



## Company Profile

**Lifetime Brands, Inc.** is North America's leading designer, developer and marketer of a broad range of nationally branded consumer products used in the home, in such categories as Kitchenware, Cutlery & Cutting Boards, Bakeware & Cookware, Pantryware & Spices, Dinnerware, Flatware, Glassware, Home Décor, Picture Frames and Bath Accessories.



Kamenstein® 360° Pepper Grinder



KitchenAid® 20 Piece Side-Tang Cutlery Set



Mikasa® Modernist Place Setting

## Dear Fellow Shareholders:

The past year was the most difficult period that I have experienced in the over 40 years I have been involved in the household products industry. The relentless drumbeat of bad economic news accelerated during the year, dampening consumer spending to the point of paralysis and taking a severe toll on most retailers. This punishing clamor reached epic proportions following the collapse of the credit and stock markets during the second half of the year, the period in which Lifetime does the majority of its business. As a result, Lifetime's financial results fell far short of expectations.

- Net sales for 2008 reached \$487.9 million, a decrease of 1.2% from 2007.
- Net sales for our wholesale segment in 2008 were \$403.6 million, a decrease of 3.2% from 2007.
- Excluding net sales of \$32.8 million attributable to our purchase of the Mikasa® brand in June 2008, net wholesale sales were \$370.8 million, a decrease of 11.1% from 2007.
- Net sales for the direct-to-consumer segment in 2008 were \$84.3 million compared to \$76.8 million for 2007; however, the increase was primarily due to the going-out-of-business sales at the Company's retail stores and, to a lesser extent, to an increase in Internet sales.

In 2008, Lifetime recorded the first net loss in its history. The loss was \$49 million (net of tax benefit of \$10.5 million) or \$4.09 per diluted share, compared to net income of \$8.9 million, or \$0.68 per diluted share in 2007. The Company's net loss for 2008 included pre-tax charges of \$57.3 million for the following special items:

- \$29.4 million in non-cash charges attributable to the write-off of goodwill and certain intangible assets
- \$18 million of restructuring charges, of which \$3.9 million was non-cash, primarily attributable to the closing of the Company's retail stores
- \$6.9 million of operating losses attributable to the retail stores
- \$3 million in non-recurring transition expenses related to our acquisition of Mikasa.

Excluding these items, the Company would have reported a net loss for 2008 of \$2 million, or \$0.17 per diluted share. For a detailed discussion of the Company's 2008 financial results, please see the Management's Discussion and Analysis section in our Form 10-K, which is included in this Annual Report.

While our overall results for the year were a disappointment, we did achieve some notable successes.

- We restructured our dinnerware and glassware businesses under a new management team. With the addition of the Mikasa® brand, we now are a leader in this segment of the tabletop industry.
- The acquisition of Mikasa provided us with opportunities to strengthen Lifetime's existing placement at a number of retailers and to open new doors. We believe that the Mikasa® brand is especially well positioned for the current economic climate.
- We reduced inventory levels and rationalized SKU count without negatively affecting service levels.
- We consolidated our West Coast distribution centers, which reduced costs and increased efficiency.
- We aligned our operations to fit current market conditions by reducing head count, freezing salaries, trimming employee benefits and taking other strenuous measures to cut overhead throughout the Company.

- Closing our retail stores removed a significant burden from Lifetime's financial results. We will exit our remaining York, Pennsylvania, distribution center by mid-year 2009, which will enable us further to improve our operating efficiency.

While we expect economic conditions to remain challenging during all of 2009, we believe this environment presents us with opportunities to expand market share in each of our product classifications.

- We are working closely with our retail partners to create individualized programs that are tailored for today's business climate while remaining trend-right.
- Our commitment to innovation and design sets us apart from our competition. We introduced approximately 1,500 new products at the International Home + Housewares Show in Chicago this March, including several that we believe have the potential to be very important to the Company, such as the One Handed Mandoline Slicer and the Odor-Absorbing Splatter Screen.
- We have created brand extensions—including *Gourmet Basics by Mikasa™*, *M by Mikasa™* and *Pfaltzgraff Everyday®*—that offer trusted brands and outstanding design at significant values.

We thank our employees for their unstinting commitment during these difficult times, and we are grateful for the continued support of our customers and shareholders.



Jeffrey Siegel  
Chairman of the Board, President and Chief Executive Officer

*Non-GAAP Financial Measures*

This letter contains non-GAAP financial measures within the meaning of Regulation G promulgated by the U.S. Securities and Exchange Commission. Included on the following page is a reconciliation of these non-GAAP financial measures to the comparable financial measures calculated in accordance with GAAP.

Reconciliation of GAAP to Non-GAAP Operating Results  
(In millions, except per share data)

Year ended  
December 31, 2008  
(unaudited)

Reconciliation of net loss as reported to net loss as adjusted:

Net loss as reported	\$(49.0)
Add (net of taxes):	
Non-cash goodwill and intangible write-off	24.1
Store restructuring expenses	14.8
Store operating losses	5.6
Mikasa non-recurring transition expenses	2.5
	<hr/>
Net loss as adjusted	<u>\$ (2.0)</u>

Reconciliation of diluted loss per common share as reported  
to diluted loss per common share as adjusted:

Diluted loss per common share as reported	\$(4.09)
Add:	
Non-cash goodwill and intangible write-off	2.01
Store restructuring expenses	1.23
Store operating losses	0.47
Mikasa non-recurring transition expenses	0.21
	<hr/>
Diluted loss per common share as adjusted	<u>\$ (0.17)</u>

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

FORM 10-K

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

For the fiscal year ended December 31, 2008

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)

**11-2682486**

(I.R.S. Employer Identification No.)

**1000 Stewart Avenue, Garden City, New York 11530**

(Address of principal executive offices, including Zip Code)

**(516) 683-6000**

(Registrant's telephone number, including area code)

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

**Common Stock, \$.01 par value**

(Title of each class)

**The NASDAQ Stock Market LLC**

(Name of each exchange on which registered)

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

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

Yes  No

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

Yes  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (do not check if a smaller reporting company)

Smaller reporting company

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

Yes  No

The aggregate market value of 9,861,790 shares of the voting stock held by non-affiliates of the registrant as of June 30, 2008 was approximately \$80,000,000. Directors, executive officers, and trusts controlled by said individuals are considered affiliates for the purpose of this calculation and should not necessarily be considered affiliates for any other purpose.

The number of shares of common stock, par value \$.01 per share, outstanding as of March 30, 2009 was 11,989,724.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Parts of the registrant's definitive proxy statement for the 2009 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 are incorporated by reference in Part III of this Annual Report.

**LIFETIME BRANDS, INC.**  
**FORM 10-K**  
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## DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains “forward-looking statements” as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements include information concerning Lifetime Brands, Inc.’s (the “Company’s”) plans, objectives, goals, strategies, future events, future revenues, performance, capital expenditures, financing needs and other information that is not historical information. Many of these statements appear, in particular, under the headings *Business* and *Management’s Discussion and Analysis of Financial Condition and Results of Operations* included in Item 1 of Part I and Item 7 of Part II, respectively. When used in this Annual Report on Form 10-K, the words “estimates,” “expects,” “anticipates,” “projects,” “plans,” “intends,” “believes” and variations of such words 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 Annual Report. Important factors that could cause the Company’s actual results to differ materially from those expressed as forward-looking statements are set forth in this Annual Report, including the risk factors discussed in Part I, Item 1A under the heading *Risk Factors*. Such risks, uncertainties and other important factors include, among others:

- Risks associated with indebtedness;
- Changes in general economic and business conditions which could affect customer payment practices or consumer spending;
- Customer risks;
- The Company’s dependence on third-party foreign sources of supply and foreign manufacturing;
- Changes in demand for the Company’s products and the success of new products;
- The level of competition in the Company’s industry;
- Industry trends;
- 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;
- 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;
- 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; 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.

### **OTHER INFORMATION**

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

## PART I

### Item 1. Business

#### OVERVIEW

The Company is one of North America's leading resources for nationally branded Food Preparation, Tabletop and Home Décor products. The Company markets its products under some of the most well-respected and widely-recognized brand names in the U.S. housewares industry including three of the four most recognized brands of "Kitchen Tool, Cutlery and Gadgets" according to the Home Furnishing News Brand Survey for 2007 - KitchenAid®, Farberware®, and Cuisinart®. The Company primarily targets moderate to premium price points through every major level of trade and generally markets several lines within each of its product categories under more than one brand. At the heart of the Company is a strong culture of innovation and new product development. The Company introduced over 4,600 new or redesigned products in 2008 and expects to introduce approximately 5,000 new or redesigned products in 2009.

The Company's three main product categories and the products offered within the product categories are as follows:

<u>Food Preparation</u>	<u>Tabletop</u>	<u>Home Décor</u>
Kitchenware	Flatware	Picture Frames
Cutlery & Cutting Boards	Dinnerware	Wall Décor
Pantryware & Spices	Giftware	Non-electric Lighting
Bakeware & Cookware	Glassware	Decorative Accessories
Fondues & Tabletop Entertaining	Tabletop Accessories	Seasonal Decorations
Functional Glassware	Crystal	Lawn & Garden Décor
	Serveware	
	Barware	

The Company markets several product lines within each of the Company's product categories and under each of the Company's brands. The Company sources a majority of its products from approximately 475 suppliers located primarily in the People's Republic of China. The Company produces a majority of its sterling silver products at a leased manufacturing facility in San German, Puerto Rico and fills spices and assembles spice racks at its owned Winchendon, Massachusetts distribution facility.

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

Farberware®	Food Preparation and Tabletop
KitchenAid®	Food Preparation
Elements®	Home Décor
Mikasa®	Tabletop and Home Décor
Melannco®	Home Décor
Cuisinart®	Food Preparation and Tabletop
Pfaltzgraff®	Tabletop and Home Décor
Kamenstein®	Food Preparation
Wallace Silversmiths®	Tabletop and Home Décor
International® Silver Company	Tabletop and Home Décor

The Company sells its products to a diverse customer base including mass merchants, specialty stores, national chains, department stores, warehouse clubs, home centers, supermarkets and off-price retailers.

## BUSINESS SEGMENTS

The Company has two reportable segments; the wholesale segment which is the Company's primary business that designs, markets and distributes its products to retailers and distributors, and the direct-to-consumer segment, through its Pfaltzgraff® and Mikasa® Internet websites and the Company's Pfaltzgraff® mail-order catalogs. During 2008, the Company also operated retail stores that were included in the direct-to-consumer segment, but the operations of these stores were ceased by December 31, 2008. The Company has segmented its operations in a manner that reflects how management reviews and evaluates the results of its operations. While both segments distribute similar products, the segments are distinct due to their different types of customers and the different methods used to sell, market and distribute the products.

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

## ACQUISITIONS

Since 1995 the Company has completed the following 14 acquisitions that have expanded the Company's product offerings, allowed the Company to enter new product categories, and added brands:

<u>Year</u>	<u>Company or assets acquired</u>	<u>Product categories</u>
2008	Mikasa®	Tabletop and Home Décor
2007	Pomerantz®	Food Preparation
	Design for Living®	Food Preparation
	Gorham®	Tabletop
	Grupo Vasconia, S.A.B (formerly, Ekco S.A.B.) (29.99%)	Food Preparation and Tabletop
2006	Syratech	Tabletop and Home Décor
2005	Pfaltzgraff®	Tabletop and Food Preparation
	Salton	Tabletop
2004	Excel Importing Corp.	Food Preparation and Tabletop
2003	:USE®—Tools for Civilization	Bath hardware and accessories
	Gemco®	Food Preparation
2000	M. Kamenstein, Inc.	Food Preparation
1998	Roshco, Inc.	Food Preparation
1995	Hoffritz®	Food Preparation

## RECENT ACQUISITION

### Mikasa®

In June 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® products are distributed through department stores, specialty stores and big box chains, as well as through the Internet.

## CUSTOMERS

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

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

During the years ended December 31, 2008, 2007 and 2006, Wal-Mart Stores, Inc. (including Sam's Club) accounted for 20%, 21% and 17% of net sales, respectively. No other customer accounted for 10% or more of the Company's net sales during these periods. For the years ended December 31, 2008, 2007 and 2006, the Company's ten largest customers accounted for 60%, 62% and 49% of net sales, respectively.

## DISTRIBUTION

The Company operates the following distribution centers:

<u>Location</u>	<u>Size (square feet)</u>
Fontana, California	753,000
Robbinsville, New Jersey	700,000
York, Pennsylvania	473,000
Winchendon, Massachusetts	210,000
Medford, Massachusetts	5,590

The Company's principal East Coast distribution center is the Robbinsville, New Jersey facility and the Company's principal West Coast distribution center is the Fontana, California facility. In 2008, the Company consolidated two former West Coast distribution centers into the Fontana, California facility. The Company plans to vacate its York, Pennsylvania distribution center during 2009 and transfer the distribution to the Robbinsville, New Jersey facility and Fontana, California facility.

## SALES AND MARKETING

The Company's sales and marketing staff coordinate directly with the retailers to devise marketing strategies and merchandising concepts and to furnish advice on advertising and product promotion. The Company has developed several promotional programs for use in the ordinary course of business to promote sales throughout the year.

The Company's sales and marketing efforts are supported from its principal offices and showroom in Garden City, New York as well as showrooms in New York, New York; Medford, Massachusetts; Atlanta, Georgia; Bentonville, Arkansas; and Menomonee Falls, Wisconsin. The Company's sales and marketing staff at December 31, 2008 consisted of 235 salaried employees. The Company also distributes certain products through independent sales representatives who work on a commission basis.

The Company's largest retail customers are each serviced by an in-house team that includes representatives from the Company's sales, marketing, merchandising and product development departments. The Company generally collaborates with its largest retail customers and in many instances produces specific versions of the Company's product lines with exclusive designs and packaging for their stores.

## **SOURCES OF SUPPLY**

The Company sources its products from approximately 475 suppliers located primarily in the People's Republic of China. The Company also sources products from suppliers in Hong Kong, the United States, Taiwan, Japan, India, Thailand, Italy, Indonesia, Korea, Vietnam, Germany, Czech Republic, Malaysia, Portugal, Colombia, Poland, Turkey, and Mexico. The Company's policy is to maintain several months of supply of inventory. Accordingly, the Company orders products substantially in advance of the anticipated time of their sale. While the Company does not have any formal long-term arrangements with any of its suppliers, in certain instances the Company places purchase orders for products several months in advance of receipt of orders from its customers. The Company's arrangements with most manufacturers allow for flexibility in modifying the quantity, composition and delivery dates of orders. All purchase orders issued by the Company are cancelable.

## **MANUFACTURING**

The Company produces a majority of its sterling silver products at its leased manufacturing facility in San German, Puerto Rico and fills spices and assembles spice racks at its owned Winchendon, Massachusetts distribution facility.

## **COMPETITION**

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

## **PATENTS**

The Company owns 131 design and utility patents on the overall design of some of its products. The Company believes that the expiration of any of its patents would not have a material adverse effect on the Company's business.

## **BACKLOG**

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

## **EMPLOYEES**

At December 31, 2008, the Company had a total of 1,168 employees, 156 of whom are located in China. In addition, the Company employed 414 people on a part-time basis, predominately in its distribution centers. None of the Company's employees are represented by a labor union. The Company considers its employee relations to be good.

## **REGULATORY MATTERS**

Certain of the products the Company manufactures are subject to the jurisdiction of the U.S. Consumer Product Safety Commission. The Company's spice container filling operation in Winchendon, Massachusetts is regulated by the Food and Drug Administration. The Company's products are also subject to regulation under certain state laws pertaining to product safety and liability.

## **Item 1A. Risk Factors**

The Company's business, operations, and financial condition are subject to various risks. Some of these risks are described below in no particular order. This section does not describe all risks that may be applicable to the Company, the Company's industry, or the Company's business, and it is intended only as a summary of certain material risk factors.

### **Risks associated with indebtedness.**

The Company has substantial indebtedness. As of December 31, 2008, the Company's total indebtedness was \$164.3 million, including \$89.3 million under its \$150 million secured credit facility which expires in April 2011 (the "Credit Facility") and \$75 million of 4.75% Convertible Senior Notes due 2011 (the "Notes"). Borrowings under the Credit Facility are secured by all of the assets of the Company. Under the terms of the Credit Facility, the Company is required to satisfy certain financial covenants. In March 2008 and September 2008, the Company amended the Credit Facility in anticipation of its declining financial performance. At December 31, 2008, the Company was not in compliance with the financial covenants required by its Credit Facility. On each of February 12, 2009 and March 6, 2009, the Company entered into a forbearance agreement and amendment to the Credit Facility. On March 31, 2009, the Company entered into a waiver and amendment to the Credit Facility.

Increased financial leverage resulting from borrowings under the Credit Facility or a decline in the Company's financial performance could have a material adverse effect on the Company, including, but not limited to the following: (i) the Company's ability to obtain additional financing, working capital, capital expenditures, and general corporate or other purposes could be impaired, or any such financing may not be available on terms favorable to the Company; (ii) a substantial portion of the Company's cash flows could be required for debt service and, as a result, might not be available for its operations or other purposes; (iii) any substantial decrease in net operating cash flows could make it difficult for the Company to meet its debt service requirements or force the Company to modify its operations or sell assets; (iv) the Company's ability to withstand competitive pressures may be decreased; and (v) the Company's level of indebtedness may make the Company more vulnerable to economic downturns, and reduce its flexibility in responding to changing business, regulatory and economic conditions. The Company's ability to repay expected borrowings under its Credit Facility and the Notes, and to meet its other debt or contractual obligations (including compliance with applicable financial covenants) will depend upon the Company's future performance and its cash flows from operations, both of which are subject to prevailing economic conditions and financial, business, and other known and unknown risks and uncertainties, certain of which are beyond the Company's control.

### **The Company's business depends, in part, on factors affecting consumer spending that are out of the Company's control.**

The Company's business depends on consumer demand for its products and, consequently, is sensitive to a number of factors that influence consumer spending, including general economic conditions, disposable consumer income, recession and inflation, incidents and fears relating to national security, terrorism and war, hurricanes, floods and other natural disasters, inclement weather, consumer debt, unemployment rates, interest rates, sales tax rates, fuel and energy prices, consumer confidence in future economic conditions and political conditions, and consumer perceptions of personal well-being and security, generally. Adverse changes in factors affecting discretionary consumer spending such as those that occurred during 2008, has had a significant adverse effect on, and could continue to reduce consumer demand for the Company's products, change the mix of products the Company sells to a different mix with a lower average gross margin, slow inventory turnover and result in greater markdowns on inventory, thus reducing the Company's sales and harming its business and operating results.

### **Customer risks.**

During the past several years, various retailers, including some of the Company's customers, have experienced significant changes and difficulties, including consolidation of ownership, restructurings, bankruptcies and liquidations. Consolidation of retailers or other events that eliminate the Company's customers could result in fewer stores selling the Company's products and could increase the Company's reliance on a smaller group of customers. In addition, if the Company's retailer customers experience significant problems in the future,

including as a result of general weakness in the retail environment, the Company's sales may be reduced and the risk of extending credit to these retailers may increase. A significant adverse change in a customer relationship or in a customer's financial position could cause the Company to limit or discontinue business with that customer, require the Company to assume greater credit risk relating to that customer's receivables or limit the Company's ability to collect amounts related to previous purchases by that customer. These or other events related to the Company's significant customers could have an adverse effect on the Company's business, results of operations or financial condition.

**Because most of the Company's vendors are located in foreign countries, the Company is subject to a variety of additional risks and uncertainties.**

The Company's dependence on foreign vendors means, in part, that the Company may be affected by declines in the relative value of the U.S. dollar to other foreign currencies. Although substantially all of the Company's foreign purchases of products are negotiated and paid for in U.S. dollars, changes in currency exchange rates might negatively affect the profitability and business prospects of the Company's foreign vendors. This, in turn, might cause such foreign vendors to demand higher prices for products, hold up shipments to the Company, or discontinue selling to the Company, any of which could ultimately reduce the Company's sales or increase its costs.

The Company is also subject to other risks and uncertainties associated with changing economic and political conditions in foreign countries. These risks and uncertainties include import duties and quotas, increases in value added taxes, concerns over anti-dumping, work stoppages, economic uncertainties (including inflation), foreign government regulations, incidents and fears involving security, terrorism and wars, political unrest and other trade restrictions. The Company cannot predict whether any of the countries in which its products are currently manufactured or may be manufactured in the future will be subject to trade restrictions imposed by the U.S. or foreign governments or the likelihood, type or effect of any such restrictions. Any event causing a disruption or delay of imports from foreign vendors, including the imposition of additional import restrictions, restrictions on the transfer of funds and/or increased tariffs or quotas, or both, with respect to products for the home could increase the cost or reduce the supply of products available to the Company and adversely affect the Company's business, financial condition and operating results. Furthermore, some or all of the Company's foreign vendors' operations may be adversely affected by political and financial instability resulting in the disruption of trade from exporting countries, restrictions on the transfer of funds and/or other trade disruptions. Moreover, since the Company's vendors are typically small privately-owned businesses, the Company does not have access to its vendors' financial information to assess its vendors' liquidity. Accordingly, in light of recent economic events in the U.S. and the resulting impact on foreign economies, particularly in China, the Company is subject to the risk that the Company's vendors may become bankrupt or shut-down operations prior to fulfilling the Company's purchase requirements.

In addition, there is a risk that one or more of the Company's foreign vendors will not adhere to its compliance standards such as fair labor practices and prohibitions on child labor. Such circumstances might create an unfavorable impression of the Company's sourcing practices or the practices of some of its vendors that could harm the Company's image. Additionally, certain of the Company's major retail customers, including Wal-Mart Stores, Inc., routinely inspect its suppliers' facilities to determine their compliance with applicable labor laws. A determination by such customers that one or more of the Company's suppliers violate such standards could jeopardize the Company's sales to such customers if the Company or the suppliers cannot effectively remedy any such violation in a timely manner. If any of these occur, the Company could lose sales, customer goodwill and favorable brand recognition, which could negatively affect the Company's business and operating results.

**The Company must successfully anticipate changing consumer preferences and buying trends and manage its product line and inventory commensurate with customer demand.**

The Company's success depends upon its ability to anticipate and respond to changing merchandise trends and customer demands in a timely manner. Consumer preferences cannot be predicted with certainty and may change between selling seasons. The Company must make decisions as to design, development, expansion and production of new and existing product lines. If the Company misjudges either the market for its products, the purchasing patterns of the end consumer, or the appeal of the design, functionality or variety of its product lines, the Company's sales may decline significantly, and it may be required to mark down certain products to sell the resulting excess inventory



through liquidation channels at prices which can be significantly lower than the Company's normal wholesale prices, each of which would harm its business and operating results.

In addition, the Company must manage its inventory effectively and commensurate with customer demand. A substantial portion of the Company's inventory is sourced from vendors located outside the United States. The Company generally commits to purchasing products before it receives firm orders from its retail customers and frequently before trends are known. The extended lead times for many of the Company's purchases, as well as the development time for design and deployment of new products, may make it difficult for the Company to respond rapidly to new or changing trends. In addition, the seasonal nature of the Company's business requires it to carry a significant amount of inventory prior to the year-end holiday selling season. As a result, the Company is vulnerable to demand and pricing shifts and to misjudgments in the selection and timing of product purchases. If the Company does not accurately predict its customers' preferences and acceptance levels of its products, the Company's inventory levels may not be appropriate, and its business and operating results may be adversely impacted.

**The Company faces intense competition from companies with similar brands or products and from companies in the retail industry.**

The markets for food preparation, tabletop, and home décor products are highly competitive and include numerous domestic and foreign competitors, some of which are larger than the Company, have greater financial and other resources than the Company, and may have more established brand names in some or all of the markets the Company serves. The primary competitive factors in selling such products to retailers are consumer brand name recognition, quality, packaging, breadth of product line, distribution capability, prompt delivery in response to retail customers' order requirements, and ultimate price to the consumer.

The competitive challenges facing the Company include:

- anticipating and quickly responding to changing consumer demands better than the Company's competitors;
- maintaining favorable brand recognition and achieving end consumer perception of value;
- effectively marketing and competitively pricing the Company's products to consumers in diverse market segments and price levels; and
- developing innovative, high-quality products in designs and styles that appeal to consumers of varying groups, tastes and price level preferences, and in ways that favorably distinguish the Company from its competitors.

In addition, the Company operates its catalog and Internet businesses under highly competitive conditions. The Company has numerous and varied competitors at the national and local levels. Competition is characterized by many factors, including product assortment, advertising, price, quality, service, location, reputation and credit availability. If the Company does not compete effectively with regard to these factors, its results of operations could be materially and adversely affected.

In light of the many competitive challenges facing the Company, the Company may not be able to compete successfully. Increased competition could adversely affect the Company's sales, operating results and business by forcing the Company to lower its prices or sell fewer units, which could reduce the Company's profitability.

**The Company depends on key vendors for timely and effective sourcing of its products, and the Company is subject to various risks and uncertainties that may affect its vendors' ability to produce quality merchandise.**

The Company sources most of its products from third-party suppliers with which the Company may have in many cases established long-term relationships. The Company's performance depends on its ability to have its products manufactured to the Company's designs and specifications in sufficient quantities at competitive prices. The Company has no contractual assurances of continued supply, pricing or access to products, and in general, vendors may discontinue selling to the Company at any time. The Company may not be able to acquire its products in sufficient quantities, with the quality assurance that the Company requires, and on terms acceptable to the Company.

The Company sources its products from approximately 475 suppliers located primarily in the People's Republic of China. The Company's three largest suppliers in China provided the Company with approximately 23% of the products it distributed in 2008. This concentration of sourcing is a risk to the Company's business. Furthermore, because the Company's product lines cover thousands of products, many products are produced for the Company by only one or two manufacturers. An interruption of supply from any of these manufacturers could also have an adverse impact on the Company's ability to fill orders on a timely basis.

Interruption of supply from any of the Company's suppliers, or the loss of one or more key vendors, could have a negative effect on the Company's business and operating results because the Company would be missing products that could be important to its assortment or to coordinated branded product lines, unless and until alternative supply arrangements are secured. The Company may not be able to develop relationships with new vendors, and products from alternative sources, if any, may be of a lesser quality and/or more expensive than those the Company currently purchases. Replacement of manufacturing sources would require long lead-times to assure the vendors' capability to manufacture to the Company's designs and specifications, maintain quality control and achieve the production levels the Company requires. In addition, some of the Company's customers demand a certain standard of shipping fulfillment (usually as a percentage of orders placed) and any disruption in the manufacturing of its products could result in the Company's failure to meet such standards.

The Company is also subject to certain risks, including risks relating to the availability of raw materials, labor disputes, union organizing activity, inclement weather, natural disasters, and general economic and political conditions that might limit the Company's vendors' ability to provide it with quality merchandise on a timely basis. For these or other reasons, one or more of the Company's vendors might not adhere to the Company's quality control standards and the Company might not identify the deficiency before products are shipped to its retail customers. The Company's vendors' failure to manufacture or ship quality merchandise in a timely and efficient manner could damage its reputation and that of brands offered by the Company and could lead to a loss or reduction in orders by the Company's retail customers and an increase in product liability claims or litigation.

**High costs of raw materials and energy may result in increased operating expenses and adversely affect the Company's results of operations and cash flow.**

Significant variations in the costs and availability of raw materials and energy may negatively affect the Company's results of operations. The Company's vendors purchase significant amounts of metals and plastics to manufacture the Company's products. They also purchase significant amounts of electricity to supply the energy required in their production processes. Rising cost of fuel may also increase transportation costs. The Company's results of operations have been and could in the future be significantly affected by increases in these costs. Price increases increase the Company's working capital needs and, accordingly, can adversely affect the Company's liquidity and cash flow.

**The Company must successfully manage the complexities associated with a multi-channel and multi-brand business.**

The Company's business requires the development, marketing and production of a wide variety of products in its three product categories: Food Preparation, Tabletop and Home Décor. Within each of these categories, it is necessary to market several full lines of branded products targeting different price and prestige levels, and each of these branded lines must contain an assortment of products and accessories with matched designs and packaging which are often sold as sets. The Company's different product lines are sold under a variety of brand names, some of which are owned and some of which are licensed. Many of the Company's products are inherently of the type that consumers prefer to purchase as part of a branded, matched line. Accordingly, both for marketing reasons and the requirements of the Company's license agreements, the Company must maintain breadth of product lines and it must devote significant resources to developing and marketing new designs for the Company's product lines. The inability to maintain the breadth of the Company's product lines—whether due to vendor difficulties, design issues, retail orders for less than all of the products in a line, or other problems—could result in competitive disadvantages as well as the potential loss of valuable license arrangements.

