeffrey Siegel Jeffrey Siegel Chief Executive Officer and President (Principal Executive Officer)	November 7, 2008
/s/ Laurence Winoker Laurence Winoker Senior Vice President – Finance, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	November 7, 2008