In addition, the Company sells its products through several different distribution channels (mass merchants, specialty stores, national chains, department stores, warehouse clubs, home centers, supermarkets, off-price retailers, catalogs and the Internet) and the Company must manage the selective deployment of branded lines within these channels so as to achieve maximum revenue and profitability. Failure to properly align brands and product lines to the price and prestige levels associated with particular channels of distribution could result in product line failures, damage to the Company's reputation, and lost sales and profits.

**Many of the Company's leading product lines are manufactured under licensed trademarks and any failure to retain such licenses on acceptable terms may have an adverse effect on the Company's business.**

The Company promotes and markets some of its most successful product lines under trademarks the Company licenses from third-parties. Several of these license agreements are subject to termination by the licensor.

The Company's license agreement with Whirlpool Corporation allows it to design, manufacture and market an extensive range of food preparation products under the KitchenAid® brand name. Whirlpool Corporation may terminate this license for cause if the Company is in default or upon the occurrence of a change of control of the Company. In addition, Whirlpool Corporation may terminate the agreement if, based on certain statistical parameters, a customer survey conducted by it shows that customers are dissatisfied with the products the Company markets under the license. Products marketed under the KitchenAid® name accounted for a substantial portion of the Company's revenues in 2008. The Company may not be successful in maintaining or renewing the KitchenAid® license, which has significant commercial value to the Company, on terms that are acceptable to the Company or at all. The loss of the KitchenAid® license, or an increase in the royalties the Company pays under such license upon renewal, could have a material adverse affect on the Company's results of operations.

In addition, any of the licensors of the Company's trade names may encounter problems that would potentially diminish the prestige of the licensed trade names. In turn, this could negatively reflect on the Company's line of products that are marketed under the applicable trade name. In the event that this occurs with respect to one of the Company's leading product lines, the Company's sales and financial results may be adversely affected. In addition, certain of the Company's licenses have minimum sales requirements. If the Company is unable to achieve the minimum sales requirements under these licenses, the Company may incur a loss related to these licenses.

**If the Company fails to adequately protect or enforce its intellectual property rights, competitors may produce and market products similar to the Company's. In addition, the Company may be subject to intellectual property litigation and infringement claims by third-parties.**

The success of the Company's products is inherently dependent on new and original designs that appeal to consumer tastes and trends at various price and prestige levels. The Company's trademarks, service marks, patents, trade dress rights, trade secrets and other intellectual property are valuable assets that are critical to the Company's success. Although the Company attempts to protect its proprietary properties through a combination of trademark, patent and trade secret laws and non-disclosure agreements, these laws and agreements may be insufficient. Although the Company has trademarks and certain patents issued or licensed to it for its products, the Company may not always be able to successfully protect or enforce its trademarks and patents against competitors or against challenges by others. The Company sources substantially all of its products from foreign vendors, and the ability to protect the Company's intellectual property rights in foreign countries may be far more difficult than in the United States. Many foreign jurisdictions provide less legal protection of intellectual property rights than the United States and it is difficult to even detect infringing products in such jurisdictions until they are already in widespread distribution. The costs of enforcing the Company's intellectual property may adversely affect its operating results.

In addition, the Company may be subject to intellectual property litigation and infringement claims, which could cause it to incur significant expenses or prevent the Company from selling its products. A successful claim of trademark, patent or other intellectual property infringement against the Company could adversely affect the Company's growth and profitability, in some cases materially. Others may claim that the Company's proprietary or licensed products are infringing their intellectual property rights, and the Company's products could be determined to infringe those intellectual property rights. The Company may be unaware of intellectual property rights of others that may cover some of its products. If someone claims that the Company's products infringe their intellectual property

rights, any resulting litigation could be costly and time consuming and would divert the attention of management and key personnel from other business issues. The Company also may be subject to significant damages or injunctions preventing it from manufacturing, selling or using some aspect of the Company's products in the event of a successful claim of patent or other intellectual property infringement. Any of these adverse consequences could have a material adverse effect on the Company's business and profitability.

**The Company has a single customer that accounted for 20% of its net sales in 2008.**

During the years ended December 31, 2008, 2007 and 2006, Wal-Mart Stores, Inc. (including Sam's Club) accounted for 20%, 21% and 17% of the Company's net sales, respectively. Any material reduction of product orders by Wal-Mart Stores, Inc. could have significant adverse effects on the Company's business and operating results, including the loss of predictability and volume production efficiencies associated with such a large customer. In addition, any pressure by Wal-Mart Stores, Inc. to reduce the price of the Company's products could result in the reduction of the Company's operating margin.

**If the Company's products are found to be defective, the Company's credibility and that of its brands may be harmed, market acceptance of the Company's products may decrease and the Company may be exposed to liability in excess of its product liability insurance coverage.**

The marketing of certain of the Company's consumer products involve an inherent risk of product liability claims or recalls or other regulatory or enforcement actions initiated by the U.S. Consumer Product Safety Commission, by state regulatory authorities or through private causes of action. Any defects in products the Company markets could harm the Company's credibility, adversely affect its relationship with its customers and decrease market acceptance of the Company's products and the strength of the brand names under which the Company markets such products. In addition, potential product liability claims may exceed the amount of the Company's insurance coverage under the terms of the Company's policies. In the event that the Company is held liable for a product liability claim for which it is not insured, or for damages exceeding the limits of the Company's insurance coverage, such claim could materially damage the Company's business and its financial condition.

**The Company's ability to deliver products to its customers in a timely manner and to satisfy its customers' fulfillment standards is subject to several factors, some of which are beyond the Company's control.**

Retailers place great emphasis on timely delivery of the Company's products for specific selling seasons and to fulfill consumer demand throughout the year. The Company cannot control all of the various factors that might affect product delivery to retailers. Vendor production delays, difficulties encountered in shipping from overseas as well as customs clearance are on-going risks of the Company's business. The Company also relies upon third-party carriers for its product shipments from the Company's warehouse facilities to customers, and it relies on the shipping arrangements the Company's suppliers have made in the case of products shipped directly to retailers from the supplier. Accordingly, the Company is subject to risks, including labor disputes such as the West Coast port strike of 2002; union organizing activity; inclement weather; natural disasters such as earthquakes, particularly with respect to the Company's West Coast distribution center; possible acts of terrorism; availability of shipping containers and increased security restrictions, associated with such carriers' ability to provide delivery services to meet the Company's shipping needs. Failure to deliver products in a timely and effective manner to retailers could damage the Company's reputation and brands and result in a loss of customers or reduced orders. In addition, any substantial increase in fuel costs would likely result in increased shipping expenses. Increased transportation costs and any disruption in the Company's distribution process, especially during the second half of the year, which is the Company's busiest selling period, could adversely affect the Company's business and operating results.

**The Company's inability to attract and retain skilled personnel may negatively impact the Company's success.**

The Company's success depends on its ability to identify, hire and retain skilled personnel. The Company's industry is characterized by a high level of employee mobility and aggressive recruiting among competitors for personnel with successful track records. The Company may not be able to attract and retain skilled personnel or may incur significant costs in order to do so. If Jeffrey Siegel, the Company's Chairman, President and Chief Executive Officer, were to leave the Company, it would have a material adverse effect on the Company.

**The Company's customers' internal efforts to design and manufacture products may compete with similar products of the Company.**

Some of the Company's existing and potential customers continuously evaluate whether to design and manufacture their own products or purchase them directly from outside vendors and distribute them under their own brand names. Although, based on the Company's past experience, such products usually target the lower price point portion of the market, if any of the Company's customers or potential customers pursue such options it may adversely affect the Company's business.

**The Company's corporate compliance program cannot assure that it will be in complete compliance with all potentially applicable regulations, including the Sarbanes-Oxley Act of 2002.**

As a publicly traded company, the Company is subject to significant regulations, including the Sarbanes-Oxley Act of 2002. In connection with the Company's and the Company's independent registered public accounting firm's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, neither the Company nor its independent registered public accounting firm identified any deficiencies in the Company's internal control over financial reporting that constituted a "material weakness" as defined by the Public Company Accounting Oversight Board. The Company cannot assure that it will not find material weaknesses in the future or that the Company's independent registered public accounting firm will conclude that the Company's internal control over financial reporting is operating effectively.

**The Company experiences business risks as a result of the Company's Internet business.**

The Company competes with Internet businesses that handle similar lines of merchandise. These competitors have certain advantages, including the inapplicability of sales tax. As a result, increased Internet sales by the Company's competitors could result in increased price competition and decreased margins adversely affecting the Company's Internet business as well as the Company's wholesale business. The Company's Internet operations are subject to numerous risks, including reliance on third-party providers and online security breaches and/or credit card fraud. The Company's inability to effectively address these risks and any other risks that it faces in connection with its Internet business could adversely affect the profitability of the Company's Internet business.

**The Company may not be able to successfully identify, manage or integrate future acquisitions.**

Since 1995 the Company has completed fourteen acquisitions. Although the Company has grown significantly through acquisitions and intends to continue to pursue additional selective acquisitions in the future, the Company may not be able to identify appropriate acquisition candidates or, if it does, it may not be able to successfully negotiate the terms of an acquisition, finance the acquisition or integrate the acquired business effectively and profitably into the Company's existing operations. Integration of an acquired business could disrupt the Company's business by diverting management away from day-to-day operations. Furthermore, failure to successfully integrate any acquisition may cause significant operating inefficiencies and could adversely affect the Company's profitability.

**The Company may not be able to adapt quickly enough to changing customer requirements and e-commerce industry standards.**

Technology in the e-commerce industry changes rapidly. The Company may not be able to adapt quickly enough to changing customer requirements and preferences and e-commerce industry standards. These changes and the emergence of new e-commerce industry standards and practices could render the Company's existing websites obsolete.

**Government regulation of the Internet and e-commerce is evolving and unfavorable changes could harm the Company's business.**

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

**The Company's business is subject to technological risks.**

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

**The Company's business may be adversely affected if the Company's network security is compromised.**

The Company has made significant efforts to secure its computer network. However, the Company's computer network could be compromised and confidential information such as customer credit card information could be misappropriated. This could lead to adverse publicity, loss of sales and profits, or cause the Company to incur significant costs to reimburse third-parties for damages which could impact profits. Although, the Company has upgraded its systems and procedures to meet the Payment Card Industry ("PCI") data security standards, failure by the Company to maintain compliance with the PCI data security requirements or rectify a security issue may result in fines and the imposition of restrictions on the Company's ability to accept payment cards.

**The Company's quarterly results of operations might fluctuate due to a variety of factors, including ordering patterns of the Company's customers and the seasonality of the Company's business.**

The Company's quarterly results have fluctuated in the past and may fluctuate in the future, depending upon a variety of factors, including, but not limited to the ordering patterns and timing of promotions of the Company's major retail customers, which may differ significantly from period to period or from the Company's original forecasts. A significant portion of the Company's revenues and net earnings historically have been realized during the second half of the calendar year, as order volume from the Company's retail customer base reaches its peak as the Company's customers increase their inventories for the end of year holiday season. If, for any reason, the Company were to realize significantly lower-than-expected sales during the September through December selling season, the Company's business and results of operations would be materially adversely affected.

## Item 1B. Unresolved Staff Comments

None

## Item 2. Properties

The following table describes the principal properties at which the Company operated its business at December 31, 2008:

<u>Location</u>	<u>Description</u>	<u>Size (square feet)</u>	<u>Owned/ Leased</u>
Fontana, California	Principal West Coast warehouse and distribution facility	753,000	Leased
Robbinsville, New Jersey	Principal East Coast warehouse and distribution facility	700,000	Leased
York, Pennsylvania (1)	Warehouse and distribution facility	473,000	Leased
Winchendon, Massachusetts	Warehouse and distribution facility, and spice packing line	210,000	Owned
Garden City, New York	Corporate headquarters/main showroom	114,000	Leased
Medford, Massachusetts	Offices, showroom, warehouse and distribution facility	69,000	Leased
York, Pennsylvania	Offices	60,000	Leased
San German, Puerto Rico	Sterling silver manufacturing facility	55,000	Leased
New York, New York (2)	Showrooms	37,000	Leased
Guangdong, China	Offices	18,000	Leased
Atlanta, Georgia	Showrooms	11,000	Leased
Shanghai, China	Offices	11,000	Leased
Bentonville, Arkansas	Showroom & offices	7,000	Leased

Note:

- (1) The Company plans to vacate this facility in 2009.
- (2) In early 2009, the Company vacated a New York showroom consisting of 26,000 square feet.

## Item 3. Legal Proceedings

The Company has, from time to time, been involved in various legal proceedings. The Company believes that all current litigation is routine in nature and incidental to the conduct of its business, and that none of this litigation, if determined adversely to it, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

## Item 4. Submission of Matters to a Vote of Security Holders

None

## PART II

### Item 5. Market For The Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

- (a) The Company's common stock is traded under the symbol "LCUT" on The NASDAQ Global Select Market ("NASDAQ").

The following table sets forth the high and low sales prices for the common stock of the Company for the fiscal periods indicated as reported by NASDAQ.

	2008		2007	
	High	Low	High	Low
First quarter	\$13.37	\$ 8.51	\$20.94	\$16.41
Second quarter	9.95	6.70	23.43	20.00
Third quarter	10.86	6.94	21.27	17.77
Fourth quarter	10.02	3.00	21.15	11.95

At December 31, 2008, the Company estimates that there were approximately 2,290 beneficial holders of the Company's common stock.

The Company is authorized to issue 100 shares of Series A Preferred stock and 2,000,000 shares of Series B Preferred stock, none of which is issued or outstanding.

The Company paid quarterly cash dividends of \$0.0625 per share, or a total annual cash dividend of \$0.25 per share, on its common stock during 2008 and 2007. In February 2009, in light of current economic conditions, the Company suspended paying a cash dividend on its outstanding common shares. The Company will review this decision as circumstances may warrant.

The following table summarizes the Company's equity compensation plan as of December 31, 2008:

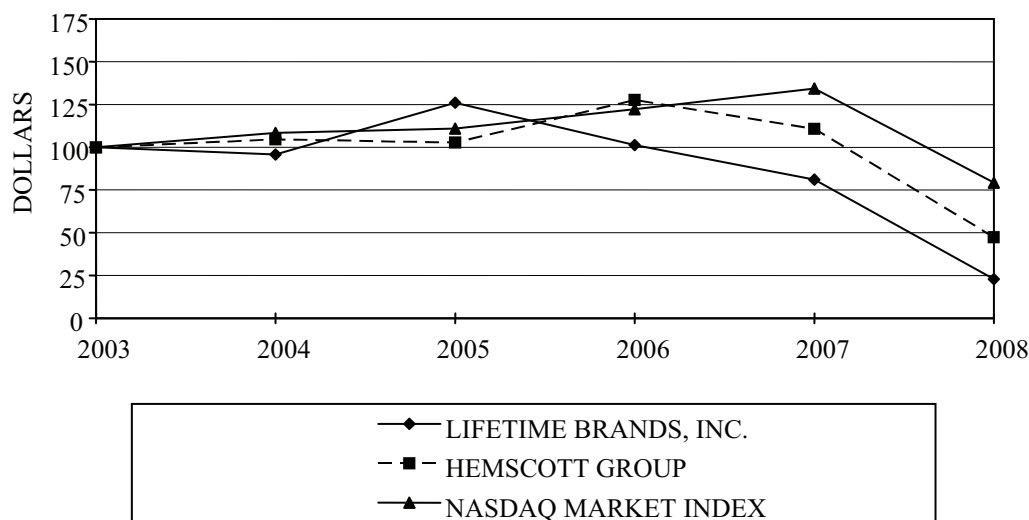
<b>Plan category</b>	<b>Number of shares of common stock to be issued upon exercise of outstanding options</b>	<b>Weighted-average exercise price of outstanding options</b>	<b>Number of shares of common stock remaining available for future issuance</b>
Equity compensation plan approved by security holders	2,036,650	\$20.41	11,031
Equity compensation plan not approved by security holders	—	—	—
Total	2,036,650	\$20.41	11,031



## PERFORMANCE GRAPH

The following chart compares the cumulative total return on the Company's common stock with the NASDAQ Market Index and the Hemscott Group Index for Housewares & Accessories. The comparisons in this chart are required by the SEC and are not intended to forecast or be indicative of the possible future performance of the Company's common stock.

### COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN AMONG LIFETIME BRANDS, INC., NASDAQ MARKET INDEX AND HEMSCOTT GROUP INDEX <sup>(1)</sup>



Date	Lifetime Brands, Inc.	Hemscott Group Index	NASDAQ Market Index
12/31/2003	\$100.00	\$100.00	\$100.00
12/31/2004	95.66	104.52	108.41
12/31/2005	125.96	102.77	110.79
12/31/2006	101.24	127.61	122.16
12/31/2007	81.03	110.73	134.29
12/31/2008	22.88	47.21	79.25

Note:

(1) The chart assumes \$100 was invested on December 31, 2003 and dividends were reinvested. Measurement points are at the last trading day of each of the fiscal years ended December 2008, 2007, 2006, 2005 and 2004. The material in this chart is not soliciting material, is not deemed filed with the Securities and Exchange Commission and is not incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether or not made before or after the date of this Annual Report on Form 10-K and irrespective of any general incorporation language in such filing. A list of the companies included in the Hemscott Group Index will be furnished by the Company to any stockholder upon written request to the Chief Financial Officer of the Company.

- (c) In 2007, the Board of Directors of the Company 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 December 31, 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 2008. In March 2009, the Board of Directors of the Company terminated the program.

## Item 6. Selected Financial Data

The selected consolidated statement of operations data for the years ended December 31, 2008, 2007 and 2006, and the selected consolidated balance sheet data as of December 31, 2008 and 2007, have been derived from the Company's audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected consolidated statement of income data for the years ended December 31, 2005 and 2004, and the selected consolidated balance sheet data at December 31, 2006, 2005 and 2004, have been derived from the Company's audited consolidated financial statements included in the Company's Annual Reports on Form 10-K for those respective years, which are not included in this Annual Report on Form 10-K.

This information should be read together with the discussion in *Management's Discussion and Analysis of Financial Condition and Results of Operations* and the Company's consolidated financial statements and notes to those statements included elsewhere in this Annual Report on Form 10-K.

	<b>Year ended December 31,</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>STATEMENT OF OPERATIONS DATA</b> (1)	(in thousands, except per share data)				
Net sales	\$487,935	\$493,725	\$457,400	\$307,897	\$189,458
Cost of sales	303,535	288,997	265,749	178,295	111,497
Distribution expenses	57,695	53,493	49,729	34,539	22,830
Selling, general and administrative expenses	131,226	128,527	112,122	69,891	40,282
Goodwill and intangible asset impairment	29,400	—	—	—	—
Restructuring expenses	17,992	1,924	—	—	—
Income (loss) from operations	(51,913)	20,784	29,800	25,172	14,849
Interest expense	(9,142)	(8,397)	(4,576)	(2,489)	(835)
Other income, net	—	3,935	31	73	60
Income (loss) before income taxes and equity in earnings of Grupo Vasconia, S.A.B.	(61,055)	16,322	25,255	22,756	14,074
Income tax benefit (provision)	10,540	(7,430)	(9,723)	(8,647)	(5,602)
Equity in earnings of Grupo Vasconia, S.A.B., net of taxes	1,486	—	—	—	—
Net income (loss)	\$(49,029)	\$ 8,892	\$ 15,532	\$ 14,109	\$ 8,472
Basic income (loss) per common share	\$ (4.09)	\$ 0.69	\$ 1.18	\$ 1.25	\$ 0.77
Weighted-average shares outstanding – basic	11,976	12,969	13,171	11,283	10,982
Diluted income (loss) per common share	\$ (4.09)	\$ 0.68	\$ 1.14	\$ 1.23	\$ 0.75
Weighted-average shares outstanding – diluted	11,976	13,099	14,716	11,506	11,226
Cash dividends per common share	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25

	December 31,				
	2008	2007	2006	2005	2004
<b>BALANCE SHEET DATA (1)</b>	(in thousands)				
Current assets	\$232,678	\$228,078	\$231,633	\$155,750	\$103,425
Current liabilities	149,981	71,283	89,727	69,907	52,913
Working capital	82,697	156,795	141,906	85,843	50,512
Total assets	341,781	371,415	343,064	222,648	157,217
Short-term borrowings	89,300	13,500	21,500	14,500	19,400
Long-term debt	—	55,200	5,000	5,000	5,000
Convertible notes	75,000	75,000	75,000	—	—
Stockholders' equity	90,373	147,240	161,611	140,487	92,938

Note:

- (1) The Company acquired the business and certain assets of the following in the respective years noted which affects the comparability of the periods: Excel Importing Corp. in July 2004, Pfaltzgraff® in July 2005, Salton in September 2005, Syratech in April 2006, Pomerantz® and Design for Living® in April 2007, Gorham® in July 2007, 29.99% interest in Grupo Vasconia, S.A.B. in December 2007 and Mikasa® in June 2008.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion should be read in conjunction with the consolidated financial statements for the Company and notes thereto set forth in Item 8. This discussion contains forward-looking statements relating to future events and the future performance of the Company based on the Company's current expectations, assumptions, estimates and projections about it and the Company's industry. These forward-looking statements involve risks and uncertainties. The Company's actual results and timing of various events could differ materially from those anticipated in such forward-looking statements as a result of a variety of factors, as more fully described in this section and elsewhere in this Annual Report. The Company undertakes no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.*

### ABOUT THE COMPANY

The Company is one of North America's leading resources for nationally branded food preparation, 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 a number of the leading brands in its industry including Farberware®, KitchenAid®, Cuisinart®, Pfaltzgraff® and Mikasa®. Historically, 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.

### EFFECTS OF THE CURRENT ECONOMIC ENVIRONMENT

The Company's financial performance in 2008 was negatively affected by unfavorable global economic conditions. Continued or further deteriorating economic conditions would likely have an adverse impact on the Company's sales volumes, pricing levels and profitability in 2009. As economic conditions change, trends in discretionary consumer spending also become unpredictable and subject to reductions due to uncertainties about the future. If consumers reduce discretionary spending, purchases of the Company's products may also decline. A general reduction in consumer discretionary spending due to the recession or uncertainties regarding future economic prospects could continue to have a material adverse effect on the Company's financial condition and results of operations.

## **BUSINESS SEGMENTS**

The Company operates in two reportable business segments; the wholesale segment which is the Company's primary business that designs, markets and distributes its products to retailers and distributors, and the direct-to-consumer segment, through its Pfaltzgraff® and Mikasa® Internet websites and the Company's Pfaltzgraff® mail-order catalogs. During 2008, the Company also operated retail stores utilizing the Pfaltzgraff® and Farberware® names that were included in the direct-to-consumer segment. However, the Company ceased operating these retail stores by December 31, 2008.

## **RESTRUCTURING ACTIVITIES**

In 2008, the Company recognized \$18.0 million in pre-tax charges in connection with the retail store closings and other restructuring activities consisting of non-cash fixed asset impairment charges, store lease obligations, employee related expenses and other related costs.

## **GOODWILL AND INTANGIBLE ASSET IMPAIRMENT**

The Company recognized a non-cash goodwill impairment charge of \$27.4 million and a non-cash impairment charge related to certain intangible assets of \$2.0 million at December 31, 2008 in accordance with Statement of Financial Accounting Standard ("SFAS") No.142, *Goodwill and Other Intangible Assets*.

## **MIKASA® ACQUISITION**

In June 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® products are distributed through department stores, specialty stores and big box chains, as well as through the Internet. Net sales from Mikasa® in 2008 were \$35.0 million.

## **DEBT COVENANTS**

At December 31, 2008, the Company was not in compliance with the financial covenants required by the Credit Facility. On each of February 12, 2009 and March 6, 2009, the Company entered into a forbearance agreement and amendment to the Credit Facility whereby the lenders agreed to forbear from taking actions they would otherwise have been permitted to take as a result of the non-compliance. In consideration thereof, the Company agreed to further restrictions on its borrowings and an increase in the applicable margin rates.

On March 31, 2009, the Company entered into a waiver and amendment to the Credit Facility (the "Amendment"). Pursuant to the Amendment, the Company's lenders waived the Company's non-compliance with the financial covenants required by the Credit Facility at December 31, 2008. The Amendment modifies the Credit Facility in certain ways including, as follows: (i) changes the maturity date to January 31, 2011, (ii) adds certain asset categories to the borrowing base, (iii) increases the applicable margin rates (including a minimum LIBOR of 1.75%), (iv) revises the minimum EBITDA and fixed charge coverage covenants and adds both a minimum net sales and maximum capital expenditures covenant, (v) eliminates the requirement of maximum leverage and minimum interest coverage ratios, (vi) eliminates the \$50 million accordion feature, (vii) revises the minimum excess availability rates and (viii) places restrictions on dividends and acquisitions.

The Company believes that availability under the Credit Facility will be sufficient to fund the Company's operations for fiscal 2009. However, if circumstances were to change, the Company may need to refinance the Credit Facility or otherwise amend the terms of the Credit Facility. In addition, the Company would seek to engage in further activities, including efforts to lower its inventory and to reduce expenses. However, there can be no assurance that any such actions would be successful or that the results of any such actions would be adequate.

## 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 2008, 2007 and 2006, net sales for the third and fourth quarters accounted for 61%, 61% and 65% 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.

## 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 below.

	Year Ended December 31,					
	2008		2007		2006	
Net sales	100.0	%	100.0	%	100.0	%
Cost of sales	62.2		58.5		58.1	
Distribution expenses	11.8		10.8		10.9	
Selling, general and administrative expenses	26.9		26.0		24.5	
Goodwill and intangible asset impairment	6.0		—		—	
Restructuring expenses	3.7		0.4		—	
Income (loss) from operations	(10.6)		4.3		6.5	
Interest expense	(1.9)		(1.7)		(1.0)	
Other income, net	—		0.8		—	
Income (loss) before income taxes and equity in earnings for Grupo Vasconia, S.A.B.	(12.5)		3.4		5.5	
Income tax benefit (provision)	2.2		(1.6)		(2.1)	
Equity in earnings for Grupo Vasconia, S.A.B., net of taxes	0.3		—		—	
Net income (loss)	(10.0)	%	1.8	%	3.4	%

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 2008 COMPARED TO 2007

#### Net Sales

Net sales for the year were \$487.9 million, a decrease of 1.2% over net sales of \$493.7 million in 2007.

Net sales for the wholesale segment in 2008 were \$403.6 million, a decrease of \$13.3 million or 3.2% over net sales of \$416.9 million for 2007. Excluding Mikasa® net sales of \$32.8 million, net sales for the wholesale segment were \$370.8 million for the year ended December 31, 2008, a decrease of \$46.1 million or 11.1% 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 in 2008 were \$84.3 million compared to \$76.8 million for 2007. The increase was primarily due to the going-out-of-business sales at the Company's retail stores that were all closed by December 31, 2008 and to a lesser extent, an increase in Internet sales as a result of the acquisition of Mikasa®.

**Cost of sales**

Cost of sales for 2008 was \$303.5 million compared to \$289.0 million for 2007. Cost of sales as a percentage of net sales was 62.2% for 2008 compared to 58.5% for 2007.

Cost of sales as a percentage of net sales for the wholesale segment was 64.0% for 2008 compared to 62.1% for 2007. The reduction in gross margin was due primarily to the Company's continued effort to reduce inventory levels.

Cost of sales as a percentage of net sales for the direct-to-consumer segment increased to 53.4% in 2008 from 39.1% in 2007. The increase was due to lower margins as a result of the going-out-of-business sales at the Company's retail stores.

**Distribution expenses**

Distribution expenses for 2008 were \$57.7 million compared to \$53.5 million for 2007. Distribution expenses as a percentage of net sales were 11.8% in 2008 and 10.8% for 2007.

Distribution expenses as a percentage of net sales for the wholesale segment increased to 11.0% in 2008 from 9.5% for 2007. The increase in distribution expenses as a percentage of net sales was due primarily to transitional service expenses related to Mikasa® acquired in June 2008, duplicative expenses related to the consolidation of the Company's West Coast distribution centers and lower sales volume, partially offset by improved labor efficiency.

Distribution expenses as a percentage of net sales for the direct-to-consumer segment were 15.9% for the year ended December 31, 2008 compared to 17.8% for 2007. The decrease was due primarily to reduced third-party warehouse costs as a result of planned decreases in inventory levels, improved labor efficiency and the effects of higher sales volume.

**Selling, general and administrative expenses**

Selling, general and administrative expenses for 2008 were \$131.2 million, an increase of 2.1% over the \$128.5 million in 2007.

Selling, general and administrative expenses for 2008 for the wholesale segment were \$83.0 million, an increase of \$7.8 million or 10.4% over the \$75.2 million in 2007. As a percentage of net sales, selling, general and administrative expenses were 20.6% for 2008 compared to 18.0% for 2007. The increase was primarily due to transitional services and an increase in compensation as a result of the Mikasa® acquisition, the full-year effect of depreciation expense on 2007 capital expenditures and higher provisions for doubtful accounts.

Selling, general and administrative expenses for 2008 for the direct-to-consumer segment were \$37.3 million compared to \$41.2 million for 2007. The decrease was due to operating fewer stores during 2008 compared to 2007.

Unallocated corporate expenses for 2008 and 2007 were \$10.9 million and \$12.2 million, respectively. Higher expenses in 2007 were primarily due to a charge related to the termination of a licensing agreement.

### **Goodwill and intangible asset impairment**

In 2008, the Company recorded a non-cash goodwill impairment charge of \$27.4 million and a non-cash impairment charge related to certain of its other intangible assets of \$2.0 million in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*.

### **Restructuring expenses**

In 2008, in connection with the cessation of its retail store operations and the plans to vacate its distribution facility in York, Pennsylvania, the Company recorded a \$3.9 million non-cash fixed asset impairment charge and \$14.1 million in restructuring related expenses consisting of lease obligations, consulting fees, employee related expenses, and other incremental costs.

### **Interest expense**

Interest expense for 2008 was \$9.1 million compared to \$8.4 million for 2007. The increase in interest expense was attributable to higher average borrowings outstanding under the Company's Credit Facility during 2008. The increase was offset in part by lower average interest rates in 2008.

### **Other income, net**

Other income, net was zero in 2008 and \$3.9 million in 2007. In 2007, the Company recognized a gain on the sale of its former corporate headquarters and a gain on a foreign currency forward contract.

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

The income tax benefit for 2008 was \$10.5 million, compared to a provision of \$7.4 million for 2007. The Company's effective income tax rate was 17.3% for 2008 and 45.5% for 2007. The decrease in the effective tax rate in 2008 was due to valuation allowances the Company recorded against certain deferred tax assets.

## **2007 COMPARED TO 2006**

### **Net Sales**

Net sales for the year were \$493.7 million, an increase of 7.9% over net sales of \$457.4 million in 2006.

Net sales for the wholesale segment in 2007 were \$416.9 million, an increase of \$42.8 million or 11.4% over net sales of \$374.1 million for 2006. The increase was primarily due to the 2007 full year inclusion of Syratech which was acquired in April 2006. Excluding Syratech, net sales were \$289.2 million in 2007 and \$280.8 million in 2006, an increase of 3.0%. The increase was attributable to growth in the Food Preparation product category, particularly with respect to Farberware® brand products and new retail programs.

Net sales for the direct-to-consumer segment in 2007 were \$76.8 million compared to \$83.3 million for 2006. The decrease was primarily due to a decline in outlet store sales, slightly offset by a modest improvement in catalog and Internet volume. The decrease in outlet stores sales was due to the planned reductions in promotional events that occurred in 2006 and a reduction in the number of stores from 83 stores at year end 2006 to 78 stores at year end 2007.

**Cost of sales**

Cost of sales for 2007 was \$289.0 million compared to \$265.7 million for 2006. Cost of sales as a percentage of net sales was 58.5% for 2007 compared to 58.1% for 2006.

Cost of sales as a percentage of net sales for the wholesale segment was 62.1% for 2007 compared to 61.4% for 2006. The wholesale segment's cost of sales, excluding Syratech, was 59.0% for 2007 compared to 58.3% for 2006. The increase in cost of sales as a percentage of net sales was primarily attributable to changes in product mix and distribution strategy.

Cost of sales as a percentage of net sales for the direct-to-consumer segment decreased to 39.1% in 2007 from 43.7% in 2006. The decrease was primarily due to the planned reductions in promotional events that occurred in 2006.

**Distribution expenses**

Distribution expenses for 2007 were \$53.5 million compared to \$49.7 million for 2006. Distribution expenses as a percentage of net sales were 10.8% in 2007 and 10.9% for 2006.

Distribution expenses as a percentage of net sales for the wholesale segment improved to 9.5% in 2007 from 10.2% for 2006. The improvement resulted, in part, from the full year inclusion of Syratech which had a higher proportion of its sales shipped directly from overseas suppliers than the Company's other major product lines. The improvement also came from improved labor management and an improved warehouse management system.

Distribution expenses for the direct-to-consumer segment were approximately \$13.7 million for the year ended December 31, 2007 compared to \$11.7 million for 2006. The increase in distribution expenses was primarily attributable to the higher receiving and storage costs associated with higher inventory levels.

**Selling, general and administrative expenses**

Selling, general and administrative expenses for 2007 were \$128.5 million, an increase of 14.6% over the \$112.1 million in 2006.

Selling, general and administrative expenses for 2007 for the wholesale segment were \$75.2 million, an increase of \$15.3 million or 25.5% over the \$59.9 million in 2006. As a percentage of net sales, selling, general and administrative expenses were 18.0% for 2007 compared to 16.0% for 2006. The increase resulted from the inclusion of Syratech for a full year in 2007, occupancy costs for the new leased headquarters and showroom in Garden City, consulting and depreciation expense for the new SAP business enterprise system, the costs of maintaining the Company's former headquarters until its sale in November 2007, compensation expense and additional selling expenses.

Selling, general and administrative expenses for 2007 for the direct-to-consumer segment were \$41.2 million compared to \$43.3 million for 2006. The decrease is primarily due to Farberware® store closings during 2007 and reductions in divisional staffing. Selling, general and administrative expenses as a percentage of net sales was 53.6% for 2007 compared to 52.0% for 2006. The increased percentage results from the decline in net sales.

Unallocated corporate expenses for 2007 and 2006 were \$12.2 million and \$8.9 million, respectively. The increase was primarily due to a one-time charge related to the termination of a licensing agreement, higher stock option expense and professional expenses.

**Restructuring**

In December 2007, the Company commenced a plan to close 30 underperforming outlet stores by the end of the first quarter of 2008. In connection with this plan, the Company recorded an asset impairment charge of \$1.6 million for fixed assets in the stores to be closed and a restructuring charge of \$289,000 for liquidation expenses.



**Interest expense**

Interest expense for 2007 was \$8.4 million compared to \$4.6 million for 2006. The increase in interest expense was primarily attributable to an increase in the amount outstanding under the Company's Credit Facility in 2007 compared to 2006 and interest on the Company's 4.75% Convertible Senior Notes issued in June 2006. The additional borrowings under the Company's Credit Facility were in support of capital expenditures, repurchases of the Company's common stock and business acquisitions. The Company used the proceeds from the 4.75% Convertible Senior Notes to repay outstanding borrowings under the Company's Credit Facility.

**Other income, net**

Other income, net for 2007 was \$3.9 million compared to \$31,000 for 2006. The increase in other income, net was primarily attributable to the gain that the Company recognized on the sale of its former corporate headquarters and to a lesser extent the gain on the sale of a foreign currency forward during 2007.

**Income tax provision**

The income tax provision for 2007 was \$7.4 million, compared to \$9.7 million for 2006. The Company's effective income tax rate was 45.5% for 2007 and 38.5% for 2006. The increase is attributable principally to stock option expense that is not deductible for income tax purposes.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

*Management's Discussion and Analysis of Financial Condition and Results of Operations* discusses the Company's consolidated financial statements which have been prepared in accordance with U.S. generally accepted accounting principles and with the instructions to Form 10-K and Article 10 of Regulation S-X. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments based on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company evaluates these estimates including those related to revenue recognition, allowances for doubtful accounts, reserves for sales returns and allowances and customer chargebacks, inventory mark-down provisions, impairment of tangible and intangible assets, including goodwill, stock option expense and accruals related to the Company's tax positions. Actual results may differ from these estimates using different assumptions and under different conditions. The Company's significant accounting policies are more fully described in Note A to the consolidated financial statements. The Company believes that the following discussion addresses its most critical accounting policies, which are those that are most important to the portrayal of the Company's consolidated financial condition and results of operations and require management's most difficult, subjective and complex judgments.

**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.

## **Revenue recognition**

The Company sells products wholesale to retailers and distributors and retail, direct to the consumer through the Company's factory and outlet store, catalog and Internet operations. Wholesale sales are recognized when title 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 recorded in net sales. Net sales exclude taxes that are collected from customers and remitted to the taxing authorities.

## **Receivables**

The Company periodically reviews the collectibility of its accounts receivable and establishes allowances for estimated losses that could result from the inability of its customers to make required payments. A considerable amount of judgment is required to assess the ultimate realization of these receivables including assessing the credit-worthiness of each wholesale customer. The Company also maintains an allowance for sales returns and customer chargebacks. To evaluate the adequacy of the sales returns and customer chargeback allowances the Company analyzes currently available information and historical trends. If the financial conditions of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, or the Company's estimate of sales returns was determined to be inadequate, additional allowances may be required.

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

Goodwill and intangible assets deemed to have indefinite lives are not amortized but instead are subject to annual impairment tests in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*.

Long-lived assets, including intangible assets deemed to have finite lives are reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, whenever events or changes in circumstances indicate that such assets may have been impaired. 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 Company compares the carrying value of the assets to the estimated undiscounted future cash flows expected to be generated by the assets. If the assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

## **Employee stock options**

The Company accounts for its stock options in accordance with SFAS No. 123(R), *Share-Based Payment*. SFAS 123(R) requires the measurement of compensation expense for all share-based compensation granted to employees and non-employee directors at fair value on the date of grant and recognition of compensation expense over the related service period for awards expected to vest. The Company uses the Black-Scholes option valuation model to estimate the fair value of its stock options. The Black-Scholes option valuation model requires the input of highly subjective assumptions including the expected stock price volatility of the Company's common stock. Changes in these subjective input assumptions can materially affect the fair value estimate of the Company's stock options.

## **Income taxes**

The Company applies the provisions of Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes*, for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the Company's financial statements in accordance with FASB Statement 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 upon the adoption of FIN No. 48 or in subsequent periods. The Company adopted FIN No. 48 on January 1, 2007.

## **Derivatives**

The Company accounts for derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and subsequent amendments. SFAS No. 133 requires that all derivative instruments be recognized on the balance sheet at fair value as either an asset or a liability. Changes in the fair value of derivatives that qualify as hedges and have been designated as part of a hedging relationship for accounting purposes have no net impact on earnings to the extent the derivative is considered 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.

## **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 December 31, 2008, the Company had cash and cash equivalents of \$3.5 million, compared to \$4.2 million at December 31, 2007, working capital was \$82.7 million at December 31, 2008 compared to \$156.8 million at December 31, 2007 and the current ratio was 1.55 to 1 at December 31, 2008 compared to 3.20 to 1 at December 31, 2007.

Borrowings under the Company's Credit Facility increased to \$89.3 million at December 31, 2008 compared to \$68.7 million at December 31, 2007. The increase was primarily due to the acquisition of Mikasa®. The Company believes that its cash and cash equivalents plus internally generated funds and its new credit arrangement will be sufficient to finance its operations for the next twelve months.

### **Share repurchase program**

In 2007, the Board of Directors of the Company 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 December 31, 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 2008. In March 2009, the Board of Directors of the Company terminated the program.

### **Credit facility**

The Company has a \$150 million secured credit facility, which until March 31, 2009, had an accordion feature for an additional \$50 million and matures 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 (until March 31, 2009), the Company was required to satisfy certain financial covenants, including maximum leverage and capital expenditures and a minimum interest coverage ratio. Borrowings under the Credit Facility have different interest rate options that are based either on, (i) an alternate base rate, (ii) LIBOR, or (iii) the lender's cost of funds rate, plus in each case a margin based on the applicable leverage ratio.

In March 2008, the Credit Facility was amended to: (i) establish a borrowing base (comprised of a percentage of each of eligible accounts receivable, inventory and trademarks) calculation to determine availability under the Credit Facility, (ii) increase the applicable margin rates and (iii) revised certain financial covenants. In September 2008, the Credit Facility was further amended to: (i) establish a minimum excess availability amount, (ii) include a minimum fixed charge ratio and a minimum EBITDA covenants, (iii) revise the leverage and interest coverage covenants and (iv) increased the applicable margin rates.

At December 31, 2008, the Company was not in compliance with the financial covenants required by the Credit Facility. On each of February 12, 2009 and March 6, 2009, the Company entered into a forbearance agreement and amendment to the Credit Facility whereby the lenders agreed to forbear from taking actions they would otherwise have been permitted to take as a result of the non-compliance. In consideration thereof, the Company agreed to further restrictions on its borrowings and an increase in the applicable margin rates. At December 31, 2008, the Company had \$2.1 million of open letters of credit and \$89.3 million of borrowings outstanding under the Credit Facility. Interest rates on outstanding borrowings at December 31, 2008 ranged from 2.50% to 7.07%. 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.

On March 31, 2009, the Company entered into a waiver and amendment to the Credit Facility (the "Amendment"). Pursuant to the Amendment, the Company's lenders waived the Company's non-compliance with the financial covenants required by the Credit Facility at December 31, 2008. The Amendment modifies the Credit Facility in certain ways including, as follows: (i) changes the maturity date to January 31, 2011, (ii) adds certain asset categories to the borrowing base, (iii) increases the applicable margin rates (including a minimum LIBOR of 1.75%), (iv) revises the minimum EBITDA and fixed charge coverage covenants and adds both a minimum net sales and maximum capital expenditures covenant, (v) eliminates the requirement of maximum leverage and minimum interest coverage ratios, (vi) eliminates the \$50 million accordion feature, (vii) revises the minimum excess availability amount and (viii) places restrictions on dividends and acquisitions. As of March 31, 2009 (on a *pro forma* basis after giving effect to the terms of the Amendment), the Company had available liquidity of \$29.7 million under the Credit Facility. The Amendment also provides for a lock-box arrangement with the collateral agent. Pursuant to the Amendment, although the Credit Agreement matures on January 31, 2011, Emerging Issues Task Force 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Arrangements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement*, requires the indebtedness to be classified as a current liability on the consolidated balance sheet as of December 31, 2008.

During 2008 and continuing in 2009, the Company has implemented certain actions in an effort to improve its future financial performance. Such actions include closing its retail outlet stores, consolidating distribution centers and in 2009 paring certain selling, general and administrative expenses.

The Company believes that availability under the Credit Facility will be sufficient to fund the Company's operations for fiscal 2009. However, if circumstances were to change, the Company may need to refinance the Credit Facility or otherwise amend the terms of the Credit Facility. In addition, the Company would seek to engage in further activities, including efforts to lower its inventory and to reduce expenses. However, there can be no assurance that any such actions would be successful or that the results of any such actions would be adequate.

### **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.

## Dividends

The Company has declared and paid the following dividends in 2008:

<u>Dividend</u>	<u>Date declared</u>	<u>Date of record</u>	<u>Payment date</u>
\$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

In February 2009, in light of current economic conditions, the Company suspended paying a cash dividend on its outstanding shares of common stock. The Company will review this decision as circumstances may warrant.

## Operating activities

Cash provided by operating activities was \$6.9 million in 2008 compared to \$31.6 million in 2007. The decrease was primarily attributable to the operating loss incurred in 2008 compared to operating income generated in 2007. A reduction in working capital in 2008, most notably from lower inventory levels, partially mitigated the effect of the lower operating performance.

## Investing activities

Cash used in investing activities was \$24.8 million in 2008 compared to \$43.7 million in 2007. 2008 investing activities include cash paid by the Company of \$16.3 million to acquire the business and certain assets of Mikasa® and capital expenditures of \$8.9 million related primarily to the Company's new West Coast distribution center located in Fontana, California and the Company's new office space in Medford, Massachusetts. In 2007, investing activities include cash paid by the Company of \$1.9 million to acquire Pomerantz® and Design for Living®, \$8.3 million paid to acquire Gorham® and \$23.0 million to acquire a 29.99% interest in Grupo Vasconia S.A.B. In 2007, capital expenditures included amounts related to leasehold improvements at the Company's then new corporate headquarters, costs related to the implementation of the Company's SAP business enterprise system and costs related to the Company's new West Coast distribution center in Fontana, California. The Company's 2009 planned capital expenditures are estimated not to exceed \$6.0 million.

## Financing activities

Cash provided by financing activities was \$17.2 million in 2008 compared to \$16.1 million in 2007. In 2008, the Company received net cash proceeds from borrowings under the Credit Facility of \$20.6 million. In 2007, the Company received net cash proceeds from borrowings under the Credit Facility of \$42.2 million and used \$22.7 million for repurchases of shares of its common stock.

## Contractual obligations

As of December 31, 2008, the Company's contractual obligations were as follows (in thousands):

	<u>Payment due by period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Operating leases	\$129,957	\$12,899	\$24,035	\$24,517	\$68,506
Long-term debt	75,000	—	75,000	—	—
Minimum royalty payments	14,357	11,252	1,577	312	1,216
Interest on long-term debt	10,689	3,563	7,126	—	—
Post retirement benefits	3,151	148	296	296	2,411
Capitalized leases	516	258	258	—	—
Total	\$233,670	\$28,120	\$108,292	\$25,125	\$72,133

## Item 7A. 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 entered into 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 year ended December 31, 2008.

## Item 8. Financial Statements and Supplementary Data

The Company's Consolidated Financial Statements as of and for the year ended December 31, 2008 commencing on page F-1 are incorporated herein by reference.

The following table sets forth certain unaudited consolidated quarterly statement of operations data for the eight quarters ended December 31, 2008. This information is unaudited, but in the opinion of management, it has been prepared substantially on the same basis as the audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited consolidated quarterly results of operations. The consolidated quarterly data should be read in conjunction with the Company's audited consolidated financial statements and the notes to such statements appearing elsewhere in this Annual Report. The results of operations for any quarter are not necessarily indicative of the results of operations for any future period:

	<b>Year ended December 31, 2008</b>			
	<b>First quarter<sup>(1)</sup></b>	<b>Second quarter</b>	<b>Third quarter<sup>(1)</sup></b>	<b>Fourth quarter<sup>(1)</sup></b>
	(in thousands, except per share data)			
Net sales	\$98,194	\$92,399	\$140,624	\$156,718
Gross profit	38,589	37,111	54,528	54,172
Income (loss) from operations	(8,784)	(6,945)	3,365	(39,549)
Net loss	(5,997)	(3,183)	(674)	(39,175)
Basic and diluted loss per common share	\$ (0.50)	\$ (0.27)	\$ (0.06)	\$ (3.27)

	<b>Year ended December 31, 2007</b>			
	<b>First quarter</b>	<b>Second quarter</b>	<b>Third quarter</b>	<b>Fourth quarter</b>
	(in thousands, except per share data)			
Net sales	\$103,787	\$91,371	\$143,470	\$155,097
Gross profit	42,690	39,465	58,936	63,637
Income (loss) from operations	(552)	(1,750)	13,752	9,334
Net income (loss)	(1,283)	(2,026)	6,795	5,406
Basic income (loss) per common share	\$ (0.10)	\$ (0.15)	\$ 0.52	\$ 0.44
Diluted income (loss) per common share	\$ (0.10)	\$ (0.15)	\$ 0.47	\$ 0.40

Note:

(1) The Company recognized restructuring expenses of \$2.9 million, \$4.6 million and \$10.5 million in the first, third and fourth quarter of 2008, respectively, and a non-cash goodwill and intangible asset impairment of \$29.4 million in the fourth quarter of 2008.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None

### **Item 9A. 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 and accounting officer, respectively) have concluded, based on their evaluation as of December 31, 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 (the "Exchange Act"), 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.

### **Management's Report on Internal Control over Financial Reporting**

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2008. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principle executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 using the criteria set forth in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2008 is effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2008 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report.

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

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

We have audited Lifetime Brands Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Lifetime Brands Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Lifetime Brands, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Lifetime Brands, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 of Lifetime Brands, Inc. and our report dated March 31, 2009 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Melville, New York  
March 31, 2009



**Item 9B. Other Information**

Not applicable

**PART III**

**Items 10, 11, 12, 13 and 14**

The information required under these items is contained in the Company's 2009 Proxy Statement, which will be filed with the Securities and Exchange Commission within 120 days after the close of the Company's fiscal year covered by this Annual Report on Form 10-K and is herein incorporated by reference.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

- (a) See list of Financial Statements and Financial Statement Schedule on page F-1.
- (b) Exhibits\*:

#### Exhibit

No.	Description
3.1	Second Restated Certificate of Incorporation of the Company (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005)**
3.2	Amended and Restated By-Laws of the Company (incorporated by reference to the Registrant's Form 8-K dated November 1, 2007)**
4.1	Indenture dated as of June 27, 2006, Lifetime Brands, Inc. as issuer, and HSBC Bank USA, National Association as trustee, \$75,000,000 4.75% Convertible Senior Notes due 2011 (incorporated by reference to the Registrant's registration statement No. 333-137575 on Form S-3)**
10.1	License agreement dated December 14, 1989 between the Company and Farberware, Inc. (incorporated by reference to the Registrant's registration statement No. 33-40154 on Form S-1)**
10.2	Evan Miller employment agreement dated July 1, 2003 (incorporated by reference to the Registrant's Form 10-Q dated September 30, 2003)**
10.3	Employment agreement dated October 17, 2005 between Lifetime Brands, Inc. and Ronald Shiftan (incorporated by reference to the Registrant's Form 8-K dated October 17, 2005)**
10.4	Employment agreement dated May 2, 2006 between Lifetime Brands, Inc. and Jeffrey Siegel (incorporated by reference to the Registrant's Form 8-K dated May 2, 2006)**
10.5	Employment agreement dated April 18, 2006 between Lifetime Brands, Inc. and Alan Kanter (incorporated by reference to the Registrant's Form 8-K dated May 2, 2006)**
10.6	Lease agreement dated as of May 10, 2006 between AG Metropolitan Endo, L.L.C and Lifetime Brands, Inc. for the property located at 1000 Stewart Avenue in Garden City, New York (incorporated by reference to the Registrant's Form 8-K dated May 10, 2006)**
10.7	Amended 2000 Long-Term Incentive Plan (incorporated by reference to the Registrant's Form 8-K dated June 8, 2006)**
10.8	Amended 2000 Incentive Bonus Compensation Plan (incorporated by reference to the Registrant's Form 8-K dated June 8, 2006)**
10.9	Second Amended and Restated Credit Agreement among Lifetime Brands, Inc., Lenders party thereto, Citibank, N.A. and Wachovia Bank, National Association, as Co-Documentation Agents, JP Morgan Chase Bank, N.A., as Syndication Agent, and HSBC Bank USA, National Association, as Administrative Agent (incorporated by reference to the Registrant's Form 8-K dated October 31, 2006)**
10.10	First Amendment to the Lease Agreement dated as of May 10, 2006 between AG Metropolitan Endo, L.L.C and Lifetime Brands, Inc. for the property located at 1000 Stewart Avenue in Garden City, New York (incorporated by reference to the Registrant's Form 10-Q dated September 30, 2006)**
10.11	Amendment of Employment Agreement dated June 7, 2007 by and between Lifetime Brands, Inc. and Ronald Shiftan (incorporated by reference to the Registrant's Form 8-K dated June 7, 2007)**

- 10.12 Employment agreement dated June 28, 2007 between Lifetime Brands, Inc. and Laurence Winoker (incorporated by reference to the Registrant's Form 8-K dated July 3, 2007)\*\*
- 10.13 Shares Subscription Agreement by and among Lifetime Brands, Inc., Ekco, S.A.B. and Mr. José Ramón Elizondo Anaya and Mr. Miguel Ángel Huerta Pando, dated as of June 8, 2007 (incorporated by reference to the Registrant's Form 8-K dated June 11, 2007)\*\*
- 10.14 Lease Agreement between Granite Sierra Park LP and Lifetime Brands, Inc. dated June 29, 2007 (incorporated by reference to the Registrant's Form 8-K dated June 29, 2007)\*\*
- 10.15 Evan Miller Amendment of Employment Agreement dated June 29, 2007 (incorporated by reference to the Registrant's Form 8-K dated June 29, 2007)\*\*
- 10.16 Robert McNally Amendment of Employment Agreement dated July 2, 2007 (incorporated by reference to the Registrant's Form 8-K dated June 28, 2007)\*\*
- 10.17 Amendment No.1 dated September 5, 2007 to the Shares Subscription Agreement by and among Lifetime Brands, Inc., Ekco, S.A.B. and Mr. José Ramón Elizondo Anaya and Mr. Miguel Ángel Huerta Pando, dated as of June 8, 2007\*\*\*
- 10.18 Amendment to the Lifetime Brands, Inc. 2000 Long-Term Incentive Plan dated November 1, 2007 (incorporated by reference to the Registrant's Form 8-K dated November 1, 2007)\*\*
- 10.19 Amendment No. 2 to Second Amended and Restated Credit Agreement by and among Lifetime Brands, Inc., Lenders party hereto, Citibank, N.A. and Wachovia Bank, National Association, as Co-Documentation Agents, JP Morgan Chase Bank, N.A., as Syndication Agent and HSBC Bank USA, National Association, as Administrative Agent. (incorporated by reference to the Registrant's Form 8-K/A dated April 17, 2008)\*\*
- 10.20 Asset Purchase Agreement between Mikasa, Inc. and Lifetime Brands, Inc. dated June, 6 2008 (incorporated by reference to the Registrant's Form 10-Q dated June 30, 2008)\*\*
- 10.21 Amendment No. 2 dated September 25, 2008 to the Shares Subscription Agreement by and among Lifetime Brands, Inc., Ekco, S.A.B. and Mr. José Ramón Elizondo Anaya and Mr. Miguel Ángel Huerta Pando, dated as of June 8, 2007\*\*\*
- 10.22 Amendment to the Company's Second Amended and Restated Credit Agreement, Amendment No. 3, dated September 29, 2008 (incorporated by reference to the Registrant's Form 8-K dated September 29, 2008)\*\*
- 10.23 Forbearance Agreement and Amendment No. 4, dated as of February 12, 2009, by and among Lifetime Brands, Inc., the several financial institutions party hereto and HSBC Bank USA, National Association, as Administrative Agent for the Lenders. (incorporated by reference to the Registrant's Form 8-K dated February 12, 2009)\*\*
- 10.24 Amendment to Forbearance Agreement and Amendment No. 4, dated as of March 6, 2009, by and among Lifetime Brands, Inc., the several financial institutions party hereto and HSBC Bank USA, National Association, as Administrative Agent for the Lenders. (incorporated by reference to the Registrant's Form 8-K dated March 6, 2009)\*\*
- 10.25 Waiver and Amendment No. 5 to Second Amended and Restated Credit Agreement, dated as of March 31, 2009, by and among Lifetime Brands, Inc., the several financial institutions party hereto and HSBC Bank USA, National Association, as Administrative Agent for the Lenders.\*\*\*
- 14.1 Code of Conduct dated March 25, 2004, as amended on June 7, 2007 (incorporated by reference to the Registrant's Form 8-K dated June 7, 2007)\*\*
- 18.1 Letter from Ernst & Young LLP stating an acceptable change in accounting method for the impairment of goodwill dated October 28, 2008 (incorporated by reference to the Registrant's Form 10-Q dated September, 30 2008)\*\*

- 21.1 Subsidiaries of the registrant\*\*\*
- 23.1 Consent of Ernst & Young LLP\*\*\*
- 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\*\*\*\*
- 99.1 Grupo Vasconia, S.A.B. (formerly Ekco, S.A.B.), Report of Independent Registered Accounting Firm \*\*\*

Notes to exhibits:

- \* The Company will furnish a copy of any of the exhibits listed above upon payment of \$5.00 per exhibit to cover the cost of the Company furnishing the exhibit.
- \*\* Incorporated by reference.
- \*\*\* Filed herewith.
- \*\*\*\* This exhibit is being “furnished” pursuant to Item 601(b)(32) of SEC Regulation S-K and is not deemed “filed” with the Securities and Exchange Commission and is not incorporated by reference in any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934.

- (c) Financial Statement Schedules — the response to this portion of Item 15 is submitted as a separate section of this report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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  
Chairman of the Board of Directors,  
Chief Executive Officer, President  
and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Jeffrey Siegel</u> Jeffrey Siegel	Chairman of the Board of Directors, Chief Executive Officer, President and Director	March 31, 2009
<u>/s/ Ronald Shifan</u> Ronald Shifan	Vice Chairman of the Board of Directors, Chief Operating Officer and Director	March 31, 2009
<u>/s/ Laurence Winoker</u> Laurence Winoker	Senior Vice President – Finance, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2009
<u>/s/ Craig Phillips</u> Craig Phillips	Senior Vice-President – Distribution and Director	March 31, 2009
<u>s/ David Dangoor</u> David Dangoor	Director	March 31, 2009
<u>/s/ Michael Jeary</u> Michael Jeary	Director	March 31, 2009
<u>/s/ John Koegel</u> John Koegel	Director	March 31, 2009
<u>/s/ Sheldon Misher</u> Sheldon Misher	Director	March 31, 2009
<u>/s/ Cherrie Nanninga</u> Cherrie Nanninga	Director	March 31, 2009
<u>/s/ William Westerfield</u> William Westerfield	Director	March 31, 2009

**Item 15**

**LIFETIME BRANDS, INC.**

**LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE**

The following consolidated financial statements of Lifetime Brands, Inc. are filed as part of this report under Item 8 – *Financial Statements and Supplementary Data*.

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2008 and 2007	F-3
Consolidated Statements of Operations for the Years ended December 31, 2008, 2007 and 2006	F-4
Consolidated Statements of Stockholders' Equity for the Years ended December 31, 2008, 2007 and 2006	F-5
Consolidated Statements of Cash Flows for the Years ended December 31, 2008, 2007 and 2006	F-6
Notes to Consolidated Financial Statements	F-7

The following consolidated financial statement schedule of Lifetime Brands, Inc. required pursuant to Item 15(a) is submitted herewith:

Schedule II – Valuation and Qualifying Accounts	S-1
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All other financial schedules are not required under the related instructions or are inapplicable, and therefore have been omitted.

The unaudited supplementary data regarding quarterly results of operations are incorporated by reference to the information set forth in Item 8, *Financial Statements and Supplementary Data*.

## Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Lifetime Brands, Inc. (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. The financial statements of Grupo Vasconia, S.A.B. and Subsidiaries (a corporation in which the Company has a 29.99% interest), have been audited by other auditors whose report has been furnished to us, and our opinion on the consolidated financial statements, insofar as it relates to the amounts included for Grupo Vasconia, S.A.B. and Subsidiaries, is based solely on the report of the other auditors. In the consolidated financial statements, the Company's investment in Grupo Vasconia, S.A.B. and Subsidiaries is stated at \$17.8 million at December 31, 2008 and the Company's equity in the net income of Grupo Vasconia, S.A.B. and Subsidiaries is stated at \$1.5 million for the year then ended.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lifetime Brands, Inc. at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note A to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, effective January 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lifetime Brands, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2009 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Melville, New York  
March 31, 2009

**LIFETIME BRANDS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands-except share data)

	<b>December 31,</b>	
<b>ASSETS</b>	<b>2008</b>	<b>2007</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,478	\$ 4,172
Accounts receivable, less allowances of \$14,651 at 2008 and \$16,400 at 2007	67,562	65,030
Inventory	141,612	143,684
Deferred income taxes	—	7,925
Income taxes receivable	11,597	—
Prepaid expenses and other current assets	8,429	7,267
<b>TOTAL CURRENT ASSETS</b>	<b>232,678</b>	<b>228,078</b>
PROPERTY AND EQUIPMENT, net	49,908	54,332
GOODWILL	—	27,432
OTHER INTANGIBLES, net	38,420	35,383
INVESTMENT IN GRUPO VASCONIA, S.A.B.	17,784	22,950
OTHER ASSETS	2,991	3,240
<b>TOTAL ASSETS</b>	<b>\$341,781</b>	<b>\$371,415</b>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term borrowings	\$ 89,300	\$ 13,500
Accounts payable	24,151	21,759
Accrued expenses	35,902	31,504
Deferred income tax liabilities	403	—
Income taxes payable	225	4,520
<b>TOTAL CURRENT LIABILITIES</b>	<b>149,981</b>	<b>71,283</b>
DEFERRED RENT & OTHER LONG-TERM LIABILITIES	23,054	14,481
DEFERRED INCOME TAXES	3,373	8,211
LONG-TERM DEBT	—	55,200
CONVERTIBLE NOTES	75,000	75,000
 <b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$.01 par value, shares authorized: 25,000,000; shares issued and outstanding: 11,989,724 in 2008 and 11,964,388 in 2007	120	120
Paid-in capital	116,869	113,995
Retained earnings (accumulated deficit)	(18,023)	33,250
Accumulated other comprehensive loss	(8,593)	(125)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>90,373</b>	<b>147,240</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$341,781</b>	<b>\$371,415</b>

See notes to consolidated financial statements.



**LIFETIME BRANDS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands – except per share data)

	<b>Year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net sales	\$487,935	\$493,725	\$457,400
Cost of sales	303,535	288,997	265,749
Distribution expenses	57,695	53,493	49,729
Selling, general and administrative expenses	131,226	128,527	112,122
Goodwill and intangible asset impairment	29,400	—	—
Restructuring expenses	17,992	1,924	—
Income (loss) from operations	(51,913)	20,784	29,800
Interest expense	(9,142)	(8,397)	(4,576)
Other income, net	—	3,935	31
Income (loss) before income taxes and equity in earnings of Grupo Vasconia, S.A.B.	(61,055)	16,322	25,255
Income tax benefit (provision)	10,540	(7,430)	(9,723)
Equity in earnings of Grupo Vasconia, S.A.B., net of taxes	1,486	—	—
<b>NET INCOME (LOSS)</b>	<b>\$ (49,029)</b>	<b>\$ 8,892</b>	<b>\$ 15,532</b>
<b>BASIC INCOME (LOSS) PER COMMON SHARE</b>	<b>\$ (4.09)</b>	<b>\$ 0.69</b>	<b>\$ 1.18</b>
<b>DILUTED INCOME (LOSS) PER COMMON SHARE</b>	<b>\$ (4.09)</b>	<b>\$ 0.68</b>	<b>\$ 1.14</b>

See notes to consolidated financial statements.

**LIFETIME BRANDS, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands)

	Common stock		Paid-in	Retained	Accumulated	Total
	Shares	Amount	capital	earnings (accumulated deficit)	other comprehensive income (loss)	
<b>BALANCE AT DECEMBER 31, 2005</b>	12,922	\$129	\$101,468	\$ 38,890	\$ —	\$140,487
Comprehensive income:						
Net income				15,532		15,532
Foreign currency translation adjustment					78	78
Total comprehensive income						<u>15,610</u>
Tax benefit on exercise of stock options			725			725
Stock option expense			1,155			1,155
Costs of public offering			(131)			(131)
Exercise of stock options	116	2	1,014	(820)		196
Stock issued for acquisition	240	2	6,819			6,821
Shares issued to directors	5		115			115
Dividends				(3,367)		(3,367)
<b>BALANCE AT DECEMBER 31, 2006</b>	13,283	133	111,165	50,235	78	161,611
Comprehensive income:						
Net income				8,892		8,892
Derivative fair value adjustment, net of taxes of \$170					(203)	(203)
Total comprehensive income						<u>8,689</u>
Tax benefit on exercise of stock options			161			161
Stock option expense			2,197			2,197
Purchase and retirement of common stock	(1,363)	(14)		(22,658)		(22,672)
Exercise of stock options	32	1	244			245
Stock issued for acquisition	5		133			133
Shares issued to directors	7		95			95
Dividends				(3,219)		(3,219)
<b>BALANCE AT DECEMBER 31, 2007</b>	11,964	120	113,995	33,250	(125)	147,240
Comprehensive loss:						
Net loss				(49,029)		(49,029)
Grupo Vasconia, S.A.B. translation adjustment					(6,587)	(6,587)
Derivative fair value adjustment					(1,881)	(1,881)
Total comprehensive loss						<u>(57,497)</u>
Tax benefit on exercise of stock options			7			7
Stock option expense			2,800			2,800
Exercise of stock options	2		10			10
Shares issued to directors	24		57			57
Dividends				(2,244)		(2,244)
<b>BALANCE AT DECEMBER 31, 2008</b>	11,990	\$120	\$116,869	\$(18,023)	\$(8,593)	\$ 90,373

See notes to consolidated financial statements.

**LIFETIME BRANDS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	<b>Year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>OPERATING ACTIVITIES</b>			
Net income (loss)	\$(49,029)	\$ 8,892	\$ 15,532
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Provision for doubtful accounts	1,458	79	81
Depreciation and amortization	10,782	9,659	8,380
Deferred rent	1,999	1,060	440
Deferred income taxes	155	2,771	421
Stock compensation expense	2,857	2,292	1,270
Undistributed earnings of Grupo Vasconia, S.A.B.	(1,132)	—	—
Gain on sale of property	—	(3,760)	—
Goodwill and intangible asset impairment	29,400	—	—
Fixed asset impairment	3,912	1,635	—
Changes in operating assets and liabilities (excluding the effects of business acquisitions)			
Accounts receivable	(3,990)	(4,593)	5,336
Inventory	26,154	19,925	(36,410)
Prepaid expenses, other current assets and other assets	(908)	1,220	251
Accounts payable, accrued expenses and other liabilities	1,142	(5,270)	(4,422)
Income taxes receivable	(11,597)	—	—
Income taxes payable	(4,295)	(2,343)	(2,330)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>6,908</b>	<b>31,567</b>	<b>(11,451)</b>
<b>INVESTING ACTIVITIES</b>			
Purchases of property and equipment, net	(8,859)	(19,023)	(21,144)
Business acquisitions	(16,312)	(10,543)	(43,763)
Investment in Grupo Vasconia, S.A.B.	—	(22,950)	—
Net proceeds from sale of property	362	8,832	—
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(24,809)</b>	<b>(43,684)</b>	<b>(64,907)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowings, net	20,600	42,200	7,000
Cash dividends paid	(2,995)	(3,303)	(3,332)
Payment of capital lease obligations	(414)	(456)	(387)
Proceeds from the exercise of stock options	10	245	196
Excess tax benefits from stock option expense	6	125	638
Purchases of common stock	—	(22,672)	—
Proceeds from issuance of convertible notes, net	—	—	71,938
Other	—	—	(331)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>17,207</b>	<b>16,139</b>	<b>75,722</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(694)</b>	<b>4,022</b>	<b>(636)</b>
Cash and cash equivalents at beginning of year	4,172	150	786
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 3,478</b>	<b>\$ 4,172</b>	<b>\$ 150</b>

See notes to consolidated financial statements.

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE A — SIGNIFICANT 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 the Internet and mail order catalogs. During 2008 the Company also sold its products through Company-operated factory, outlet and clearance stores. However, as more fully described in Note B, the Company ceased operating its retail stores by December 31, 2008.

**Principles of consolidation**

The accompanying consolidated financial statements include the accounts of Lifetime Brands, Inc. and its wholly-owned subsidiaries (collectively, the “Company”). All intercompany accounts and transactions have been eliminated in consolidation.

**Revenue recognition**

Wholesale sales are recognized when title of merchandise passes and the risks and rewards of ownership have transferred to the customer. Retail store sales were 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 \$4.4 million, \$4.8 million and \$4.8 million for the years ended December 31, 2008, 2007 and 2006, 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 costs amounted to \$8.7 million, \$8.4 million and \$8.9 million for the years ended December 31, 2008, 2007 and 2006, respectively.

**Advertising expenses**

Advertising expenses are expensed as incurred and are included in selling, general and administrative expenses. Advertising expenses were \$1.6 million, \$1.6 million and \$2.0 million for the years ended December 31, 2008, 2007 and 2006, respectively.

**Accounts receivable**

The Company periodically reviews the collectibility of its accounts receivable and establishes allowances for estimated losses that could result from the inability of its customers to make required payments. A considerable amount of judgment is required to assess the ultimate realization of these receivables including assessing the credit-worthiness of each wholesale customer. The Company also establishes allowances for sales returns and customer chargebacks. To evaluate the adequacy of the sales returns and customer chargeback allowances, the Company analyzes currently available information and historical trends. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, or the Company’s estimate of returns is determined to be inadequate, additional allowances may be required.

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE A — SIGNIFICANT 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.

**Property and equipment**

Property and equipment is stated at cost. Property and equipment, other than leasehold improvements, is depreciated using the straight-line method over the estimated useful lives of the assets. Building and improvements are being depreciated over 30 years and machinery, furniture, and equipment over periods ranging from 3 to 10 years. Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter. Advances paid towards the acquisition of property and equipment and the cost of property and equipment not ready for use before the end of the period are classified as construction in progress.

**Cash equivalents**

The Company considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

**Use of estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Concentration of credit risk**

The Company maintains cash with various financial institutions.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of entities comprising the Company's customer base and their dispersion across North America.

During the years ended December 31, 2008, 2007 and 2006, Wal-Mart Stores, Inc. (including Sam's Clubs) accounted for 20%, 21% and 17% of net sales, respectively. No other customer accounted for 10% or more of the Company's net sales during the periods. For the years ended December 31, 2008, 2007 and 2006, the Company's ten largest customers accounted for 60%, 62% and 49% of net sales, respectively.

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE A — SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value of financial instruments**

The Company estimated that the carrying amounts of cash and cash equivalents, accounts receivable and accounts payable are a reasonable estimate of their fair value because of their short-term nature. The Company estimated that the carrying amounts of borrowings outstanding under its revolving Credit Facility approximate fair value since such borrowings bear interest at variable market rates. The fair value of the Company's \$75 million 4.75% Convertible Senior Notes at December 31, 2008 and 2007 was \$39.4 million and \$66.1 million, respectively, based on the most recent quoted price of the Company's 4.75% Convertible Senior Notes at December 31, 2008 and 2007.

**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 consolidated financial statements are disclosed in Notes E and H.

**Derivatives**

The Company accounts for derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and subsequent amendments. SFAS No. 133 requires that all derivative instruments be recognized on the balance sheet at fair value as either an asset or a liability. Changes in the fair value of derivatives that qualify as hedges and have been designated as part of a hedging relationship for accounting purposes have no net impact on earnings to the extent the derivative is considered 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.

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE A — SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

Goodwill, and intangible assets deemed to have indefinite lives, are not amortized but instead are subject to annual impairment assessment in accordance with the provisions of SFAS No.142, *Goodwill and Other Intangible Assets*.

During 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 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.

As more fully described in Note E, at December 31, 2008, the Company has recognized a non-cash goodwill impairment charge and a non-cash impairment charge related to certain indefinite-lived intangible assets in accordance with the provisions of SFAS No.142, *Goodwill and Other Intangible Assets*.

Long-lived assets, including intangible assets deemed to have finite lives, are reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, whenever events or changes in circumstances indicate that such amounts may have been impaired. 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 Company compares the carrying value of the asset to the estimated undiscounted future cash flows expected to be generated by the assets. If the assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. As more fully described in Note B, during 2008, the Company recognized fixed asset impairment charges in connection with its restructuring activities in 2008.

**Income taxes**

The Company accounts for income taxes using the asset and liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

The Company applies the provisions of Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes*, for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the Company's financial statements. In accordance with FIN No. 48, 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.

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE A — SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Stock options**

The Company accounts for its stock options in accordance with SFAS No. 123(R), *Share-Based Payment*. SFAS 123(R) requires the measurement of compensation expense for all share-based compensation granted to employees and non-employee directors at fair value on the date of grant and recognition of compensation expense over the related service period for awards expected to vest. The Company uses the Black-Scholes option valuation model to estimate the fair value of its stock options. The Black-Scholes option valuation model requires the input of highly subjective assumptions including the expected stock price volatility of the Company's common stock. Changes in these subjective input assumptions can materially affect the fair value estimate of the Company's stock options.

**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. The provisions of FSP APB 14-1 will be required to be applied to the Company's 4.75% Convertible Senior Notes and are effective for the Company on January 1, 2009 on a retrospective basis. The Company expects that upon adoption of FSP APB 14-1 on January 1, 2009, interest expense for 2008, 2007 and 2006 will be increased by \$2.4 million, \$2.2 million and \$1.0 million, respectively, and the Company will record an unamortized debt discount of \$12.8 million, which will be amortized over a period of five years from the date the Company's 4.75% Convertible Senior Notes were issued. The Company expects to record additional interest expense of approximately \$2.7 million, \$2.9 million and \$1.6 million in 2009, 2010 and 2011, respectively, due to the adoption of FSP APB 14-1.

**Reclassifications**

Certain amounts in the 2007 and 2006 consolidated statement of cash flows were reclassified to conform to the presentation in 2008. These reclassifications had no material effect on the Company's previously reported consolidated financial statements.



**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE B — 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 these store closings, the Company incurred restructuring related costs of \$3.0 million and \$289,000 during the years ended December 31, 2008 and 2007, respectively, consisting of the following:

	<b>Year Ended December 31, 2008</b>	<b>Year Ended December 31, 2007</b>
	(in thousands)	
Store lease obligations	\$2,300	\$ —
Consulting fees	393	289
Employee related expenses	141	—
Other related costs	153	—
Total	\$2,987	\$289

The following is a roll-forward of the amounts included in accrued expenses related to the December 2007 restructuring initiative (there were no amounts accrued related to this restructuring at December 31, 2007):

	<b>Balance March 31, 2008</b>	<b>Charges</b>	<b>Payments</b>	<b>Balance December 31, 2008</b>
	(in thousands)			
Store lease obligations	\$2,300	\$ —	\$(1,734)	\$566
Consulting fees	192	—	(192)	—
Employee related expenses	141	—	(141)	—
Other related costs	96	107	(203)	—
Total	\$2,729	\$107	\$(2,270)	\$566

Due to the change in circumstances with respect to the stores that were closed, the Company reviewed the related fixed assets of the stores for impairment and determined that the net book value of the fixed assets would not be recoverable. Accordingly, the Company recorded a non-cash fixed asset impairment charge of \$1.6 million at December 31, 2007.

**September 2008 restructuring initiative**

In September 2008, management of the Company commenced a plan to close all 53 of its remaining Pfaltzgraff® factory and clearance stores and Farberware® outlet stores and vacate its York, PA distribution center. In connection with this restructuring initiative, the Company incurred restructuring related costs of \$11.1 million during the year ended December 31, 2008 consisting of the following:

	<b>Year Ended December 31, 2008</b>
	(in thousands)
Store lease obligations	\$ 7,662
Consulting fees	1,766
Employee related expenses	1,354
Other related costs	318
Total	\$11,100

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE B — RESTRUCTURING (continued)**

**September 2008 restructuring initiative (continued)**

The following is a roll-forward of the amounts included in accrued expenses related to the September 2008 restructuring initiative:

	<b>Balance</b> <b>September 30, 2008</b>	<b>Charges</b>	<b>Payments</b>	<b>Balance</b> <b>December 31, 2008</b>
		(in thousands)		
Store lease obligations	\$ —	\$ 7,662	\$ (84)	\$7,578
Consulting fees	—	1,766	(1,412)	354
Employee related expenses	195	1,159	(186)	1,168
Other related costs	142	176	(94)	224
Total	\$337	\$10,763	\$(1,776)	\$9,324

Due to the change in circumstances as a result of the September 2008 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 \$3.9 million during the year ended December 31, 2008.

The above restructuring related costs and non-cash fixed asset impairment charges are included within restructuring expenses in the accompanying consolidated statement of operations for the years ended December 31, 2008 and 2007.

**NOTE C — MIKASA® ACQUISITION**

In June 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® 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) \$17.3 million of cash, (ii) \$3.3 million of certain liabilities assumed at closing, and (iii) acquisition related costs of \$142,000. 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 \$5.0 million.

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 consolidated statement of operations from the date of acquisition. The 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.

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE C — MIKASA® ACQUISITION (continued)**

A valuation of the assets acquired from Mikasa® resulted in an excess of the fair value of the assets acquired from Mikasa®, which consisted of inventory, the Mikasa® tradename and tools and molds, over the preliminary purchase price in the amount of \$6.2 million. In accordance with SFAS No. 141, as the Company is subject to potential contingent consideration that could result in an addition to the preliminary purchase price, the excess value (negative goodwill) has been recorded as a long-term liability in the accompanying balance sheet pending resolution of the contingencies. 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 D — INVESTMENT IN GRUPO VASCONIA, S.A.B.**

In December 2007, the Company acquired approximately 29.99% 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 VASCONI.MX. The Company, based upon a third-party valuation, 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	<u>\$22,950</u>

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), for the year ended December 31, 2008 in the accompanying consolidated statement of operations and its share of Vasconia’s translation adjustment in the accompanying consolidated statement of Stockholders’ Equity at December 31, 2008. During the year ended December 31, 2008 the Company received a cash dividend in the amount of \$263,000 from Vasconia.

Summarized financial statement information for Vasconia as of and for the year ended December 31, 2008 is as follows (in thousands):

Balance sheet	
Current assets	\$ 46,320
Non-current assets	22,371
Current liabilities	17,583
Non-current liabilities	3,981
Income statement	
Net sales	\$110,026
Gross profit	28,212
Income from operations	11,662
Net income	6,270

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE E — GOODWILL AND INTANGIBLE ASSETS**

Goodwill was included as an asset in the wholesale segment. There were no additions to goodwill during the year ended December 31, 2008.

The Company initially performed its annual impairment tests for its goodwill and indefinite-lived intangible assets in accordance with SFAS No. 142 as of October 1, 2008, but due primarily to a continued decline in the market value of the Company's common stock, updated the tests at December 31, 2008. The goodwill test involved the assessment of the fair market value of the Company as a single reporting unit. In connection with these tests, the Company calculated the Company's implied goodwill and determined the fair value of its indefinite-lived intangible assets at December 31, 2008. The fair value measurements were based on Level 2 observable inputs using a combination of market capitalization, discounted cash flow and market approach. As a result of the goodwill impairment test, due primarily to the significant decline in the market value of its common stock, the Company recorded a non-cash goodwill impairment charge of approximately \$26.9 million. The Company also recorded a non-cash indefinite-lived intangible impairment charge of \$1.7 million due to the fair value of certain indefinite-lived assets being less than the carrying amount of the assets. These impairment charges are included within goodwill and intangible asset impairment in the accompanying consolidated statement of operations for 2008.

In January 2009, the Company disposed of its USE: business. As a result of the disposal, the Company recognized a non-cash impairment charge related to USE: goodwill of \$579,000 and USE: intangible assets of \$247,000 at December 31, 2008.

Intangible assets, all of which are included in the wholesale segment, consist of the following (in thousands):

	<b>Year Ended December 31,</b>					
	<b>2008</b>			<b>2007</b>		
	<b>Gross</b>	<b>Accumulated Amortization</b>	<b>Net</b>	<b>Gross</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Indefinite-lived intangible assets:						
Trade names	\$25,530	\$ —	\$25,530	\$21,443	\$ —	\$21,443
Finite-lived intangible assets:						
Licenses	15,847	(5,123)	10,724	15,847	(4,490)	11,357
Trade names	2,477	(1,103)	1,374	2,477	(1,020)	1,457
Customer relationships	586	(321)	265	886	(451)	435
Designs	—	—	—	460	(330)	130
Patents	584	(57)	527	584	(23)	561
<b>Total</b>	<b>\$45,024</b>	<b>\$(6,604)</b>	<b>\$38,420</b>	<b>\$41,697</b>	<b>\$(6,314)</b>	<b>\$35,383</b>

The weighted-average amortization periods for the Company's finite-lived intangible assets as of December 31, 2008 are as follows:

	<b>Years</b>
Trade names	30
Licenses	33
Customer relationships	3
Patents	17

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE E — GOODWILL AND INTANGIBLE ASSETS (continued)**

**Intangible assets (continued)**

Estimated amortization expense for each of the five succeeding fiscal years is as follows (in thousands):

<b>Year ending December 31</b>	
2009	\$779
2010	717
2011	631
2012	591
2013	591

Amortization expense for the years ended December 31, 2008, 2007 and 2006 was \$978,000, \$915,000, and \$855,000, respectively.

**NOTE F — CREDIT FACILITY**

The Company has a \$150 million secured credit facility, which until March 31, 2009, had an accordion feature for an additional \$50 million and matures 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 (until March 31, 2009), the Company was required to satisfy certain financial covenants, including maximum leverage and capital expenditures and a minimum interest coverage ratio. Borrowings under the Credit Facility have different interest rate options that are based either on, (i) an alternate base rate, (ii) LIBOR, or (iii) the lender’s cost of funds rate, plus in each case a margin based on the applicable leverage ratio.

In March 2008, the Credit Facility was amended to: (i) establish a borrowing base (comprised of a percentage of each of eligible accounts receivable, inventory and trademarks) calculation to determine availability under the Credit Facility, (ii) increase the applicable margin rates and (iii) revised certain financial covenants. In September 2008, the Credit Facility was further amended to: (i) establish a minimum excess availability amount, (ii) include a minimum fixed charge ratio and a minimum EBITDA covenants, (iii) revised the leverage and interest coverage covenants and (iv) increased the applicable margin rates.

At December 31, 2008, the Company was not in compliance with the financial covenants required by the Credit Facility. On each of February 12, 2009 and March 6, 2009, the Company entered into a forbearance agreement and amendment to the Credit Facility whereby the lenders agreed to forbear from taking actions they would otherwise have been permitted to take as a result of the non-compliance. In consideration thereof, the Company agreed to further restrictions on its borrowings and an increase in the applicable margin rates.

On March 31, 2009, the Company entered into a waiver and amendment to the Credit Facility (the “Amendment”). Pursuant to the Amendment, the Company’s lenders waived the Company’s non-compliance with the financial covenants required by the Credit Facility at December 31, 2008.

**LIFETIME BRANDS, INC.**  
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**NOTE F — CREDIT FACILITY (continued)**

The Amendment modifies the Credit Facility in certain ways including, as follows: (i) changes the maturity date to January 31, 2011, (ii) adds certain asset categories to the borrowing base, (iii) increases the applicable margin rates (including a minimum LIBOR of 1.75%), (iv) revises the minimum EBITDA and fixed charge coverage covenants and adds both a minimum net sales and maximum capital expenditures covenant, (v) eliminates the requirement of maximum leverage and minimum interest coverage ratios, (vi) eliminates the \$50 million accordion feature, (vii) revises the minimum excess availability amount and (viii) places restrictions on dividends and acquisitions. The Amendment also provides for a lock-box arrangement with the collateral agent. Pursuant to the Amendment, although the Credit Agreement matures on January 31, 2011, Emerging Issues Task Force 95-22, *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Arrangements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement*, requires the indebtedness to be classified as a current liability on the consolidated balance sheet as of December 31, 2008.

At December 31, 2008, the Company had \$2.1 million of open letters of credit and \$89.3 million of borrowings outstanding under the Credit Facility. Interest rates on outstanding borrowings at December 31, 2008 ranged from 2.50% to 7.07%. 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 Company believes that availability under the Credit Facility will be sufficient to fund the Company's operations for fiscal 2009. However, if circumstances were to change, the Company may need to refinance the Credit Facility or otherwise amend the terms of the Credit Facility. In addition, the Company would seek to engage in further activities, including efforts to lower its inventory and to reduce expenses. However, there can be no assurance that any such actions would be successful or that the results of any such actions would be adequate.

**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<sup>th</sup> and July 15<sup>th</sup> 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 26<sup>th</sup> trading day preceding the maturity date, the Company may irrevocably elect to satisfy in cash the Company's conversion obligation with respect to the principal amount of the Notes to be converted after the date of such election, with any remaining amount to be satisfied in shares of the Company's common stock. The election would be in the Company's sole discretion without the consent of the holders of the Notes. The conversion rate of the Notes may be adjusted upon the occurrence of certain events that would dilute the Company's outstanding common stock. In addition, holders that convert their Notes in connection with certain fundamental changes, such as a change in control, may be entitled to a make whole premium in the form of an increase in the conversion rate. If the Notes are not converted prior to the maturity date the Company is required to pay the holders of the Notes the principal amount of the Notes in cash upon maturity. The Company has reserved 2,678,571 shares of common stock for issuance upon conversion of the Notes.

**LIFETIME BRANDS, INC.**  
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**NOTE G — CONVERTIBLE NOTES (continued)**

As part of the issuance of the Notes, the Company incurred \$3.1 million in underwriter's discounts and other offering expenses. The offering costs are being amortized to interest expense over the term of the Notes. At December 31, 2008 the unamortized balance of these costs is \$1.5 million and is included in other assets in the consolidated balance sheet.

As more fully described in Note A, on January 1, 2009, the Company will be required to retrospectively adopt FSP APB 14-1. The Company expects that upon adoption of FSP APB 14-1 on January 1, 2009, interest expense for 2008, 2007 and 2006 will be increased by \$2.4 million, \$2.2 million and \$1.0 million, respectively, and the Company will record an unamortized debt discount of \$12.8 million, which will be amortized over a period of five years from the date the Company's 4.75% Convertible Senior Notes were issued. The Company expects to record additional interest expense of approximately \$2.7 million, \$2.9 million and \$1.6 million in 2009, 2010 and 2011, respectively, due to the adoption of FSP APB 14-1.

**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 an unrealized gain of \$148,000 and an unrealized loss of \$358,000 for the years ended December 31, 2008 and 2007, 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 \$1.9 million for the year ended December 31, 2008 and an unrealized loss of \$203,000 (net of taxes of \$170,000) for the year ended December 31, 2007. 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 estimates about relevant future market conditions. The aggregate fair value of the Company's derivative instruments was a liability of \$2.5 million and \$731,000 for the years ended December 31, 2008 and 2007, respectively, which is included in deferred rent & other long-term liabilities.

**NOTE I — CAPITAL STOCK**

**Cash dividends**

The Company paid regular quarterly cash dividends of \$0.0625 per share on its common stock, or a total annual cash dividend of \$0.25 per share, in 2008, 2007 and 2006. In February 2009, in light of current economic conditions, the Company suspended paying a cash dividend on its outstanding shares of common stock.

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE I — CAPITAL STOCK (continued)**

**Preferred stock**

The Company is authorized to issue 100 shares of Series A Preferred Stock and 2,000,000 shares of Series B Preferred Stock, none of which is outstanding at December 31, 2008.

**Long-term incentive plan**

The Company maintains the 2000 Long-Term Incentive Plan (the “Plan”), whereby up to 2,500,000 shares of the Company’s common stock may be subject to outstanding awards granted to directors, officers, employees, consultants and service providers and affiliates in the form of stock options or other equity-based awards. The Plan authorizes the Board of Directors of the Company, or a duly appointed committee thereof, to issue incentive stock options, non-qualified options, and other stock-based awards. Options that have been granted under the Plan expire over a range of five to ten years from the date of grant and vest over a range of up to five years from the date of grant. As of December 31, 2008, there were 11,031 shares available for grant under the Plan. All stock options granted through December 31, 2008 under the Plan have exercise prices equal to the market values of the Company’s stock on the dates of grant.

In 2009, two key executives of the Company voluntarily cancelled their options to purchase 600,000 shares of the Company’s common stock, which had a nominal fair value, in order to increase the shares available for grant under the Plan.

**Stock options**

A summary of the Company’s stock option activity and related information for the three years ended December 31, 2008 is as follows:

	<u>Options</u>	<u>Weighted- average exercise price</u>	<u>Weighted- average remaining contractual life (years)</u>	<u>Aggregate intrinsic value</u>
<b>Options outstanding, December 31, 2005</b>	875,157	\$14.51		
Grants	695,500	29.96		
Exercises	(146,157)	6.95		
Cancellations	<u>(13,600)</u>	28.12		
<b>Options outstanding, December 31, 2006</b>	1,410,900	22.78		
Grants	516,500	21.65		
Exercises	(32,000)	7.64		
Cancellations	<u>(86,500)</u>	23.48		
<b>Options outstanding, December 31, 2007</b>	1,808,900	22.69		
Grants	286,000	7.15		
Exercises	(1,750)	5.50		
Cancellations	<u>(56,500)</u>	26.67		
<b>Options outstanding, December 31, 2008</b>	<u>2,036,650</u>	20.41	6.79	<u>-</u>
<b>Options exercisable, December 31, 2008</b>	<u>1,179,250</u>	21.68	4.65	<u>-</u>



**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE I — CAPITAL STOCK (continued)**

**Stock options (continued)**

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 December 31, 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 December 31, 2008 and the exercise price. There were no in-the-money options at December 31, 2008.

The total intrinsic value of stock options exercised for the years ended December 31, 2008, 2007 and 2006 was \$9,900, \$417,000 and \$2.7 million, respectively. 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 \$2.8 million, \$2.2 million and \$2.2 million for the years ended December 31, 2008, 2007 and 2006, respectively. Total unrecognized compensation cost related to unvested stock options at December 31, 2008, before the effect of income taxes, was \$5.2 million and is expected to be recognized over a weighted-average period of 2.6 years.

The Company values stock options using the Black-Scholes option valuation model. The Black-Scholes option valuation model, as well as other available models, was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. The Black-Scholes option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, changes in the subjective input assumptions can materially affect the fair value estimate of the Company's stock options.

The weighted-average per share grant date fair value of stock options granted during the years ended December 31, 2008, 2007 and 2006 was \$5.05, \$8.26 and \$12.11, respectively.

The fair value for these stock options was estimated at the date of grant using the following weighted-average assumptions:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Historical volatility	50%	40%	41%
Expected term (years)	4.8	5.2	5.2
Risk-free interest rate	2.41%	4.56%	5.02%
Expected dividend yield	5.20%	1.18%	0.834%

**Restricted stock**

In 2008, 2007 and 2006, the Company issued 22,586, 7,280 and 5,254 restricted shares, respectively, of the Company's common stock to its Board of Directors representing payment of a portion of their annual retainer. The total fair value of the restricted shares, based on the number of shares granted and the quoted market price of the Company's common stock on the date of grant, was \$172,500, \$150,000 and \$115,000, respectively. The shares granted in 2008 and 2007 cliff vest one year from the date of grant. The shares granted in 2006 vested in quarterly installments over a period of one year.

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE I — CAPITAL STOCK (continued)**

**Share repurchase program**

In 2007, the Board of Directors of the Company 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 December 31, 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 2008. In March 2009, the Board of Directors of the Company terminated the program.

**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 years ended December 31, 2008, 2007 and 2006 are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(in thousands - except per share amounts)		
<b>Net income (loss) - Basic</b>	\$(49,029)	\$ 8,892	\$15,532
Interest expense 4.75% Convertible Senior Notes, net of tax	—	—	1,312
<b>Net income (loss) – Diluted</b>	<u>\$(49,029)</u>	<u>\$ 8,892</u>	<u>\$16,844</u>
<b>Weighted- average shares outstanding – Basic</b>	11,976	12,969	13,171
Effect of dilutive securities:			
Stock options	—	130	183
4.75% Convertible Senior Notes	—	—	1,362
<b>Weighted- average shares outstanding – Diluted</b>	<u>11,976</u>	<u>13,099</u>	<u>14,716</u>
<b>Basic income (loss) per common share</b>	<u>\$ (4.09)</u>	<u>\$ 0.69</u>	<u>\$ 1.18</u>
<b>Diluted income (loss) per common share</b>	<u>\$ (4.09)</u>	<u>\$ 0.68</u>	<u>\$ 1.14</u>

The computations of diluted income (loss) per common share for the years ended December 31, 2008, 2007 and 2006 excludes options to purchase 2,036,650, 1,544,000 and 974,000 shares of the Company's common stock, respectively, due to their antidilutive effect. The computations of diluted income (loss) per common share for the years ended December 31, 2008 and 2007 also excludes 2,678,571 shares of the Company's common stock issuable upon the conversion of the Company's 4.75% Convertible Senior Notes and related interest expense, due to its antidilutive effect in those years.

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE K — INCOME TAXES**

The provision (benefit) for income taxes consists of:

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	(in thousands)		
Current:			
Federal	\$(11,478)	\$3,891	\$7,442
State and local	1,388	768	1,860
Deferred	(450)	2,771	421
Income tax provision (benefit)	<u>\$ (10,540)</u>	<u>\$ 7,430</u>	<u>\$ 9,723</u>

The Company has the ability to carry back the majority of the current year loss for Federal tax purposes. Accordingly, the Company has recorded a current benefit for these losses.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income tax asset (liability) are as follows:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(in thousands)	
Deferred income tax assets:		
Inventory	\$ 1,421	\$ 4,347
Grupo Vasconia, S.A.B. translation adjustment	2,553	—
Deferred rent expense	2,117	1,055
Operating loss carry-forward	1,209	—
Stock options	919	390
Accounts receivable allowances	852	1,603
Accrued bonuses	313	469
Other	6,989	61
Total deferred income tax asset	<u>16,373</u>	<u>7,925</u>
Deferred income tax liability:		
Depreciation and amortization	(3,807)	(8,211)
Inventory	(1,303)	—
Other	(409)	—
Total deferred income tax liability	<u>(5,519)</u>	<u>(8,211)</u>
Net deferred income tax asset (liability)	<u>10,854</u>	<u>(286)</u>
Valuation allowance	<u>(14,630)</u>	<u>—</u>
Net deferred income tax liability	<u>\$ (3,776)</u>	<u>\$ (286)</u>

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE K — INCOME TAXES (continued)**

At December 31, 2008, the Company has a Federal net operating loss carry forward of \$1.3 million which will expire in 2029. Additionally, the Company has various state net operating loss carry forwards that will begin to expire in 2014. Since management is uncertain of its ability to utilize its future deferred tax benefits, a full valuation allowance has been established. In accordance with SFAS No. 109, *Accounting for Income Taxes*, the Company has offset its total deferred tax asset with certain deferred tax liabilities that are expected to reverse in the carry forward period. The net deferred tax liability of \$3.8 million at December 31, 2008 relates to indefinite-lived intangible assets.

The provision (benefit) for income taxes differs from the amounts computed by applying the applicable federal statutory rates as follows:

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Provision (benefit) for Federal income taxes at the statutory rate	(35.0)%	35.0%	35.0%
Increases (decreases):			
State and local income taxes, net of Federal income tax benefit	(3.3)	5.6	4.8
Non-deductible stock options	0.5	2.9	—
Valuation allowance	25.0	—	—
Other	(4.5)	2.0	(1.3)
Provision (benefit) for income taxes	<u>(17.3)%</u>	<u>45.5%</u>	<u>38.5%</u>

The estimated value of the Company's tax positions at December 31, 2008 and 2007 is a liability of \$498,000 and \$1.4 million, respectively, and consisted of the following (in thousands):

<b>Balance as of January 1, 2007</b>	\$1,704
Increases – tax positions in prior years	9
Decreases – tax positions in prior years	(312)
Increases – tax positions in current year	<u>36</u>
<b>Balance as of January 1, 2008</b>	\$1,437
Increases – tax positions in prior years	303
Decreases- tax positions in prior years - settled	(128)
Decreases – tax positions in prior years – lapse of statute	<u>(1,114)</u>
<b>Balance as of December 31, 2008</b>	<u>\$ 498</u>

If the Company's tax positions are sustained by the taxing authorities in favor of the Company, the Company's FIN 48 liability would be reduced by \$498,000, of which \$307,000 would impact the Company's tax provision. On a quarterly basis the Company evaluates its tax positions and revises its estimates accordingly. During the quarter ended June 30, 2008 the Company reversed \$1.3 million (including accrued interest) of its FIN 48 liability 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 believes that \$342,000 of its tax positions will reverse within the next twelve months.

The Company has identified Federal, California, Massachusetts, New York and New Jersey as "major" tax jurisdictions. The periods subject to examination for the Company's Federal returns are years 2006 and 2007. The periods subject to examination for the Company's California, Massachusetts, New York and New Jersey returns are years 2005, 2006 and 2007.

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE K — INCOME TAXES (continued)**

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 years ended December 31, 2008 and 2007.

**NOTE L — BUSINESS SEGMENTS**

**Segment information**

The Company operates in two reportable business segments; the wholesale segment which is the Company's primary business that designs, markets and distributes its products to retailers and distributors, and the direct-to-consumer segment, through its Pfaltzgraff® and Mikasa® Internet websites and the Company's Pfaltzgraff® mail-order catalogs. As described in Note B, the Company ceased operating its Pfaltzgraff® factory and clearance stores and Farberware® outlet stores by December 31, 2008. The operations of these retail stores were included in the direct-to-consumer segment during 2008.

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

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

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
		(in thousands)	
<b>Net sales:</b>			
Wholesale	\$403,591	\$416,890	\$374,081
Direct-to-consumer	84,344	76,835	83,319
Total net sales	<u>\$487,935</u>	<u>\$493,725</u>	<u>\$457,400</u>
<b>Income (loss) from operations:</b>			
Wholesale (1)	\$(11,979)	\$ 42,968	\$ 46,824
Direct-to-consumer (2)	(28,998)	(10,010)	(8,129)
Unallocated corporate expenses	(10,936)	(12,174)	(8,895)
Total income (loss) from operations	<u>\$(51,913)</u>	<u>\$ 20,784</u>	<u>\$ 29,800</u>
<b>Depreciation and amortization:</b>			
Wholesale	\$ (9,975)	\$ (8,178)	\$ (7,078)
Direct-to-consumer	(807)	(1,481)	(1,302)
Total depreciation and amortization	<u>\$(10,782)</u>	<u>\$ (9,659)</u>	<u>\$ (8,380)</u>

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE L — BUSINESS SEGMENTS (continued)**

**Segment information (continued)**

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	(in thousands)		
<b>Assets:</b>			
Wholesale	\$321,284	\$337,156	\$310,260
Direct-to-consumer	5,422	22,163	24,136
Unallocated/ corporate/ other	15,075	12,096	8,668
Total assets	\$341,781	\$371,415	\$343,064
<b>Capital expenditures:</b>			
Wholesale	\$ (8,538)	\$ (17,412)	\$ (17,719)
Direct-to-consumer	(321)	(1,611)	(3,425)
Total capital expenditures	\$ (8,859)	\$ (19,023)	\$ (21,144)

Notes:

- (1) In 2008, loss from operations for the wholesale segment includes non-cash goodwill and intangible asset impairment charges totaling \$29.4 million. See Note E.
- (2) In 2008 and 2007, loss from operations for the direct-to-consumer segment includes \$18.0 million and \$1.9 million of restructuring and non-cash fixed asset impairment charges, respectively. See Note B.

**Product category information – net sales**

The following table sets forth the net sales by the major product categories included within the Company's wholesale operating segment:

	<b>Year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	(in thousands)		
Food Preparation	\$232,264	\$247,336	\$239,200
Tabletop	111,770	97,995	88,466
Home Décor	57,650	68,856	44,040
Other	1,907	2,703	2,375
Total	\$403,591	\$416,890	\$374,081

**LIFETIME BRANDS, INC.**  
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**NOTE M — COMMITMENTS AND CONTINGENCIES**

**Operating leases**

The Company has lease agreements for its corporate headquarters, distribution centers, direct-to-consumer offices, showrooms and sales offices that expire through 2022. These leases generally provide for, among other things, annual base rent escalations, and additional rent for real estate taxes and other costs.

In January 2008, the Company entered into a 12-year lease agreement for 69,000 square feet of office, showroom and warehouse space located in Medford, Massachusetts. The lease includes a renewal option for two additional five-year periods. The location serves as the headquarters for the Syratech business operations. Annual rent is \$991,000 and will increase over the initial term of the lease to \$1.3 million. The new office space replaced 118,000 square feet of office space that the Company leased in the Boston, Massachusetts area.

Future minimum payments under non-cancelable operating leases are as follows (in thousands):

<b>Year ending December 31</b>	
2009	\$ 12,899
2010	12,047
2011	11,988
2012	12,208
2013	12,309
Thereafter	<u>68,506</u>
Total	<u>\$129,957</u>

The forgoing lease obligations at December 31, 2008 exclude the leases related to the Company's retail stores, all of which were closed by December 31, 2008.

During the year ended December 31, 2006, the Company had an agreement with Meyer Corporation whereby Meyer Corporation occupied 30% of the space in each of the Company's Farberware® outlet stores and was responsible for merchandising and stocking Farberware® cookware products in these stores. Pursuant to the agreement Meyer Corporation received all revenue from the sale of the Farberware® cookware in the Company's Farberware® outlet stores and in turn reimbursed the Company for 30% of the operating expenses of the stores, including rent. The agreement was terminated in June 2006. During the year ended December 31, 2006, Meyer Corporation reimbursed the Company \$2.0 million.

Rental and related expenses under operating leases were \$23.0 million, \$18.3 million and \$16.5 million for the years ended December 31, 2008, 2007 and 2006, respectively. The amounts for 2006 are prior to the Meyer reimbursement described above.

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE M — COMMITMENTS AND CONTINGENCIES (continued)**

**Capital leases**

The Company has entered into various capital lease arrangements for the leasing of equipment that is primarily utilized in its distribution centers. These leases expire through 2011 and the future minimum lease payments due under the leases are as follows (in thousands):

<b>Year ending December 31</b>	
2009	\$258
2010	166
2011	<u>92</u>
Total minimum lease payments	516
Less: amounts representing interest	<u>( 47)</u>
Present value of minimum lease payments	<u><u>\$469</u></u>

The current and non-current portions of the Company's capital lease obligations at December 31, 2008 of \$230,000 and \$239,000, respectively, and at December 31, 2007 of \$369,000 and \$457,000, respectively, are included in accrued expenses, and deferred rent & other long-term liabilities, respectively.

**Royalties**

The Company has license agreements that require payments of royalties on sales of licensed products, which expire through 2023. Future minimum royalties payable under these agreements are as follows (in thousands):

<b>Year ending December 31</b>	
2009	\$11,252
2010	1,419
2011	158
2012	162
2013	150
Thereafter	<u>1,216</u>
Total	<u><u>\$14,357</u></u>

**Legal proceedings**

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 October 2007, Syratech Corporation ("Syratech") commenced an action against the Company and the Company's wholly-owned subsidiary, Syratech Acquisition Corporation, in New York State Supreme Court, New York County, asserting a single cause of action for breach of contract. Syratech alleges that the Company breached the parties' asset purchase agreement by failing to file and make effective a registration statement for shares of the Company's common stock issued to Syratech for its assets. The complaint alleges damages of approximately \$2.1 million. The Company denies that it is liable to Syratech under the claim set forward in the complaint, and intends to vigorously defend this action. No trial date has been set. A mediation session is scheduled for April 15, 2009.



**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE M — COMMITMENTS AND CONTINGENCIES (continued)**

**Legal proceedings (continued)**

In March 2008, the Environmental Protection Agency (“EPA”) announced that the San German Ground Water Contamination site in Puerto Rico was added to the Superfund National Priorities List due to contamination present in the local drinking water supply. Wallace Silversmiths de Puerto Rico, Ltd. (“Wallace”), a wholly-owned subsidiary of the Company, received 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, Liability Act regarding the San German Ground Water Contamination Superfund Site, San German, Puerto Rico dated May 29, 2008 from the EPA. The EPA requested that Wallace provide information regarding Wallace’s occupation of the facility located in San German, Puerto Rico and contamination of the ground water supply. By letter dated June 18, 2008, the Company responded to the EPA’s Request for Information on behalf of Wallace. The Company has engaged environmental consultants to investigate the environmental condition of the property and preliminary discussions with the EPA have been initiated. At this time, it is not possible for the Company to evaluate the outcome.

**NOTE N — RETIREMENT PLANS**

**401(k) plan**

The Company maintains a defined contribution retirement plan for eligible employees under Section 401(k) of the Internal Revenue Code. Participants can make voluntary contributions up to a maximum of 15% of their respective salaries. During 2008, 2007 and 2006, the Company matched 50% of employee contributions up to 4% of an employee’s eligible compensation. Effective January 1, 2009 the Company suspended its matching contribution as an expense savings measure. The Company made matching contributions to the 401(k) plan of \$777,000, \$778,000 and \$809,000 in 2008, 2007 and 2006, respectively.

**Retirement benefit obligations**

As part of the acquisition of the business and certain assets of Syratech in April 2006, the Company assumed certain obligations for retirement benefits to be payable to certain former executives of Syratech. The obligations under these agreements are unfunded. At December 31, 2008 and 2007, the total unfunded retirement benefit obligation was \$3.2 million and \$3.0 million, respectively, and is included in accrued expenses, and deferred rent & other long-term liabilities. During the years ended December 31, 2008 and 2007, the Company paid retirement benefits related to these obligations of \$148,000. The Company expects to pay a total of \$148,000 in retirement benefits related to these obligations during the year ending December 31, 2009.

**NOTE O — OTHER**

**Inventory**

The components of inventory are as follows:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(in thousands)	
Finished goods	\$137,378	\$139,042
Work in process	2,197	2,412
Raw materials	2,037	2,230
Total	\$141,612	\$143,684

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE O — OTHER (continued)**

**Property and equipment**

Property and equipment consist of:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(in thousands)	
Machinery, furniture and equipment	\$ 63,868	\$ 63,223
Leasehold improvements	24,469	24,878
Building and improvements	1,708	1,708
Construction in progress	1,301	176
Land	115	115
	<u>91,461</u>	<u>90,100</u>
Less: accumulated depreciation and amortization	<u>(41,553)</u>	<u>(35,768)</u>
Total	<u>\$ 49,908</u>	<u>\$ 54,332</u>

Depreciation and amortization expense on property and equipment for the years ended December 31, 2008, 2007 and 2006 was \$9.8 million, \$8.7 million and \$7.5 million, respectively.

Included in machinery, furniture and equipment and accumulated depreciation at December 31, 2008 are \$2.1 million and \$1.6 million, respectively, related to assets recorded under capital leases. Included in machinery, furniture and equipment and accumulated depreciation at December 31, 2007 are \$2.1 million and \$1.2 million, respectively, related to assets recorded under capital leases.

As more fully described in Note B, the Company recorded non-cash impairment charges in connection with its restructuring activities of \$3.9 million and \$1.6 million in 2008 and 2007, respectively.

**Accrued expenses**

Accrued expenses consist of:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(in thousands)	
Restructuring costs	\$ 9,890	\$ —
Vendor invoices	6,066	6,572
Customer allowances and rebates	5,956	3,339
Compensation	1,924	6,615
Interest	2,272	2,062
Freight	2,245	992
Royalties	2,021	2,387
Commissions	1,218	686
Contract settlement	—	1,612
Dividends payable	—	748
Other	4,310	6,491
Total	<u>\$35,902</u>	<u>\$31,504</u>

**LIFETIME BRANDS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE O — OTHER (continued)**

**Deferred rent & other long-term liabilities**

Deferred rent & other long-term liabilities consist of:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(in thousands)	
Deferred rent liability	\$11,135	\$10,442
Mikasa® negative goodwill	6,215	—
Retirement benefit obligations	3,003	2,851
Derivative liability	2,462	731
Long-term portion of capital lease obligations	239	457
Total	<u>\$23,054</u>	<u>\$14,481</u>

**Supplemental cash flow information**

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	(in thousands)		
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for interest	\$ 8,635	\$6,167	\$ 2,500
Cash paid for taxes	6,138	6,392	10,994
<b>Non-cash investing activities:</b>			
Grupo Vasconia, S.A.B. translation adjustment	\$(6,587)	\$ —	\$ —
Liabilities assumed in business acquisition	3,264	—	—
Common stock issued in connection with business acquisition	—	133	6,821
Equipment acquired under capital lease obligations	—	34	521
Capitalized tenant improvement allowances	—	7,039	—

**LIFETIME BRANDS, INC.**  
**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**  
(in thousands)

<u>COL. A</u>	<u>COL. B</u>	<u>COL. C</u>	<u>COL. D</u>	<u>COL. E</u>
<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions charged to costs and expenses</u>	<u>Deductions (describe)</u>	<u>Balance at end of period</u>
<b>Year ended December 31, 2008</b>				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 395	\$ 1,614	\$ 156 (a)	\$ 1,853
Reserve for sales returns and allowances	16,005	23,160 (c)	26,367 (b)	12,798
	<u>\$16,400</u>	<u>\$24,774</u>	<u>\$26,523</u>	<u>\$14,651</u>
<b>Year ended December 31, 2007</b>				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 395	\$ (79)	\$ (79) (a)	\$ 395
Reserve for sales returns and allowances	11,702	19,970 (c)	15,667 (b)	16,005
	<u>\$12,097</u>	<u>\$19,891</u>	<u>\$15,588</u>	<u>\$16,400</u>
<b>Year ended December 31, 2006</b>				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 195	\$ (81)	\$ (281) (a)	\$ 395
Reserve for sales returns and allowances	7,718	18,996 (c)	15,012 (b)	11,702
	<u>\$ 7,913</u>	<u>\$18,915</u>	<u>\$14,731</u>	<u>\$12,097</u>

(a) Uncollectible accounts written off, net of recoveries.

(b) Allowances granted.

(c) Charged to net sales.

**Amendment Agreement No. 1** dated September 5, 2007 among:

(i) Lifetime Brands, Inc., a company duly organized and in existence pursuant to the laws of the State of Delaware in the United States of America ("LTB" or "Strategic Investor");

(ii) Ekco, S.A.B., a Mexican *sociedad anónima bursátil* duly organized and in existence pursuant to the laws of the United Mexican States ("Ekco" or the "Company", provided that when the context so requires it, "Company" shall also include the Company Subsidiaries); and

(iii) Mr. José Ramón Elizondo Anaya, a Mexican individual ("Mr. Elizondo"), Mr. Miguel Ángel Huerta Pando, a Mexican individual ("Mr. Huerta" and together with Mr. Elizondo the "Primary Shareholders").

**WITNESSETH**

**WHEREAS**, Lifetime Brands, Inc., Ekco, S.A.B., Mr. José Ramón Elizondo Anaya and Mr. Miguel Ángel Huerta Pando entered into a Shares Subscription Agreement dated June 8, 2007 (the "SSA") pursuant to which they agreed, among others, on the terms and conditions for a subscription of shares issued by Ekco, S.A.B. by Lifetime Brands, Inc.

**WHEREAS**, the parties wish to amend the SSA as described below:

**NOW THEREFORE**, the parties hereto agree as follows:

1. Section 1.1(a) is hereby amended to read as follows:

(a) As soon as practicable, but in no event later than December 31, 2007 (the "Issue Date"), the Company shall issue shares of common stock (the "New Shares"), and shall make New Shares available for subscription by Strategic Investor in the terms provided below. Strategic Investor shall have the right to subscribe the shares in the terms provided hereunder, through a newly incorporated Mexican entity ("NewCo") wholly owned by the Strategic Investor, provided that Strategic Investor: (i) shall not be obliged to purchase any shares if less than 29.99% of the outstanding capital stock of the Company on a fully diluted basis, are available for subscription; and (ii) shall not be obliged to purchase any shares in excess of those New Shares representing exactly 29.99% of the outstanding capital stock of the Company on a fully diluted basis.

2. Section 14.1(b) is hereby amended to read as follows:

(b) by notice in writing by either of the Strategic Investor, the Company or the Primary Shareholders, if the Closing does not occur on or before January 31, 2007; provided that if the Closing does not occur on or before such date as the result of a willful breach or willful default by a party with respect to its obligations under this Agreement on or before such date, such party may not terminate this Agreement pursuant to this Section 14.1(b), and the other party to this Agreement shall at its option enforce its rights against such breaching or defaulting party and seek any remedies against such party, in either case as provided hereunder and by applicable law;

3. Section 9.1(f)(iii) is hereby amended to read as follows:

(iii) Strategic Investor shall not directly or indirectly (including through its Affiliates) carry on activities, conduct, own an interest in or otherwise participate (whether as a supplier, lender, guarantor, investor, employer, proprietor, shareholder, agent, consultant or partner),

sale or distribution of or in the control or management of all or any part of a business involved in the manufacture, sale or distribution of houseware products, including but not limited to kitchenware, cookware, pressure cookers, pots, pans, kitchen gadgets and utensils, cutlery, thermoses, dinnerware and flatware in Mexico, Colombia, Argentina, Venezuela, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Belize and Dominican Republic, until the second anniversary of the Exit Date, without the prior written consent of the Company and the Primary Shareholders.

4. All other provisions of the SSA shall remain in full force and effect.

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement as of the day and year first above written.

**LIFETIME BRANDS, INC.**

By: /s/ Jeffrey Siegel  
Name: Jeffrey Siegel  
Title: Attorney-in-fact

**EKCO, S.A.B.**

By: /s/ José Ramón Elizondo Anaya  
Name: Mr. José Ramón Elizondo Anaya  
Title: Attorney-in-fact

By: /s/ Emmanuel Reveles Ramírez  
Name: Mr. Emmanuel Reveles Ramírez  
Title: Attorney-in-fact

**PRIMARY SHAREHOLDERS**

By: /s/ José Ramón Elizondo Anaya  
Name: Mr. José Ramón Elizondo Anaya

By: /s/ Miguel Ángel Huerta Pando  
Name: Mr. Miguel Ángel Huerta Pando

**Amendment Agreement No. 2** dated , September 25, 2008 among:

(i) Lifetime Brands, Inc., a company duly organized and in existence pursuant to the laws of the State of Delaware in the United States of America (“LTB” or “Strategic Investor”);

(ii) Grupo Vasconia S.A.B., formerly known as Ekco, S.A.B., a Mexican *sociedad anónima bursátil* duly organized and in existence pursuant to the laws of the United Mexican States (the “Company”, provided that when the context so requires it, “Company” shall also include the Company Subsidiaries); and

(iii) Mr. José Ramón Elizondo Anaya, a Mexican individual (“Mr. Elizondo”), Mr. Miguel Ángel Huerta Pando, a Mexican individual (“Mr. Huerta” and together with Mr. Elizondo the “Primary Shareholders”).

**WITNESSETH**

**WHEREAS**, Lifetime Brands, Inc., Ekco, S.A.B. (now known as Grupo Vasconia S.A.B.), Mr. José Ramón Elizondo Anaya and Mr. Miguel Angel Huerta Pando entered into a Shares Subscription Agreement dated June 8, 2007 (the “SSA”) pursuant to which they agreed, among others, on the terms and conditions for a subscription of shares issued by Ekco, S.A.B. (now known as Grupo Vasconia S.A.B.) by Lifetime Brands, Inc.

**WHEREAS**, on September 5, 2007 the parties entered into an Amendment Agreement No. 1 to amend the SSA.

**WHEREAS**, the parties wish to amend the SSA as described below:

**NOW THEREFORE**, the parties hereto agree as follows:

1. Section 9.1(f)(i) is hereby amended to read as follows:

(i) The Company agrees that it shall not (i) directly or indirectly carry on activities, conduct, own an interest in or otherwise participate (whether as a supplier, lender, guarantor, investor, employer, proprietor, shareholder, agent, consultant or partner) in the manufacture, sale or distribution of or in the control or management of all or any part of a business involved in the manufacture, sale or distribution of houseware products, including, but not limited to, kitchenware, cookware, pressure cookers, pots, pans, kitchen gadgets and utensils, cutlery, thermoses, dinnerware and flatware in the United States or Canada (the “Cross-Border Products”) until the second anniversary of the Exit Date, without the prior written consent of Strategic Investor, provided that the Company shall have the right to continue selling the Cross-Border Products to such customers listed in Exhibit 9.1 (f) (i) “List of Customers”, and to such other customers as may be requested in writing by the Company (the “Requested Customers”) and that have not been vetoed by the Strategic Investor. The Company shall have the right to sell to the Requested Customers only if the Company has not received a written veto from the Strategic Investor within ten (10) Business Days following the date the written notice was received by the Strategic Investor. Any one of the Cross-Border Products that is also sold by the Strategic Investor shall be sold by the Company at a price no less than the price identified by the Strategic Investor on an approved price list (the “Approved Price List”), as may be provided and updated by the Strategic Investor from time to time;

2. Section 9.1(f)(iii) is hereby amended to read as follows:

(iii) Strategic Investor shall not directly or indirectly (including through its Affiliates) carry on activities, conduct, own an interest in or otherwise participate (whether as a supplier, lender, guarantor, investor, employer, proprietor, shareholder, agent, consultant or partner), sale or distribution of or in the control or management of all or any part of a business involved in the manufacture, sale or distribution of houseware products, including but not limited to kitchenware, cookware, pressure cookers, pots, pans, kitchen gadgets and utensils, cutlery, thermoses, dinnerware and flatware in Mexico, Colombia, Brazil, Chile, Peru, Ecuador, Argentina, Venezuela, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Belize and Dominican Republic, until the second anniversary of the Exit Date, without the prior written consent of the Company and the Primary Shareholders; provided, however, that the foregoing does not apply with respect to Strategic Investor's Corporate Giftware Agreement with Arc International relating to the Mikasa business.

3. All other provisions of the SSA shall remain in full force and effect.

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement as of the day and year first above written.

**LIFETIME BRANDS, INC.**

By: /s/ Jeffrey Siegel  
Name: Jeffrey Siegel  
Title: Attorney-in-fact

**GRUPO VASCONIA S.A.B. (FORMERLY  
KNOWN AS EKCO, S.A.B.)**

By: /s/ José Ramón Elizondo Anaya  
Name: Mr. José Ramón Elizondo Anaya  
Title: Attorney-in-fact

By: /s/ Emmanuel Reveles Ramírez  
Name: Mr. Emmanuel Reveles Ramírez  
Title: Attorney-in-fact

**PRIMARY SHAREHOLDERS**

By: /s/ José Ramón Elizondo Anaya  
Name: Mr. José Ramón Elizondo Anaya

By: /s/ Miguel Ángel Huerta Pando  
Name: Mr. Miguel Ángel Huerta Pando



**WAIVER AND AMENDMENT NO. 5  
TO  
SECOND AMENDED AND RESTATED CREDIT AGREEMENT**

**WAIVER AND AMENDMENT NO. 5** (this “*Amendment*”), dated as of March 31, 2009, by and among **LIFETIME BRANDS, INC.**, (the “*Borrower*”), the several financial institutions party hereto and **HSBC BANK USA, NATIONAL ASSOCIATION**, as Administrative Agent for the Lenders.

RECITALS

A. The Borrower, the Lenders, Citibank, N.A. and Wachovia Bank, National Association, as Co-Documentation Agents, JPMorgan Chase Bank, N.A., as Syndication Agent, and the Administrative Agent are parties to the Second Amended and Restated Credit Agreement, dated as of October 31, 2006 (as it may be amended, restated, supplemented or otherwise modified from time to time, the “*Credit Agreement*”). Unless otherwise defined herein, all capitalized terms used herein shall have the meanings ascribed to them in the Credit Agreement.

B. The Borrower was not, as at December 31, 2008, in compliance with the provisions of Sections 7.13, 7.15 and 7.18 of the Credit Agreement.

C. The Borrower has (1) requested that the Administrative Agent and the Required Lenders waive compliance by the Borrower with the requirements of Sections 7.13, 7.15 and 7.18 of the Credit Agreement for the fiscal quarter ending December 31, 2008 and (2) requested the Lenders to amend the Credit Agreement in certain respects.

D. The Administrative Agent has advised the Borrower that the Super-Majority Lenders are willing to agree to its request on the terms and subject to the conditions set forth in this Amendment.

Accordingly, in consideration of the foregoing, the parties hereto hereby agree as follows:

1. Waiver. The Administrative Agent and the Required Lenders hereby waive non-compliance by the Borrower with the requirements of Sections 7.13, 7.15 and 7.18 of the Credit Agreement (as if effect on December 31, 2008) for the period ended December 31, 2008; provided that such waiver (a) is limited to the matters expressly stated in this Section 1 and (b) shall not be deemed to be a waiver of any future non-compliance with Section 7.13, 7.15 or 7.18 of the Credit Agreement or a waiver of any violations of any other provisions of the Credit Agreement.

2. Amendments to Credit Agreement.

(a) Additional Definitions. Section 1.01 of the Credit Agreement is hereby amended by adding the following new definitions in the appropriate alphabetical order:

“*Additional Guarantor*” means Wallace Silversmiths de Puerto Rico Ltd., a Cayman Islands company.

“*Adjusted Excess Availability*” means, as of any date of determination, the positive difference, if any, between (a) the Borrowing Base

Amount as of such date *minus* any Reserves and (b) the Aggregate Revolving Exposure as of such date.

“*Amendment No. 5*” means Amendment No. 5 to Second Amended and Restated Credit Agreement dated as of March 31, 2009 among the Borrower, the Lenders party thereto and the Administrative Agent.

“*Amendment No. 5 Effective Date*” means March 31, 2009.

“*Banking Services*” each and any of the following bank services provided to any Loan Party by any Lender or any of its Affiliates: (a) credit cards for commercial customers (including, without limitation, “commercial credit cards” and purchasing cards), (b) stored value cards and (c) treasury management services (including, without limitation, controlled disbursement, automated clearinghouse transactions, return items, overdrafts and interstate depository network services).

“*Banking Services Obligations*” means of the Loan Parties means any and all obligations of the Loan Parties, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor) in connection with Banking Services.

“*Blocked Account Bank*” means HSBC Bank USA, National Association, or any successor thereto.

“*Blocked Accounts*” has the meaning set forth in Section 2.16(a).

“*Borrower’s Account*” has the meaning set forth in Section 2.09(g).

“*Collateral Access Agreement*” means an agreement in writing, in form and substance satisfactory to the Co-Collateral Agents, from the lessor of premises to the Borrower or any Guarantor, or any other Person (i) to whom any Collateral (including Inventory, Equipment, bills of lading or other documents of title) is consigned or (ii) who has custody, control or possession of any such Collateral or (iii) is otherwise the owner or operator of any such premises on which any of such Collateral is located, pursuant to which such lessor, consignee or other Person acknowledges the Lien of the Administrative Agent in such Collateral, agrees to waive any and all claims such lessor, consignee or other Person may, at any time, have against such Collateral, whether for processing, storage or otherwise, and agrees to permit the Co-Collateral Agents access to, and the right to remain on, the premises of such lessor, consignee or other Person so as to exercise the rights and remedies of the Agent and the Lenders and otherwise deal with such Collateral, and which contains such other provisions as the Co-Collateral Agents may require from time to time.

“*Consultant*” means Carl Marks & Co., Inc. or another restructuring consultant reasonably acceptable to the Co-Collateral Agents.

“*Customs Broker*” means the Persons selected by the Borrower after written notice by the Borrower to the Co-Collateral Agents who are reasonably acceptable to the Co-Collateral Agents to perform port of entry services to process Inventory imported by the Borrower or any Guarantor from outside the United States of America and to supply facilities, labor and materials to the Borrower in connection therewith, *provided* that, as to each such Person (a) the Administrative Agent shall have received a Collateral Access Agreement duly authorized, executed and delivered by such Person, (b) such agreement is in full force and effect and (c) such Person shall be in compliance in all material respects with the terms thereof.

“*Eligible Work in Process Inventory*” means work in process Inventory constituting the precious metals component of such Inventory that satisfies the criteria set forth in the definition of “*Eligible Inventory*”.

“*Excess Availability*” means, as of any date of determination, the positive difference, if any, between (a) the lesser of (i) the Aggregate Revolving Commitment as of such date and (ii) the Borrowing Base Amount as of such date *minus* any Reserves and (b) the Aggregate Revolving Exposure as of such date.

“*Defaulting Lender*” has the meaning set forth in Section 2.15(a).

“*Lender Default*” has the meaning forth in Section 2.15(a).

“*Net Orderly Liquidation Value Percentage*” means, as of any date with respect to the determination of the relevant Borrowing Base Percentage of Eligible Inventory or Eligible Work in Process Inventory, the percentage as of such date assigned to the net orderly liquidation value of Eligible Inventory or Eligible Work in Process Inventory, as the case may be, in the most recent appraisal of the Loan Parties’ Inventory by an independent appraiser.

“*Non-Defaulting Lenders*” has the meaning set forth in Section 2.15(b).

“*Reserves*” means, as of any date of determination, such amounts as the Co-Collateral Agents may from time to time establish and revise in good faith based on the lending practices of the Co-Collateral Agents upon notice in the case of additional categories of Reserves (*provided* no Default has occurred and is continuing, of not less than two (2) days) to the Borrower, reducing the amount of Loans and Letters of Credit which would otherwise be available to the Borrower under the lending formulas provided for herein. Such amounts may include, but shall not be limited to, amounts: (a) to reflect events, conditions, contingencies or risks, which, as determined by the Co-Collateral Agents in good faith, adversely affect or have a reasonable likelihood of adversely affecting either (i) the Accounts Receivable, the Inventory or the value thereof, (ii) the assets or business operations of the Borrower or (iii) the Liens and other rights of the Lenders or the Administrative Agent in the Collateral (including the enforceability, perfection, priority and ranking thereof); (b) to reflect the Co-

Collateral Agents' good faith belief that any collateral report or financial information furnished by or on behalf of the Borrower or the Guarantors to the Administrative Agent or any Lender is incomplete, inaccurate or misleading; (c) in respect of any state of facts which the Co-Collateral Agents determine in good faith constitutes a Default; (d) to reflect the amount of any dilution in respect of the Eligible Accounts, inventory shrinkage or any liabilities of the Borrower (including, without limitation, liabilities for unpaid Taxes, workers' compensation, wages, employee withholdings or deductions, amounts owed to suppliers or workmen) which pursuant to any applicable laws, rules or regulations of any Governmental Authority may result in the imposition of a Lien capable of ranking senior to or pari passu with the Lien of the Administrative Agent; (e) to reflect accrued and unpaid royalties, fees or other charges payable by the Borrower or any Guarantor in respect of licenses or other agreements to use Intellectual Property owned by third parties; (f) to reflect any rental payments (covering a period of three (3) months) or other charges or other amounts (for such three-month period) which may at any time be payable to lessors of real or personal property at or in which Inventory or records of any Loan Party are located and with respect to which the Administrative Agent shall not have received a Collateral Access Agreement; (g) to reflect freight, duty or other similar charges which may at any time arise in connection with in-transit Inventory; or (h) in respect of Banking Services and Hedging Agreements.

*"Settlement Date"* means the Amendment No. 5 Effective Date and thereafter Tuesday of each week, unless such day is not a Business Day in which case it shall be the next succeeding Business Day, and every other Business Day designated by the Administrative Agent as a "Settlement Date" by notice from the Administrative Agent to each Lender.

*"Tax Refund"* means the income tax refund of the Borrower in an amount to be set forth on IRS Form 1139 prepared by Ernst & Young LLP in respect of federal income taxes for the Borrower's 2008 fiscal year.

*"Tax Refund Amount"* means, (a) during the period from (i) the date of receipt by the Administrative Agent of a copy of the Form 1139 filed with the Internal Revenue Service by the Borrower in respect of the Tax Refund and copies of Forms 8302 and 8821 or such other relevant Internal Revenue Service forms necessary to be filed with the Internal Revenue Service (as so filed) in order for the Tax Refund to be paid directly into a Blocked Account and for notices from the Internal Revenue Service denying or reducing the amount of the Tax Refund be delivered to the Administrative Agent, to (ii) the earlier to occur of (A) September 30, 2009 and (B) the date on which the Borrower receives the Tax Refund, an amount equal to the lesser of 75% of the Tax Refund and \$9,000,000 and (b) thereafter, \$0.00.

*"Week"* means the time period commencing with the opening of business on a Monday and ending on the end of business the following Sunday.

(b) Alternate Base Rate. Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of “*Alternate Base Rate*” in its entirety and substituting the following therefor:

“*Alternate Base Rate*” means, on any date, a variable rate of interest per annum equal to the greatest of (a) the highest of the “prime rate,” “reference rate,” “base rate” or other similar rate as determined by the Administrative Agent (or any successor to the Administrative Agent) announced from time to time by HSBC Bank USA, National Association (or any successor to HSBC Bank USA, National Association) (with the understanding that any such rate may merely be a reference rate and may not necessarily represent the lowest or best rate actually charged to any customer by such bank), (b) the Federal Funds Open Rate *plus* one percent (1.0%) and (c) the 30-Day LIBOR Rate *plus* one percent (1.0%). For purposes of this definition: (i) “*Federal Funds Open Rate*” shall mean, for any day, the rate per annum determined by the Administrative Agent in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the Open Rate for federal funds transactions as of the opening of business for federal funds transactions among members of the Federal Reserve System arranged by federal funds brokers on such day, as quoted by Garvin Guybutler, any successor entity thereto, or any other broker selected by the Administrative Agent, as set forth on the applicable Telerate display page; *provided* that if such day is not a Business Day, the Federal Funds Open Rate for such day shall be the Open Rate on the immediately preceding Business Day, or if no such rate shall be quoted by a federal funds broker at such time, such other rate as determined by the Administrative Agent in accordance with its usual procedures; (ii) “*30-Day LIBOR Rate*” shall mean, for any day, the rate per annum determined by the Administrative Agent by dividing (x) the Published Rate by (y) a number equal to 1.00 *minus* the percentage prescribed by the Federal Reserve for determining the maximum reserve requirements with respect to any eurocurrency funding by banks on such day; and “*Published Rate*” shall mean the rate of interest published each Business Day in The Wall Street Journal “Money Rates” listing under the caption “London Interbank Offered Rates” for a one month period (or, if no such rate is published therein for any reason, then the Published Rate shall be the eurodollar rate for a one month period as published in another publication determined by the Administrative Agent).

(c) Applicable Margin. Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of “*Applicable Margin*” in its entirety and substituting the following therefor:

“*Applicable Margin*” means (a) with respect to ABR Borrowings and Swing Line Borrowings, 3.00%, (b) with respect to Eurodollar Borrowings, 4.00% and (c) with respect to the Commitment Fees, 0.50%.

(d) Borrowing Base Amount. Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of “*Borrowing Base Amount*” in its entirety and substituting the following therefor:

*“Borrowing Base Amount”* means, as of any date of determination, a sum equal to (a) the Borrowing Base Percentage of Eligible Receivables *plus* (b) the lesser of (i) the Borrowing Base Percentage of Eligible Inventory and (ii) the Eligible Inventory Amount as of such date *plus* (c) the lesser of (i) \$25,000,000 and (ii) the Trademark OLV Amount as of such date *plus* (d) the Tax Refund Amount as of such date *plus* (e) the lesser of (i) \$2,000,000 and (ii) the Borrowing Base Percentage of Eligible Work in Process Inventory as of such date.

(e) Borrowing Base Certificate. Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of “Borrowing Base Certificate” in its entirety and substituting the following therefor:

*“Borrowing Base Certificate”* means a certificate in substantially the form of Exhibit A to Amendment No. 5, duly executed by a Financial Officer of the Borrower and delivered to the Administrative Agent, appropriately completed, by which such Financial Officer shall certify to the Administrative Agent the Borrowing Base Amount and the calculation thereof as of the date of such certificate.

(f) Borrowing Base Percentage. Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of “Borrowing Base Percentage” in its entirety and substituting the following therefor:

*“Borrowing Base Percentage”* means (a) with respect to Eligible Receivables, 85%, (b) with respect to Eligible Inventory, (i) during the period from the Amendment No. 5 Effective Date to and including June 30, 2009, 90% of the Net Orderly Liquidation Value Percentage with respect to Eligible Inventory as of the date of determination of the Borrowing Base Percentage, and (ii) from and after July 1, 2009, 85% of the Net Orderly Liquidation Value Percentage with respect to Eligible Inventory as of the date of determination of the Borrowing Base Percentage, and (c) with respect to Eligible Work in Process Inventory, 85% of the Net Orderly Liquidation Value Percentage with respect to Eligible Work in Process Inventory as of the date of determination of the Borrowing Base Percentage. Subject to the provisions of Section 10.02(b), the Borrowing Base Percentage with respect to each category of assets may be increased or decreased by the Co-Collateral Agents at any time and from time to time in the exercise of good faith and based upon the lending practices of the Co-Collateral Agents, consistent with criteria customary in the commercial finance industry generally. The Administrative Agent shall give the Borrower not less than two (2) Business Days prior written notice of its determination to decrease the Borrowing Base Percentage of any category of assets. The Borrower consents to any such increases or decreases and acknowledge that decreasing the Borrowing Base Percentage or increasing or imposing reserves may limit or restrict the Extensions of Credit requested by the Borrower.

(g) Eligible Inventory. Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of “Eligible Inventory” in its entirety and substituting the following therefor:

“*Eligible Inventory*” means Inventory (other than Eligible Work in Process Inventory) located in the United States of America or in transit as provided in clause (e) below subject to a fully perfected first priority security interest in favor of the Administrative Agent, for the ratable benefit of the Secured Parties, pursuant to the Security Agreement which is not on consignment from any third party and which conforms to the representations and warranties contained in the Security Agreement. Notwithstanding the foregoing, “*Eligible Inventory*” shall not include (a) obsolete or damaged Inventory, (b) Inventory consisting of samples, promotional, marketing, packaging or shipping materials or supplies or otherwise not of a type held for sale in the ordinary course of the Borrower’s or a Guarantor’s business, (c) Inventory not saleable within one year from the date of acquisition or creation thereof, (d) Inventory to be returned to suppliers, (e) any Inventory at premises other than those owned and controlled by the Borrower or any Guarantor *except* (i) any Inventory that would otherwise be Eligible Inventory at locations that are leased by the Borrower or any Guarantor (including public warehouse facilities at which the Borrower’s Inventory is segregated from property of third parties) may nevertheless be considered Eligible Inventory if the Administrative Agent shall have received a Collateral Access Agreement, duly authorized, executed and delivered by the owner and lessor of such premises, and (ii) Inventory which would otherwise be Eligible Inventory having a value of up to (x) \$10,000,000 *divided by* (y) the Borrowing Base Percentage for Eligible Inventory in effect on the date of determination of Eligible Inventory and that is located outside of the United States of America and in transit to either the premises of a Customs Broker in the United States of America or premises of the Borrower or any Guarantor in the United States of America which are either owned and controlled by the Borrower or such Guarantor or leased by the Borrower or such Guarantor (but only if the Administrative Agent shall have received a Collateral Access Agreement, duly authorized, executed and delivered by the owner and lessor of such premises, as the case may be), *provided* that (A) the Administrative Agent has a first priority perfected Lien upon, and control and possession of, all originals of documents of title with respect to such Inventory, (B) the Administrative Agent has received (I) a Collateral Access Agreement, duly authorized, executed and delivered by the Customs Broker handling the shipping and delivery of such Inventory, (II) a copy of the certificate of marine cargo insurance in connection therewith in which the Administrative Agent has been named as an additional insured and loss payee in a manner acceptable to the Administrative Agent and (III) a copy of the invoice and manifest with respect thereto and (C) such Inventory is not subject to any Letter of Credit, (D) the Borrower shall have caused all bills of lading and other documents of title relating to the goods being purchased by it which are outside the United States of America and in transit to such premises to name the Borrower as consignee, unless and until the Co-Collateral Agents may direct otherwise or, in the event that the Co-Collateral Agents shall have so directed, from time to time as the Co-Collateral Agents may direct, the Borrower shall

have caused the Administrative Agent or such other financial institution or other Person as the Co-Collateral Agents may specify to be named as consignee, it being understood, without limiting any other rights of the Administrative Agent, the Co-Collateral Agents or any Lender hereunder, at any time on or after the occurrence of a Default, and for so long as the same is continuing, the Administrative Agent shall have the right to endorse and negotiate on behalf of, and as attorney-in-fact for, the Borrower and the Guarantors any bill of lading or other document of title with respect to such goods naming the Borrower or any Guarantor as consignee to the Administrative Agent; (E) three (3) originals of each bill of lading or other document of title which, unless and until the Co-Collateral Agents shall direct otherwise, shall have been delivered as follows: (I) one (1) original to such Customs Broker as the Borrower may specify (so long as the Administrative Agent has received a Collateral Access Agreement duly authorized, executed and delivered by such Customs Broker) and (II) two (2) originals sent to the Administrative Agent or to such other Person as the Administrative Agent may designate for such purpose; (F) the Borrower shall have obtained a copy (but not the originals) of such bill of lading and other documents of title from the Customs Broker; and (G) the Borrower shall have caused all bills of lading or other documents of title relating to goods purchased by the Borrower or any Guarantor which are outside the United States of America and in transit to the premises of the Borrower or such Guarantor or the premises of a Customs Broker in the United States of America to be issued in a form so as to constitute negotiable documents as such term is defined in the Uniform Commercial Code; (f) Inventory that is subject to any licensing, patent, royalty, trademark, trade name or copyright agreement with any third party from whom the Borrower or any Guarantor has received notice of a dispute in respect of any such agreement or with respect to which the Administrative Agent has not obtained a Collateral Access Agreement, duly authorized, executed and delivered by such third party and (g) except as expressly provided in clause (e) above with respect to Inventory in transit and except for Eligible Work in Process Inventory of the Additional Guarantor located in Puerto Rico, Inventory which is not located on the Borrower's or a Guarantor's owned or leased premises in the United States of America.

(h) Grid Effectiveness Date. Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of "*Grid Effectiveness Date*" in its entirety.

(i) Interest Coverage Ratio. Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of "*Interest Coverage Ratio*" in its entirety.

(j) Leverage Ratio. Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of "*Leverage Ratio*" in its entirety.

(k) LIBO Rate. Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of "*LIBO Rate*" in its entirety and the following substituted therefor:

"*LIBO Rate*" means, with respect to any Eurodollar Borrowing, for any Interest Period applicable thereto, the greater of (a) one and three-quarters percent (1.75%) and (b) a rate of interest per annum, as determined by



the Administrative Agent, equal to the rate for deposits in dollars for a period comparable to such Interest Period which appears on the Reuters Page LIBOR01 (or such other page as may replace LIBOR01 on the Reuters Monitor Money Rates Service for the purpose of displaying such rates or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for dollar deposits) as of 11:00 a.m., London time, on the day that is two Business Days prior to the first day of such Interest Period. If such rate does not appear on Reuters Page LIBOR01 (or such other replacement page), LIBO Rate shall be the rate per annum (rounded, if necessary, to the nearest one hundred-thousandth of a percentage point) at which deposits in dollars are offered by four major banks in the London interbank market at approximately 11:00 a.m., London time, on the day that is two Business Days prior to the first day of such Interest Period to prime banks in the London interbank market for a period of one month commencing on the first day of such Interest Period in an amount comparable to the principal amount of such Eurodollar Borrowing. The Administrative Agent will request the principal London office of each such bank to provide a quotation of its rate. If at least two such quotations are provided as requested, the rate for such Interest Period shall be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for such Interest Period shall be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Administrative Agent, at approximately 11:00 a.m., New York City time, on the date that is two Business Days prior to the first day of such Interest Period for loans in dollars to leading European banks for a period of one month commencing on the first day of such Interest Period in an amount comparable to such Eurodollar Borrowing. In the event that the Administrative Agent is unable to obtain any such quotation as provided above, it shall be deemed that LIBO Rate pursuant to a Eurodollar Borrowing cannot be determined.

(l) Permitted Acquisition. Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of “*Permitted Acquisition*” in its entirety and the following substituted therefor:

“*Permitted Acquisition*” means the purchase, holding or acquisition of (including pursuant to any merger) any Capital Stock, evidences of indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of any other Person, or the purchase or acquisition of (in one transaction or a series of transactions (including pursuant to any merger)) any assets of any other Person constituting a business unit (each an “*acquisition*”), *provided* that, (a) at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing, (b) the aggregate amount of consideration paid, and Indebtedness assumed, by the Borrower and the Subsidiaries in connection with all such acquisitions made during the period from and after the Amendment No. 5 Effective Date shall not exceed \$5,000,000, (c) such Person or business unit, as the case may be, is in substantially the same business as the Borrower, (d) the Managing Person of such Person shall have approved or recommend such acquisition, (e) the Borrower shall have complied with the provisions of Section 6.11 with respect to such Person or assets and (f)

before and immediately after giving effect to such acquisition (i) the Fixed Charge Coverage Ratio shall be not less than 1.50:1 and (ii) Excess Availability shall be not less than \$50,000,000.

(m) Obligations. Section 1.01 of the Credit Agreement is hereby amended by deleting the phrase “unless otherwise agreed upon in writing by the Lenders,” in clause (c) of the definition of “*Obligations*” and adding a new clause (d) thereto to read in its entirety as follows:

and (d) all Banking Services Obligations.

(n) Revolving Maturity Date. Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of “*Revolving Maturity Date*” in its entirety and the following substituted therefor:

“*Revolving Maturity Date*” means January 31, 2011.

(o) Swing Line Commitment. Section 1.01 of the Credit Agreement is hereby amended by deleting the reference to “\$0.00” in the definition of “*Swing Line Commitment*” and substituting “\$5,000,000” therefor.

(p) Telerate Page 3750. Section 1.01 of the Credit Agreement is hereby amended by deleting the definition of “*Telerate Page 3750*” in its entirety.

(q) Commitments. Section 2.01 of the Credit Agreement is hereby amended by deleting the first sentence thereof in its entirety and the substituting the following therefor:

Subject to the terms and conditions set forth herein, each Lender having a Revolving Commitment agrees to make Revolving Loans to the Borrower from time to time during the Availability Period in an aggregate principal amount up to an amount that will not result in such Lender’s Revolving Exposure exceeding such Lender’s Revolving Commitment; *provided* that no Lender shall be permitted or required to make Revolving Loans to the Borrower in excess of an aggregate principal amount equal to (i) the lesser of (A) an amount that will not result in such Lender’s Revolving Exposure exceeding such Lender’s Revolving Commitment and (B) such Lender’s Commitment Percentage of the Borrowing Base Amount *minus* (ii) such Lender’s Commitment Percentage of any Reserves.

(r) Swing Line Loans. Section 2.05(a) of the Credit Agreement is hereby amended by deleting the proviso thereto in its entirety and substituting the following therefor:

*provided* that (i) immediately after making each Swing Line Loan, (A) the aggregate outstanding principal balance of the Swing Line Loans will not exceed the Swing Line Commitment and (B) the Aggregate Revolving Exposure will not exceed (I) the lesser of (x) the Aggregate Revolving Commitment and (y) the Borrowing Base Amount *minus* (II) any Reserves, (ii) prior thereto or simultaneously therewith the Borrower shall have borrowed Revolving Loans, (iii) no Lender shall be in default of its obligations under this Agreement and (iv) no Credit Party shall have notified the Swing Line Lender and the Borrower in writing at least one Business Day prior to the Borrowing Date with respect to

such Swing Line Loan, that the conditions set forth in Section 5.02 have not been satisfied and such conditions remain unsatisfied as of the requested time of the making such Swing Line Loan.

(s) Prepayment of Loans. Section 2.08 of the Credit Agreement is hereby amended by adding a new Section 2.08(g) thereto to read in its entirety as follows:

(g) Immediately upon receipt of the proceeds of the Tax Refund, the Borrower shall prepay Revolving Borrowings in an amount equal to the amount of the Tax Refund actually received by the Borrower by depositing such proceeds in a Blocked Account.

(t) Payments Generally; Pro Rata Treatment; Sharing of Setoff. Section 2.09 of the Credit Agreement is hereby amended by adding new Sections 2.09(f), 2.09(g) and 2.09(h) thereto to read in their entirety as follows:

(f) Notwithstanding anything in the contrary in Section 2.09(b) or in the Security Agreement, any proceeds of Collateral received by the Administrative Agent (i) not constituting either (A) a specific payment of principal, interest, fees or other sum payable under the Loan Documents (which shall be applied as specified by the Borrower), (B) a mandatory prepayment (which shall be applied in accordance with Section 2.08) or (C) amounts to be applied from the Blocked Accounts (which shall be applied in accordance with Section 2.16) or (ii) after an Event of Default has occurred and is continuing and the Administrative Agent so elects or the Required Lenders so direct, such funds shall be applied ratably *first*, to pay any fees, indemnities, or expense reimbursements including amounts then due to the Administrative Agent and the Issuer from the Borrower (other than in connection with Banking Services or Hedging Agreements), *second*, to pay any fees or expense reimbursements then due to the Lenders from the Borrower (other than in connection with Banking Services or Hedging Agreements), *third*, to pay interest then due and payable on the Loans ratably, *fourth*, to prepay principal on the Loans and unreimbursed Reimbursement Obligations ratably, *fifth*, to pay an amount to the Administrative Agent equal to one hundred five percent (105%) of the aggregate undrawn face amount of all outstanding Letters of Credit and the aggregate amount of any unpaid Letter of Credit Exposure, to be held as cash collateral pursuant to Section 2.12, *sixth*, to payment of any amounts owing with respect to Banking Services and Hedging Agreements, and *seventh*, to the payment of any other Obligation due to the Administrative Agent or any Lender by the Borrower.

Notwithstanding anything to the contrary contained in this Agreement, unless so directed by the Borrower, or unless a Default is in existence, neither the Administrative Agent nor any Lender shall apply any payment which it receives to any Eurodollar Loan, except (x) on the expiration date of the Interest Period applicable to any such Eurodollar Loan or (y) in the event, and only to the extent, that there are no outstanding ABR Loans and, in any such event, the Borrower shall pay the break funding payment required in accordance with Section 3.06. The Administrative Agent and the Lenders shall have the continuing and

exclusive right to apply and reverse and reapply any and all such proceeds and payments to any portion of the Obligations.

(g) The Administrative Agent shall maintain, in accordance with its customary procedures, a loan account (the “*Borrower’s Account*”) in the name of the Borrower in which shall be recorded the date and amount of each Extension of Credit made by the Lenders and the date and amount of each payment in respect thereof; *provided* that the failure by the Administrative Agent to record the date and amount of any Extension of Credit shall not adversely affect the obligations of the Borrower to repay the Extensions of Credit in accordance with the terms of this Agreement. Each month, the Administrative Agent shall send to the Borrower a statement showing the accounting for the Extensions of Credit made, payments made or credited in respect thereof, and other transactions between the Lenders and the Borrower during such month. The monthly statements shall be deemed correct and binding upon the Borrower in the absence of manifest error and shall constitute an account stated between the Lenders and the Borrower unless the Administrative Agent receives a written statement of the Borrower’s specific exceptions thereto within thirty (30) days after such statement is received by the Borrower. The records of the Administrative Agent with respect to the loan account shall be conclusive evidence absent manifest error of the amounts of Extensions of Credit and other charges thereto and of payments applicable thereto.

(h) The Borrower recognizes that the amounts evidenced by checks, notes, drafts or any other items of payment relating to and/or proceeds of Collateral may not be collectible by the Administrative Agent on the date received. In consideration of the Administrative Agent’s agreement to conditionally credit the Borrower’s Account as of the Business Day on which the Administrative Agent receives those items of payment, the Borrower agrees that, in computing the charges under this Agreement, all items of payment shall be deemed applied by the Administrative Agent on account of the Obligations on (i) the Business Day the Administrative Agent receives such payments via wire transfer or electronic depository check or (ii) in the case of payments received by the Administrative Agent in any other form, the Business Day such payment constitutes good funds in the Administrative Agent’s account. The Administrative Agent shall not, however, be required to credit the Borrower’s Account for the amount of any item of payment which is unsatisfactory to the Administrative Agent and the Administrative Agent may charge the Borrower’s Account for the amount of any item of payment which is returned to the Administrative Agent unpaid.

(u) Optional Increase in Commitments. Section 2.10 of the Credit Agreement is hereby deleted in its entirety and **[Intentionally Deleted]** substituted therefor.

(v) Letters of Credit. The first sentence of Section 2.11(a) of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

The Borrower may request the Issuer to issue letters of credit (the “*Letters of Credit*”; each, individually, a “*Letter of Credit*”) during the period from the Effective Date to the thirtieth Business Day prior to the Revolving Maturity Date, *provided* that immediately after the issuance of each Letter of Credit (i) the Letter of Credit Exposure of all Lenders would not exceed the Letter of Credit Commitment, (ii) the Letter of Credit Exposure of all Lenders with respect to (A) trade or commercial documentary Letters of Credit shall not exceed \$20,000,000 and (B) standby Letters of Credit shall not exceed \$10,000,000 and (iii) the Aggregate Revolving Exposure would not exceed (A) the lesser of (x) the Aggregate Revolving Commitment and (y) the Borrowing Base Amount *minus* (B) any Reserves.

(w) Manner of Borrowing and Payment; Defaulting Lender; Certain Provisions Concerning the Collateral. Article 2 of the Credit Agreement is hereby amended by adding new Sections 2.14, 2.15 and 2.16 thereto to read in their entirety as follows:

#### **Section 2.14 Manner of Borrowing and Payment**

(a) (i) Notwithstanding anything to the contrary contained in Section 2.04(a), 2.05 or 2.09(b), commencing with the first Business Day following the Amendment No. 5 Effective Date, each Revolving Borrowing shall first be advanced by the Swing Line Lender as a Swing Line Loan and each payment by the Borrower on account of Revolving Loans shall be applied first to Swing Line Loans advanced by the Swing Line Lender. On or before 1:00 p.m. (New York time) on each Settlement Date commencing with the first Settlement Date following the Amendment No. 5 Effective Date, the Administrative Agent and the Lenders shall make certain payments as follows: (A) if the aggregate amount of new Swing Line Loans made during the preceding Week (if any) exceeds the aggregate amount of repayments applied to outstanding Swing Line Loan and Revolving Loans during such preceding Week, then each Lender shall provide the Administrative Agent with funds in an amount equal to its applicable Commitment Percentage of the difference between (I) such new Swing Line Loans and (II) such repayments, which funds shall be deemed to be proceeds of Revolving Loans made by the Lenders (regardless of whether the conditions set forth in Section 5.02 have been satisfied) and (B) if the aggregate amount of repayments applied to outstanding Swing Line Loans during such Week exceeds the aggregate amount of new Swing Line Loans made during such Week, then the Administrative Agent shall provide each Lender with funds in an amount equal to its applicable Commitment Percentage of the difference between (I) such repayments and (II) such Swing Line Loans.

(ii) Each Lender shall be entitled to earn interest at the applicable interest rate on outstanding Revolving Loans which it has funded.

(iii) Promptly following each Settlement Date, the Administrative Agent shall submit to each Lender a certificate with respect to payments received and Swing Line Loans made during the Week immediately

preceding such Settlement Date. Such certificate of the Administrative Agent shall be conclusive in the absence of manifest error.

(b) Unless the Administrative Agent shall have been notified by telephone, confirmed in writing, by any Lender that such Lender will not make the amount which would constitute its applicable Commitment Percentage of the Revolving Loans available to the Administrative Agent, the Administrative Agent may (but shall not be obligated to) assume that such Lender shall make such amount available to the Administrative Agent on the next Settlement Date and, in reliance upon such assumption, make available to the Borrower a corresponding amount. The Administrative Agent will promptly notify the Borrower of its receipt of any such notice from a Lender. If such amount is made available to the Administrative Agent on a date after such next Settlement Date, such Lender shall pay to the Administrative Agent on demand an amount equal to the product of (i) the daily average Federal Funds Rate (computed on the basis of a year of 360 days) during such period as quoted by the Administrative Agent, times (ii) such amount, times (iii) the number of days from and including such Settlement Date to the date on which such amount becomes immediately available to the Administrative Agent. A certificate of the Administrative Agent submitted to any Lender with respect to any amounts owing under this Section 2.14(b) shall be conclusive, in the absence of manifest error. If such amount is not in fact made available to the Administrative Agent by such Lender within three (3) Business Days after such Settlement Date, the Administrative Agent shall be entitled to recover such an amount, with interest thereon at the rate per annum then applicable to such Revolving Loans hereunder, on demand from the Borrower; *provided* that the Administrative Agent's right to such recovery shall not prejudice or otherwise adversely affect the Borrower's rights (if any) against such Lender.

(c) Any sums expended by the Administrative Agent or any Lender due to the Borrower's failure to perform or comply with its obligations under this Agreement or any other Loan Document including, without limitation, the Borrower's obligations under Sections 2.16, 6.04, 6.06(b) or 6.10, may be charged to the Borrower's Account as a Revolving Loan maintained as an ABR Loan and added to the Obligations

### **Section 2.15 Defaulting Lender**

(a) Notwithstanding anything to the contrary contained herein, in the event any Lender (i) has failed or refused (which failure or refusal constitutes a breach by such Lender of its obligations under this Agreement) to make available its portion of any Extension of Credit or (ii) notifies either the Administrative Agent or the Borrower that it does not intend to make available its portion of any Extension of Credit (if the actual refusal would constitute a breach by such Lender of its obligations under this Agreement) (each, a "*Lender Default*"), all rights and obligations hereunder of such Lender (a "*Defaulting Lender*") as to which a Lender Default is in effect and of the other parties hereto

shall be modified to the extent of the express provisions of this Section 2.15 while such Lender Default remains in effect.

(b) Extensions of Credit shall be incurred pro rata from Lenders (the “*Non-Defaulting Lenders*”) which are not Defaulting Lenders based on their respective Commitment Percentages, and no Commitment Percentage of any Lender or any pro rata share of any Extension of Credit required to be advanced by any Lender shall be increased as a result of such Lender Default. Amounts received in respect of principal of any type of Extension of Credit shall be applied to reduce the applicable Extensions of Credit of each Lender (other than any Defaulting Lender) pro rata based on the aggregate of the outstanding Extensions of Credit of that type of all Lenders at the time of such application; *provided* that the Administrative Agent shall not be obligated to transfer to a Defaulting Lender any payments received by the Administrative Agent for the Defaulting Lender’s benefit, nor shall a Defaulting Lender be entitled to the sharing of any payments hereunder (including any principal, interest or fees). Any amount payable to a Defaulting Lender hereunder (whether on account of principal, interest, fees or otherwise) shall, in lieu of being distributed to such Defaulting Lender, be retained by the Administrative Agent in a segregated account and, subject to any applicable requirements of law, be applied at such time or times as may be determined by the Administrative Agent (i) *first*, to the payment of any amounts owing by such Defaulting Lender to the Administrative Agent hereunder, (ii) *second*, pro rata, to the payment of any amounts owing by such Defaulting Lender to the Issuer or Swing Line Lender hereunder, (iii) *third*, if so determined by the Administrative Agent or requested by an Issuer or Swing Line Lender, to be held in such account as cash collateral for future funding obligations of the Defaulting Lender of any participating interest in any Swing Line Loan or Letter of Credit, (iv) *fourth*, to the funding of any Loan in respect of which such Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Administrative Agent, (v) *fifth*, if so determined by the Administrative Agent and the Borrower, held in such account as cash collateral for future funding obligations of the Defaulting Lender of any Loans under this Agreement, (vi) *sixth*, to the payment of any amounts owing to the Lenders or the Issuer or the Swing Line Lender as a result of any judgment of a court of competent jurisdiction obtained by any Lender or the Issuer or the Swing Line Lender against such Defaulting Lender as a result of such Defaulting Lender’s breach of its obligations under this Agreement, (vii) *seventh*, to the payment of any amounts owing to the Borrower as a result of any judgment of a court of competent jurisdiction obtained by the Borrower against such Defaulting Lender as a result of such Defaulting Lender’s breach of its obligations under this Agreement, and (viii) *eighth*, to such Defaulting Lender or as otherwise directed by a court of competent jurisdiction; *provided* that if such payment is (x) a prepayment of the principal amount of any Loans or reimbursement obligations in respect of Reimbursement Obligations for which a Defaulting Lender has funded its participation obligations and (y) made at a time when the conditions set forth in Section 5.02 are satisfied, such payment shall be applied solely to prepay the Loans of, and reimbursement obligations owed to, all non-Defaulting

Lenders pro rata prior to being applied to the prepayment of any Loans, or reimbursement obligations owed to, any Defaulting Lender.

(c) A Defaulting Lender shall not be entitled to give instructions to the Administrative Agent or to approve, disapprove, consent to or vote on any matters relating to this Agreement and the other Loan Documents. All amendments, waivers and other modifications of this Agreement and the other Loan Documents may be made without regard to a Defaulting Lender and, for purposes of the definition of “*Required Lenders*” and “*Super-Majority Lenders*”, a Defaulting Lender shall be deemed not to be a Lender and not to have either Extension of Credit outstanding or a Commitment Percentage.

(d) Other than as expressly set forth in this Section 2.15, the rights and obligations of a Defaulting Lender (including the obligation to indemnify the Administrative Agent) and the other parties hereto shall remain unchanged. Without limiting the foregoing, the existence of a Defaulting Lender shall not affect the obligations of the Borrower and the other Loan Parties to the Non-Defaulting Lenders, the Issuer, the Swing Line Lender or others under this Agreement or the other Loan Documents. Nothing in this Section 2.15 shall be deemed to release any Defaulting Lender from its obligations under this Agreement and the other Loan Documents, shall alter such obligations, shall operate as a waiver of any default by such Defaulting Lender hereunder, or shall prejudice any rights which the Borrower, the Administrative Agent, the Issuer or any Lender may have against any Defaulting Lender as a result of any default by such Defaulting Lender hereunder.

(e) In the event a Defaulting Lender retroactively cures to the satisfaction of the Administrative Agent the breach which caused a Lender to become a Defaulting Lender, such Defaulting Lender shall no longer be a Defaulting Lender and shall be treated as a Lender under this Agreement.

#### **Section 2.16 Certain Provisions Concerning the Collateral**

(a) The Borrower shall establish and maintain, at its expense, block accounts or lockbox and related blocked accounts (collectively, the “*Blocked Accounts*”) as the Co-Collateral Agents may require with the Blocked Account Bank or such other bank or banks as may be selected by the Borrower and be acceptable to the Co-Collateral Agents into which the Borrower shall immediately deposit all payments on Accounts Receivable and all payments constituting proceeds of Inventory or other Collateral received by it in the identical form in which such payments were made, whether by cash, check or other manner. The Borrower shall instruct each of its account debtors to remit all payments with respect to Accounts Receivable to the Blocked Accounts. The Borrower, the Administrative Agent and the Blocked Account Bank shall enter into an agreement in form and substance acceptable to the Co-Collateral Agents directing the Blocked Account Bank to transfer such funds so deposited to the Administrative Agent, either to any account maintained by the Administrative Agent at the Blocked Account Bank or by wire transfer to appropriate account(s)



of the Administrative Agent for application to the Obligations in accordance with Section 2.09(b). All funds deposited in a Blocked Account shall immediately become the property of the Administrative Agent and the Borrower shall obtain the agreement by the Blocked Account Bank to waive any offset rights against the funds so deposited. None of the Administrative Agent, any Co-Collateral Agent or any Lender assumes any responsibility for any Blocked Account arrangement, including without limitation, any claim of accord and satisfaction or release with respect to deposits accepted by any bank thereunder.

(b) Each Loan Party will, at such Loan Party's sole cost and expense, but on the Administrative Agent's behalf and for the Administrative Agent's account, collect as the Administrative Agent's property and in trust for the Administrative Agent all amounts received by it on Accounts Receivable or any other Collateral, and shall not commingle such collections with such Loan Party's funds or use the same except to deliver to the Administrative Agent, or deposit in a Blocked Account, in original form and on the date of receipt thereof, all checks, drafts, notes, money orders, acceptances, cash and other evidences of Indebtedness.

(c) The Administrative Agent shall, following the occurrence and during the continuation of an Event of Default, have the right to send notice of the assignment of, and the Administrative Agent's security interest in, the Accounts Receivable to any and all account debtors thereon or any third party holding or otherwise concerned with any of the Collateral. The Administrative Agent shall have the sole right to collect the Accounts Receivable, take possession of the Collateral, or both. The Administrative Agent's actual collection expenses, including, but not limited to, stationery and postage, telephone and telecopy, secretarial and clerical expenses and the salaries of any collection personnel used for collection, may be charged to the Borrower's Account and added to the Obligations.

(d) The Administrative Agent shall have the right to receive, endorse, assign and/or deliver in the name of the Administrative Agent or any Loan Party any and all checks, drafts and other instruments for the payment of money relating to the Accounts Receivable, and each Loan Party hereby waives notice of presentment, protest and non-payment of any instrument so endorsed. Each Loan Party hereby constitutes the Administrative Agent or the Administrative Agent's designee as such Loan Party's attorney with power (i) at all times: (A) to endorse such Loan Party's name upon any notes, acceptances, checks, drafts, money orders or other evidences of payment or Collateral; (B) to sign such Loan Party's name on any invoice or bill of lading relating to any of the Accounts Receivable, drafts against account debtors, assignments and verifications of Accounts Receivable; (C) to send verifications of Accounts Receivable to any account debtor; and (D) to sign such Loan Party's name on all financing statements or any other documents or instruments deemed necessary or appropriate by the Administrative Agent to preserve, protect, or perfect the Administrative Agent's interest in the Collateral and to file same; and (ii) following the occurrence and during the continuation of an Event of Default: (A)

to demand payment of the Accounts Receivable; (B) to enforce payment of the Accounts Receivable by legal proceedings or otherwise; (C) to exercise all of such Loan Party's rights and remedies with respect to the collection of the Accounts Receivable and any other Collateral; (D) to settle, adjust, compromise, extend or renew the Accounts Receivable; (E) to settle, adjust or compromise any legal proceedings brought to collect Accounts Receivable; (F) to prepare, file and sign such Loan Party's name on a proof of claim in bankruptcy or similar document against any account debtor; (G) to prepare, file and sign such Loan Party's name on any notice of Lien, assignment or satisfaction of Lien or similar document in connection with the Accounts Receivable; and (H) to do all other acts and things necessary to carry out this Agreement. All acts of said attorney or designee are hereby ratified and approved, and said attorney or designee shall not be liable for any acts of omission or commission nor for any error of judgment or mistake of fact or of law, unless done maliciously or with gross negligence (as determined by a court of competent jurisdiction in a final and non-appealable judgment); this power being coupled with an interest is irrevocable while any of the Obligations remain unpaid. The Co-Collateral Agents shall (following the occurrence and during the continuation of an Event of Default) have the right at any time to change the address for delivery of mail addressed to any Loan Party to such address as the Co-Collateral Agents may designate and to receive, open and dispose of all mail addressed to such Loan Party. The Administrative Agent shall provide the Borrower with prompt notice of any action taken pursuant to this Section 2.16(c); *provided* that failure to give such notice shall not affect the validity of such action.

(e) None of the Administrative Agent, any Co-Collateral Agent or any Lender shall, under any circumstances or in any event whatsoever, have any liability for any error or omission or delay of any kind occurring in the settlement, collection or payment of any of the Accounts Receivable or any instrument received in payment thereof, or for any damage resulting therefrom. Upon the occurrence and during the continuation of an Event of Default, the Administrative Agent may, without notice or consent from any Loan Party, sue upon or otherwise collect, extend the time of payment of, compromise or settle for cash, credit or upon any terms any of the Accounts Receivable or any other securities, instruments or insurance applicable thereto and/or release any obligor thereof. The Administrative Agent is authorized and empowered to accept the return of the goods represented by any of the Accounts Receivable, without notice to or consent by the Borrower, all without discharging or in any way affecting any Loan Party's liability hereunder.

(f) No Loan Party will, without the Administrative Agent's consent, compromise or adjust any Accounts Receivable (or extend the time for payment thereof) or accept any returns of merchandise or grant any additional discounts, allowances or credits thereon except for those compromises, adjustments, returns, discounts, credits and allowances as have been heretofore customary in the business of such Loan Party.

(x) Interest. Section 3.01(c) of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

(c) Swing Line Loans shall, in each case, bear interest at the Alternate Base Rate *plus* the Applicable Margin.

(y) Fees. Section 3.03(b) of the Credit Agreement is hereby amended by deleting the reference to “1.00%” in clause (i) thereof and substituting the following therefor:

the Eurodollar Margin, in each case on the maximum amount available under any contingency to be drawn under such Letter of Credit

(z) Financial Statements and Other Information.

(i) Clause (b) of Section 6.01 of the Credit Agreement is hereby amended by renumbering the existing clause (b) as clause (b)(i) and adding a new clause (b)(ii) to Section 6.01 to read in its entirety as follows:

(ii) with respect to (A) the months of March, June and September, within 40 days after the end of each such monthly period of each fiscal year, (B) the month of December, within 45 days after the end of such monthly period of each fiscal year and (C) each other month, within 30 days after the end of each such monthly period of each fiscal year, beginning with the monthly period ending March 31, 2009, the Consolidated balance sheets and related statements of income and cash flows of the Borrower and the Subsidiaries as of the end of and for month and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding month, and period or periods, of the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower and the Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments;

(ii) Clause (c) of Section 6.01 of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

(c) (i) concurrently with any delivery of financial statements under clauses (a), (b)(i) or (b)(ii) of this Section 6.01, a certificate of a Financial Officer of the Borrower (A) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto and (B) stating whether any change in GAAP or in the application thereof has occurred since the date of the financial statements referred to in Section 4.04(a) and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate and (ii) concurrently with any delivery of financial statements under clauses (a) or (b)(i) of this Section 6.01, a certificate of a Financial Officer of the Borrower setting forth (A) reasonably detailed calculations demonstrating

compliance with Sections 7.15, 7.18, 7.19, 7.20, 7.21 and 7.22 and (B) any change in the Guarantors as of the date of such certificate;

(iii) Clause (g) of Section 6.01 of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

(g) within twenty (20) days after the last day of each month, a Borrowing Base Certificate, duly completed and setting forth in reasonable detail the calculations required thereby, as of such last day, together with a completed aged schedule of Accounts Receivable as of such last day and an Inventory summary prepared on a basis similar to exhibit G of the Inventory & Valuation report dated March 3, 2009 issued by Gordon Brothers Group (but setting forth dollar amounts for each category set forth in such exhibit) tying to the Borrowing Base Amount as of the such last day;

(iv) Section 6.01 of the Credit Agreement is hereby amended by adding the following new clauses (h), (i), (j) (k) and (l) thereto to read in their entirety as follows:

(h) not later than Tuesday of each week, a Borrowing Base Certificate as of the last Business Day of the immediately preceding week, duly completed and setting forth in reasonable detail the calculations required thereby, which calculations of the Borrowing Base Amount as of such last Business Day of the immediately preceding week shall be based on (A) aged Accounts Receivable and an Inventory summary prepared on a basis similar to exhibit G of the Inventory & Valuation report dated March 3, 2009 issued by Gordon Brothers Group (but setting forth dollar amounts for each category set forth in such exhibit) as of such last Business Day of the immediately preceding week and shall exclude therefrom Accounts Receivable and Inventory excluded in the determination of Eligible Receivables and Eligible Inventory in the calculation of the Borrowing Base Amount pursuant to the most recent monthly Borrowing Base Certificate delivered pursuant to clause (g) above and (B) outstanding Loans and Letters of Credit as of such last Business Day of the immediately preceding week;

(i) not later than 15 days after the first day of each fiscal year, written monthly projections for such fiscal year, including revenues and expenses projected to be attributable to the Borrower during such fiscal year and projected Adjusted Excess Availability and Excess Availability during such fiscal year, all in reasonable detail, in form satisfactory to the Administrative Agent, and certified by a Financial Officer of the Borrower as the Borrower's good faith projections of the matters contained therein (it being understood that such projections represent good faith estimates of performance of the Borrower and its Subsidiaries for the periods stated therein based on assumptions believed in good faith to be reasonable when made and as of the date thereof and such projections are estimates for which actual results may vary materially from those contained in the projections);

(j) on the first Business Day of each week, written projections of cash flows of the Borrower and its Subsidiaries for the succeeding thirteen (13) week period commencing on such Business Day, all in reasonable detail, including projections of Excess Availability for each week in such thirteen week period, in form satisfactory to the Administrative Agent, and certified by a Financial Officer of the Borrower as the Borrower's good faith projections of the matters contained therein (it being understood that such projections represent good faith estimates of performance of the Borrower and its Subsidiaries for the periods stated therein based on assumptions believed in good faith to be reasonable when made and as of the date thereof and such projections are estimates for which actual results may vary materially from those contained in the projections);

(k) not later than 40 days after the Amendment No. 5 Effective Date, a report of the Consultants (which shall have been provided with unrestricted access to all facilities of the Loan Parties, all book and records of the Loan Parties and senior management and other key personnel of the Loan Parties as the Consultant may reasonably request in preparing such report), identifying high priority issues and making specific recommendations intended to improve the business efficiency, infrastructure and overall profitability of the Borrower and its Subsidiaries, and addressing organizational and personnel issues, with an assessment of the Borrower and its three year financial plan, including risks to projected revenue and profitability, problems and issues requiring prompt resolution, specific business recommendations to deal with current economic conditions, including, where appropriate, proposed timelines for completion and expected resource and capital requirements, and containing such other information reasonably required by the Co-Collateral Agents; and

(l) concurrently with any delivery of financial statements under clause (b)(ii) of this Section 6.01, a written discussion and analysis by management of the Borrower, in reasonable detail and in form satisfactory to the Administrative Agent, of the Borrower's performance and operations during the immediately preceding month, including, without limitation, a comparison of actual performance for such month with the projected performance set forth in the projections most recently delivered to the Administrative Agent.

(aa) Notice of Material Events. Section 6.02 of the Credit Agreement is hereby amended by (i) deleting the word "and" at the end of clause (c), (ii) deleting the period at the end of clause (d) and substituting "; and" therefor and (iii) adding a new clause (e) to read in its entirety as follows:

(e) promptly upon learning thereof, report to the Administrative Agent all matters materially affecting the value, enforceability or collectibility of any portion of the Collateral including, without limitation, any Loan Party's reclamation or repossession of, or the return to any Loan Party of, a material amount of goods or claims or disputes asserted by any account debtor or other obligor.

(bb) Books and Records; Inspection Rights. Section 6.06(b) of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

(b) At the written request of the Administrative Agent or the Co-Collateral Agents in their sole discretion, but no more frequently than (i) two (2) times in each fiscal year with respect to field examinations and appraisals of Inventory and one (1) time in each fiscal year with respect to appraisals of Trademarks, unless an Event of Default has occurred and is continuing in which case such limitations shall not apply, the Borrower shall, and shall cause each of the Guarantors to, permit the Administrative Agent, the Co-Collateral Agents or any Related Party to perform such appraisals of Inventory and Trademarks and field examinations, Collateral analysis or other business analysis or audit relating to the Borrower or any Guarantor (each a “*Monitoring*”), as applicable, and shall in connection therewith provide the Administrative Agent upon reasonable advance notice (unless an Event of Default has occurred which is then continuing) with access during normal business hours to the Inventory or facilities, as applicable, and all book and records of the Loan Parties required by the Administrative Agent or the Co-Collateral Agents to conduct such Monitoring as required by the Administrative Agent or the Co-Collateral Agents and shall in connection therewith provide the Administrative Agent and the Co-Collateral Agents with access during normal business hours to all facilities and all book and records of the Loan Parties required by the Administrative Agent or the Co-Collateral Agents to conduct each such Monitoring. The Borrower shall pay to the Administrative Agent, promptly after demand therefor, (i) all reasonable out-of-pocket costs and expenses incurred by the Administrative Agent or any Collateral Agent in connection with any such Monitoring, and (ii) in the event that such Monitoring is conducted by the Administrative Agent, the Co-Collateral Agents or any Related Party, the reasonable fees charged by each person employed in connection with such Monitoring.

(cc) Books and Records; Inspection Rights. Section 6.06 of the Credit Agreement is hereby amended by adding a new Section 6.06(c) to read in its entirety as follows:

(c) The Borrower shall, and shall cause each of its Subsidiaries to, grant the Credit Parties unrestricted access to the Consultants on terms and conditions reasonably acceptable to the Co-Collateral Agents during the term of the Consultants’ (or any successor’s) engagement.

(dd) Investments, Loans, Advances, Guarantees and Acquisitions. Section 7.04 of the Credit Agreement is hereby amended by deleting clause (i) thereof in its entirety and substituting the following therefor:

(i) Permitted Acquisitions by the Borrower or any Subsidiary; *provided* that (i) the Borrower shall have delivered to the Administrative Agent and the Lenders not less than 10 Business Days prior to the consummation of any such Permitted Acquisition a certificate of a Financial Officer of the Borrower in form and substance satisfactory to the Administrative Agent and the Required Lenders evidencing projected pro forma compliance with Sections 7.15, 7.18, 7.19, 7.20, 7.21 and 7.22 after giving effect to such Permitted Acquisition for the period from the date of such Permitted Acquisition

to the Revolving Maturity Date and (ii) the Required Lenders shall have consented in writing to such Permitted Acquisition;

(ee) Restricted Payments. Section 7.08 of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

**Section 7.08 Restricted Payments**

The Borrower will not, and will not permit any of the Subsidiaries to, declare or make, or agree to pay for or make, directly or indirectly, any Restricted Payment, except that (a) the Borrower may declare and pay dividends with respect to its equity securities payable (A) in additional shares of its equity securities or (B) commencing January 1, 2010, in cash ; *provided* that, (x) after giving effect to any such payment of dividends, the Fixed Charge Coverage Ratio, calculated on a pro forma basis as if such dividends had been made on the last day of the most recently ended fiscal quarter of the Borrower, shall not be less than 1.50:1, (y) immediately after giving effect to any such payment of dividends, Excess Availability shall be not less than \$50,000,000, and (z) before and after giving effect to such dividends no Default shall exist or result therefrom and (b) any Subsidiary may declare and pay dividends to the Borrower or any other Subsidiary.

(ff) Leverage Ratio. Section 7.12 of the Credit Agreement is hereby deleted in its entirety and **[Intentionally deleted]** substituted therefor.

(gg) Interest Coverage Ratio. Section 7.13 of the Credit Agreement is hereby deleted in its entirety and **[Intentionally deleted]** substituted therefor.

(hh) Fixed Charge Coverage Ratio. Section 7.15 of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

**Section 7.15 Fixed Charge Coverage Ratio**

The Borrower shall not permit the Fixed Charge Coverage Ratio as of the last day of any fiscal quarter ending during any period in the table set forth below to be less than the ratio set forth opposite such period:

<u>Period</u>	<u>Fixed Charge Coverage Ratio</u>
Fiscal Quarter Ending December 31, 2009	1.40:1.00
Fiscal Quarter Ending March 31, 2010 and Each Fiscal Quarter Thereafter	1.50:1.00

(ii) Minimum Consolidated EBITDA. Section 7.18 of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

**Section 7.18 Consolidated EBITDA**

The Borrower shall not permit Consolidated EBITDA for any four consecutive fiscal quarter period ending during any period in the table set forth below to be less than the amount set forth opposite such period:

<b><u>Period</u></b>	<b><u>Consolidated EBITDA</u></b>
Fiscal Quarter Ending March 31, 2010	\$28,000,000.00
Fiscal Quarter Ending June 30, 2010	\$30,000,000.00
Fiscal Quarter Ending September 30, 2010	\$32,200,000.00
Fiscal Quarter Ending December 31, 2010	\$33,800,000.00

(jj) Minimum Adjusted Excess Availability. Section 7.19 of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

**Section 7.19 Minimum Adjusted Excess Availability**

The Borrower shall not permit the Adjusted Excess Availability at any time during any period in the table set forth below to be less than the amount set forth opposite such period:

<b><u>Fiscal Quarter Ending</u></b>	<b><u>Minimum Adjusted Excess Availability</u></b>
Fiscal Quarter Ending June 30, 2009	\$10,000,000.00
Fiscal Quarter Ending September 30, 2009	\$20,000,000.00
Fiscal Quarters Ending December 31, 2009 and March 31, 2010	\$25,000,000.00
Fiscal Quarter Ending June 30, 2010	\$20,000,000.00
Fiscal Quarter Ending September 30, 2010 and thereafter	\$25,000,000.00

(kk) Capital Expenditures; Minimum Year-to-Date EBITDA; Net Sales. Article 7 of the Credit Agreement is hereby amended by adding new Sections 7.20, 7.21 and 7.22 to read in their entirety as follows:

**Section 7.20 Capital Expenditures**

The Borrower shall not make or become obligated to make, and shall not permit its Subsidiaries to make or become obligated to make, Capital Expenditures (including the incurrence of any Capital Lease Obligations) in respect of any fiscal period in the table set forth below in an aggregate amount greater than the amount set forth opposite such fiscal period:



<b><u>Fiscal Year Period</u></b>	<b><u>Capital Expenditures</u></b>
January 1, 2009 to and including March 31, 2009	\$1,500,000.00
January 1, 2009 to and including June 30, 2009	\$3,500,000.00
January 1, 2009 to and including September 30, 2009	\$5,000,000.00
January 1, 2009 to and including December 31, 2009	\$6,000,000.00
January 1, 2010 to and including March 31, 2010	\$2,000,000.00
January 1, 2010 to and including June 30, 2010	\$4,000,000.00
January 1, 2010 to and including September 30, 2010	\$6,000,000.00
January 1, 2010 to and including December 31, 2010	\$8,000,000.00

**Section 7.21 Minimum Year-to-Date EBITDA**

The Borrower shall not permit Consolidated EBITDA for any period in the table set forth below to be less than the amount set forth opposite such period:

<b><u>Period</u></b>	<b><u>Consolidated EBITDA</u></b>
January 1, 2009 to and including March 31, 2009	\$(4,400,000.00)
January 1, 2009 to and including April 30, 2009	\$(4,400,000.00)
January 1, 2009 to and including May 31, 2009	\$(4,000,000.00)
January 1, 2009 to and including June 30, 2009	\$(3,400,000.00)
January 1, 2009 to and including July 31, 2009	\$(2,400,000.00)
January 1, 2009 to and including August 30, 2009	\$2,500,000.00

<u>Period</u>	<u>Consolidated EBITDA</u>
January 1, 2009 to and including September 30, 2009	\$10,500,000.00
January 1, 2009 to and including October 31, 2009	\$17,900,000.00
January 1, 2009 to and including November 30, 2009	\$23,000,000.00
January 1, 2009 to and including December 31, 2009	\$25,500,000.00

**Section 7.22 Net Sales**

The Borrower shall not permit net sales (as determined in accordance with GAAP consistently applied) for any fiscal quarter in the table set forth below to be less than the amount set forth opposite such fiscal quarter:

<u>Fiscal Quarter</u>	<u>Net Sales</u>
Fiscal Quarter Ending June 30, 2009	\$80,288,000.00
Fiscal Quarter Ending September 30, 2009	\$114,810,000.00
Fiscal Quarter Ending December 31, 2009	\$ 116,937,000.00

(ll) Events of Default. Section 8.01 of the Credit Agreement is hereby amended by (i) deleting the reference to “30 days” in clause (e) thereof and substituting “15 Business Days” therefor and (ii) deleting the reference to “60 consecutive days” in clause (k) thereof and substituting “30 consecutive days” therefor.

(mm) Agents. Section 9.08 of the Credit Agreement is hereby deleted in its entirety and the following substituted therefor:

**Section 9.08 Agents**

None of the banks or other Persons identified on the cover page of this Agreement, in the preamble to this Agreement or otherwise in this Agreement as a “collateral agent”, “syndication agent”, “documentation agent”, “lead arranger” or “joint lead arranger” shall have any right, power, obligation, liability, responsibility or duty to any Person under this Agreement, any of the other Loan Documents or otherwise, other than HSBC Bank USA, National Association in its capacity as Administrative Agent and Co-Collateral Agent, JPMorgan Chase Bank, N.A. in its capacity as Co-Collateral Agent and each Lender in its capacity as a Lender. Without limiting the foregoing, none of such banks or other Persons so identified shall have or be deemed to have any

fiduciary relationship with any other such bank or other Person but such banks or other Persons shall have the benefit of the provisions of Section 9.02.

(nn) Collateral Agents. Article 9 of the Credit Agreement is hereby amended by adding a new Section 9.09 to read in its entirety as follows:

**Section 9.09 Collateral Agents**

Each Credit Party hereby irrevocably appoints HSBC Bank USA, National Association and JPMorgan Chase Bank, N.A. as a collateral agent (in such capacity, each a “*Collateral Agent*” or a “*Co-Collateral Agent*” and collectively, the “*Co-Collateral Agents*”) and authorizes the Co-Collateral Agents to take such actions on its behalf and to exercise such powers as are delegated to the Co-Collateral Agents by the terms hereof, together with such actions and powers as are reasonably incidental thereto. The banks or other Persons acting as Collateral Agent or Co-Collateral Agents shall have the benefit of the provisions of Sections 9.02, 9.03, 9.04, 9.05 and 9.07. Subject to the appointment and acceptance of a successor Collateral Agent or Co-Collateral Agent as provided in this Section, a Collateral Agent may resign at any time by notifying the Credit Parties and the Borrower. Upon any such resignation, the Administrative Agent shall have the right, with the approval of the Required Lenders, to appoint a successor. If no successor shall have been so approved by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Collateral Agent gives notice of its resignation, then the Administrative Agent shall perform the duties of such Collateral Agent. After a Collateral Agent’s resignation hereunder, the provisions of this Article 9 and Section 10.03 shall continue in effect for the benefit of such retiring Collateral Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Collateral Agent. The actions of the Co-Collateral Agents shall be taken jointly; *provided* that, in the event the Co-Collateral Agents shall fail to agree within the time period required for such action (or, if no time period is specified herein, within a reasonable time in light of the circumstances, but in no event more than five (5) Business Days from the first determination that action is required), the more restrictive action proposed to be taken shall govern.

(oo) Notices. Section 10.01 of the Credit Agreement is hereby amended by:

(i) deleting the phrase “One Merrick Avenue, Westbury, New York 11590” in clause (a) thereof in its entirety and substituting “1000 Stewart Avenue, Garden City, New York 11530” therefor;

(ii) clause (b) thereof in its entirety and substituting the following therefor:

(b) if to the Administrative Agent, to it at: HSBC Bank USA, National Association, Agent Servicing Department, One HSBC Center, 26<sup>th</sup> Floor, Buffalo, New York 14203, Attention of: Donna Riley (Telephone No. (716) 841-4178; Telecopy No. (716) 841-0269); with a copy to (i) HSBC Bank

USA, National Association, 534 Broadhollow Road, Melville, New York 11747, Attention of: Christopher J. Mendelsohn (Telephone No. (631) 752-4343; Telecopy No. (631) 752-4340) and to (ii) HSBC Business Credit (USA) Inc., 452 Fifth Avenue, New York, New York 10018, Attention of: Thomas A. Getty, Jr. (Telephone No. (212) 525-5473; Telecopy No. (212) 525-2520); and

(iii) renumbering clause (c) thereof as clause (d) and adding a new clause (c) to read in its entirety as follows:

(c) if to the Co-Collateral Agents to each at: (i) HSBC Business Credit (USA) Inc., 452 Fifth Avenue, New York, New York 10018, Attention of: Thomas A. Getty, Jr. (Telephone No. (212) 525-5473; Telecopy No. (212) 525-2520) and (ii) JPMorgan Chase Bank, N.A., 270 Park Avenue, 44<sup>th</sup> Floor, Mail Code NY1-K854, New York, New York 10017-2014, Attention of: Joseph A. Lisack (Telephone No. (212) 270-0280; Telecopy No. (646) 534-2288).

(pp) Waivers; Amendments. Section 10.02(b) of the Credit Agreement is hereby amended by:

(i) adding after clause (vii) thereof a new clause (viii) to read in its entirety as follows:

or (viii) change any of the provisions of the definition of “*Super-Majority Lenders*”, change any provision of Section 2.09(f) or increase the Aggregate Revolving Commitment, without the written consent of each Lender

(ii) deleting the further proviso at the end thereof in its entirety and substituting the following therefor:

and *provided, further*, that (x) no such agreement shall (1) change any provision of the definition of “*Borrowing Base Amount*” that would have the effect of adding additional categories of assets to the computation of the Borrowing Base Amount or increase any dollar amount set forth in the definition of “*Borrowing Base Amount*”, (2) increase any percentage set forth in the definition of “*Borrowing Base Percentage*”, (3) increase any percentage or amount set forth in the definition of “*Trademark OLV Amount*” or “*Tax Refund Amount*”, (4) change the definition of “*Adjusted Excess Availability*”, “*Eligible Inventory*”, “*Eligible Receivables*”, “*Excess Availability*” or any defined term used in any such definition or (5) change any provisions of Section 7.19, without the written consent of the Super-Majority Lenders and (y) no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent, the Swing Line Lender or the Issuer hereunder without the prior written consent of the Administrative Agent, the Swing Line Lender or the Issuer, as the case may be.

(qq) General.

(i) Notwithstanding anything herein or in the Credit Agreement to the contrary, the provisions of sections 5(a) and 5(b) of Forbearance Agreement and Amendment No. 4 to Second Amended and Restated Credit Agreement dated as of February 12, 2009 among

the Borrower, the Lenders party thereto and the Administrative Agent, as amended, shall have no force or effect after the Amendment No. 5 Effective Date.

(ii) All references to “this Agreement” in the Credit Agreement and to “the Credit Agreement” in the other Loan Documents shall be deemed to refer to the Credit Agreement as amended hereby.

3. Conditions to Effectiveness. This Amendment shall be effective upon the satisfaction of each of the following conditions:

(a) The Administrative Agent shall have received an executed counterpart of this Amendment signed by the Borrower, the Super-Majority Lenders and the Administrative Agent.

(b) The Administrative Agent shall have received an executed counterpart of the acknowledgement and consent annexed hereto duly executed by each of the Guarantors.

(c) The Borrower shall have paid to the Administrative Agent for the account of each Lender that (i) notified the Administrative Agent on or before 5:00 p.m. on March 26, 2009 of its approval of the amendments to the Credit Agreement set forth in this Amendment and (ii) has executed this Amendment, a fee equal to 0.625% of such Lender’s Revolving Commitment as in effect on the Amendment No. 5 Effective Date.

(d) The Administrative Agent shall have received a certificate from an officer of the Borrower and each Guarantor attaching (i) a true and complete copy of its Organizational Documents, (ii) setting forth the incumbency of its officer or officers or other analogous counterpart who may sign the Loan Documents, including therein a signature specimen of such officer or officers and (iii) attaching a certificate of good standing of the Secretary of State of the jurisdiction of its formation and of each other jurisdiction in which it is qualified to do business.

(e) The Additional Guarantor shall have become a party to the Guarantee Agreement and to each applicable Security Document in the manner provided in the Credit Agreement, the Guarantee Agreement and such Security Documents.

(f) The Administrative Agent shall have received a completed Perfection Certificate, dated the Amendment No. 5 Effective Date and signed by a Vice President or a Financial Officer of the Borrower, together with all attachments contemplated thereby.

(g) The Administrative Agent shall have received a duly executed pro forma Borrowing Base Certificate as of the Amendment No. 5 Effective Date.

(h) The Borrower shall have retained Carl Marks & Co., Inc. or another restructuring consultant reasonably acceptable to the Co-Collateral Agents, and the Credit Parties shall be permitted unrestricted access to such Consultants on terms and conditions reasonably acceptable to the Co-Collateral Agents.

(i) After giving effect to any Extensions of Credit made on the Amendment No. 5 Effective Date, the Borrower shall have Excess Availability of not less than \$30,000,000.00.

(j) The representations and warranties contained in the Credit Agreement shall be true and correct in all material respects (except to the extent such representations and warranties specifically relate to an earlier date) and, after giving effect to the amendments set forth in Section 1 hereof, no Default or Event of Default shall exist.

(k) The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Amendment No. 5 Effective Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

(l) The Borrower shall have paid the reasonable fees and disbursements of counsel to the Administrative Agent in connection with this Amendment.

The Administrative Agent shall notify the Borrower and the Credit Parties of the Amendment No. 5 Effective Date, and such notice shall be conclusive and binding.

#### 4. Post Closing Covenants.

(a) Not later than 30 days after the Amendment No. 5 Effective Date, the Borrower shall have instructed each of its account debtors to remit all payments with respect to Accounts Receivable to the Blocked Accounts.

(b) Not later than 60 days after the Amendment No. 5 Effective Date, the Administrative Agent shall have received all Collateral Access Agreements, waivers and consents and intellectual property licensor consents or assignments required by and satisfactory to the Co-Collateral Agents.

(c) Not later than 60 days after the Amendment No. 5 Effective Date, the Administrative Agent shall have received certificates of the Borrower and the Additional Guarantor attaching a true and complete copy of the resolutions evidencing all necessary corporate action (in form and substance satisfactory to the Administrative Agent) taken by (i) the Borrower to ratify the transactions contemplated by this Amendment and (ii) the Additional Guarantor to authorize the execution, delivery and performance of the Loan Documents to which it is a party and the transactions contemplated thereby.

(d) Not later than 90 days after the written request of the Co-Collateral Agents, the Borrower shall deliver to the Administrative Agent one or more mortgages or deeds of trust and such other instruments, documents or agreements as reasonably requested by the Co-Collateral Agents, each in form and substance reasonable satisfactory to the Co-Collateral Agents, in order to grant a perfected Lien on the real property of the Borrower located at 362 -363 River Street, Winchendon, Massachusetts.

(e) Failure by the Borrower to observe or perform any covenant or agreement contained in this Section 4 shall constitute an Event of Default under clause (d) of Section 8.01 of the Credit Agreement.

5. Representations and Warranties. The Borrower hereby represents and warrants to the Administrative Agent and the Lenders that:

(a) The representations and warranties set forth in the Loan Documents (other than the representations and warranties made as of a specific date) are true and correct in

all material respects as of the date hereof and with the same effect as though made on and as of the date hereof.

(b) After giving effect to the waivers set forth on Section 1 hereof and the amendments set forth in Section 2 hereof, no Default or Event of Default and no event or condition which, with the giving of notice or lapse of time or both, would constitute such a Default or Event of Default, now exists or would exist.

(c) (i) The execution, delivery and performance by the Borrower of this Amendment is within its organizational powers and have been duly authorized by all necessary action (corporate or otherwise) on the part of the Borrower, (ii) this Amendment is the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, and (iii) neither this Amendment nor the execution, delivery and performance by the Borrower hereof: (A) contravenes the terms of the Borrower's organization documents, (B) conflicts with or results in any breach or contravention of, or the creation of any Lien under, any document evidencing any contractual obligation to which the Borrower is a party or any order, injunction, writ or decree to which the Borrower or its property is subject, or (C) violates any requirement of law.

6. Effect; No Waiver.

(a) The Borrower hereby (i) reaffirms and admits the validity and enforceability of the Loan Documents and all of its obligations thereunder and (ii) agrees and admits that it has no defenses to or offsets against any such obligation. Except as specifically set forth herein, the Credit Agreement and the other Loan Documents shall remain in full force and effect in accordance with their terms and are hereby ratified and confirmed. Other than as expressly set forth in Section 1 hereof, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any existing or future Default or Event of Default, whether known or unknown or any right, power or remedy of the Administrative Agent or the Lenders under the Credit Agreement, nor constitute a waiver of any provision of the Credit Agreement, except as specifically set forth herein.

(b) The Borrower hereby (i) reaffirms all of its agreements and obligations under the Security Documents, (ii) reaffirms that all Obligations of the Borrower under or in connection with the Credit Agreement as amended hereby are "Obligations" as that term is defined in the Security Documents and (iii) reaffirms that all such Obligations continue to be secured by the Security Documents, which remains in full force and effect and is hereby ratified and confirmed.

7. Miscellaneous.

(a) The Borrower shall pay the Administrative Agent upon demand for all reasonable expenses, including reasonable attorneys' fees and expenses of the Administrative Agent, incurred by the Administrative Agent in connection with the preparation, negotiation and execution of this Amendment.

(b) THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (AS OPPOSED TO THE CONFLICTS OF LAW PROVISIONS, BUT INCLUDING SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK) AND DECISIONS OF THE STATE OF NEW YORK.

(c) This Amendment shall be binding upon the Borrower, the Administrative Agent and the Lenders and their respective successors and assigns, and shall inure to the benefit of the Borrower, the Administrative Agent and the Lenders and the respective successors and assigns of the Administrative Agent and the Lenders.

(d) This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute one and the same instrument.

*[Signature pages follow.]*



AS EVIDENCE of the agreement by the parties hereto to the terms and conditions herein contained, each such party has caused this Amendment to be executed on its behalf.

LIFETIME BRANDS, INC.

By: /s/ Laurence Winoker  
Laurence Winoker  
Senior Vice President and Chief Financial  
Officer

HSBC BANK USA, NATIONAL ASSOCIATION,  
as Administrative Agent, Co-Collateral Agent, Issuer  
and Lender

By: /s/Thomas A. Getty Jr.  
Name: Thomas A. Getty Jr.  
Title: Vice President

JPMORGAN CHASE BANK, N.A.,  
as Syndication Agent, Co-Collateral Agent and  
Lender

By: /s/ Joseph A. Lisack  
Name: Joseph A. Lisack  
Title: Vice President

CITIBANK, N.A.,  
as Co-Documentation Agent and Lender

By: /s/Anthony J. Timpanaro  
Name: Anthony J. Timpanaro  
Title: Vice President

WACHOVIA BANK, NATIONAL ASSOCIATION,  
as Co-Documentation Agent and Lender

By: /s/ Edward Nallan  
Name: Edward P. Nallan, Jr.  
Title: Senior Vice President

## ACKNOWLEDGEMENT AND CONSENT

Each of the undersigned Guarantors hereby (1) consents to the execution and delivery by the Borrower of the foregoing Amendment No. 5; (2) confirms and agrees that it is a Guarantor party to the Guarantee Agreement and a Grantor party to the Security Agreement and that the Guarantee Agreement, the Security Agreement and the other Loan Documents to which it is a party are, and shall continue to be, in full force and effect in accordance with their respective terms, (3) agrees that the definition of “*Obligations*” (and any other term referring to the indebtedness, liabilities and obligations of the Borrower to the Administrative Agent or any of the Lenders) in the Guarantee Agreement and the other Loan Documents shall include the Indebtedness of the Borrower under the foregoing Amendment No. 5; (4) agrees that the definition of “*Credit Agreement*” in the Guarantee Agreement and the other Loan Documents to which it is a party is hereby amended to mean the Credit Agreement as modified by the foregoing Amendment No. 5; (5) reaffirms its continuing liability under its Guarantee Agreement (as modified hereby); (6) reaffirms all of its agreements and obligations under the Security Documents; (7) reaffirms that all Obligations of the Borrower under or in connection with the Credit Agreement as modified by the foregoing Amendment No. 5 are “*Obligations*” as that term is defined in the Security Documents; and (8) reaffirms that all such Obligations continue to be secured by the Security Documents, which remain in full force and effect and are hereby ratified and confirmed.

### OUTLET RETAIL STORES, INC.

By: /s/ Laurence Winoker  
Laurence Winoker  
Senior Vice President and  
Chief Financial Officer

### PFALTZGRAFF FACTORY STORES, INC.

By: /s/ Laurence Winoker  
Laurence Winoker  
Senior Vice President and  
Chief Financial Officer

### SYRATECH ACQUISITION CORPORATION

By: /s/ Laurence Winoker  
Laurence Winoker  
Senior Vice President and  
Chief Financial Officer

### LTB DE MEXICO, S.A. DE C.V.

By: /s/Laurence Winoker  
Laurence Winoker  
Director

### TMC ACQUISITION INC.

By: /s/ Laurence Winoker  
Laurence Winoker  
Senior Vice President and  
Chief Financial Officer

**Exhibit 21.1****Subsidiaries of the Registrant**

<b><u>Name of subsidiary</u></b>	<b><u>State/Country of Incorporation</u></b>	<b><u>Ownership</u></b>
Outlet Retail Stores, Inc.	Delaware	100%
Pfaltzgraff Factory Stores, Inc.	Delaware	100%
Syratech Acquisition Corp.	Delaware	100%
TMC Acquisition Inc.	Delaware	100%
Wallace Silversmiths de Puerto Rico Ltd.	Cayman Islands	100%
Lifetime Brands, Inc. (HK) Limited	Hong Kong	100%
Lifetime Brands Global Sourcing (Shanghai) Consultancy Limited	China	100%
LTB de Mexico, S.A. de C.V.	Mexico	99.99%

**Exhibit 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-105382 and 333-146017) and the Registration Statement on Form S-3 (No. 333-137575) of Lifetime Brands, Inc. of our reports dated March 31, 2009, with respect to the consolidated financial statements and schedule of Lifetime Brands, Inc., and the effectiveness of internal control over financial reporting of Lifetime Brands, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2008.

/s/ ERNST & YOUNG LLP

Melville, New York  
March 31, 2009



**CERTIFICATION**

I, Jeffrey Siegel, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lifetime Brands, Inc. (“the registrant”);
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-14 and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s Board of Directors (or persons performing the equivalent functions):
  - a. all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 31, 2009

/s/ Jeffrey Siegel

Jeffrey Siegel

Chief Executive Officer and President

## CERTIFICATION

I, Laurence Winoker, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lifetime Brands, Inc. (“the registrant”);
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-14 and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s Board of Directors (or persons performing the equivalent functions):
  - a. all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 31, 2009

/s/ Laurence Winoker

Laurence Winoker

Senior Vice President – Finance, Treasurer and Chief Financial Officer

**Exhibit 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.

I, Jeffrey Siegel, Chief Executive Officer and President, and I, Laurence Winoker, Senior Vice President – Finance, Treasurer and Chief Financial Officer, of Lifetime Brands, Inc., a Delaware corporation (the “Company”), each hereby certifies that:

- (1) The Company’s Annual report on Form 10-K for the year ended December 31, 2008 (the “Form 10-K”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey Siegel  
Jeffrey Siegel  
Chief Executive Officer and President

/s/ Laurence Winoker  
Laurence Winoker  
Senior Vice President- Finance, Treasurer  
and Chief Financial Officer

Date: March 31, 2009

Date: March 31, 2009

A signed original of this written statement required by Section 1350 has been provided to Lifetime Brands, Inc. and will be retained by Lifetime Brands, Inc. and furnished to the Securities and Exchange Commission or its staff, upon request.



**BDO Hernández Marrón y Cla, S.C.**  
Contadores Públicos y  
Consultores de Empresas

Av. Ejército Nacional 904 Piso 7  
Colonia Los Morales Polanco  
0510 México, D.F.  
Tel. (55) 5901 3900  
Fax (55) 5901 3925  
www.bdo.com.mx

## **Report of Independent Registered Accounting Firm**

### **To the Shareholders of Grupo Vasconia, S.A.B. (formerly Ekco, S.A.B.)**

We have audited the accompanying consolidated balance sheets of Grupo Vasconia, S.A.B. (formerly Ekco, S.A.B.) and subsidiaries as of December 31, 2008 and 2007 and the related consolidated statements of income and changes in shareholders' equity for the years ended December 31, 2008 and 2007 as well as the statement of cash flows for the year ended December 31, 2008 and the statement of changes in financial position for the year ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Mexico. These standards require that we plan and perform the audits in order to obtain reasonable assurance as to whether the financial statements are free of material misstatements and whether they are prepared according to Mexican financial reporting standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the financial information reporting standards used, the significant estimates made by Management and the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As mentioned in Note 3 to the consolidated financial statements, as of January 1, 2008, the Company adopted the financial reporting standards MFRS B-2, *Statement of Cash Flows*, which supersedes Bulletin B-12, *Statement of Changes in Financial Position* that was in effect through December 31, 2007. Therefore, the Statement of Cash Flows and the Statement of Changes in Financial Position are not presented comparatively and are not comparable.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Grupo Vasconia, S.A.B. (formerly Ekco, S.A.B.) and subsidiaries as of December 31, 2008 and 2007, the consolidated results of its operations and the consolidated changes in shareholders' equity for the years then ended, as well as the consolidated cash flows for the year ended December 31, 2008 and the consolidated changes in its financial position for the year ended December 31, 2007, in conformity with Mexican financial reporting standards accepted in Mexico.



These consolidated financial statements have been translated into English solely for the convenience of readers of this language. In all cases where there are any disagreements between the English and Spanish versions, the Spanish version shall be considered authoritative and controlling.

**BDO Hernández Marrón y Cía., S.C.**

A handwritten signature in black ink, appearing to read 'Alejandro J. Martínez Corro', written over a horizontal line.

Alejandro J. Martínez Corro  
Audit Partner

Mexico City  
March 9, 2009

## Officers and Directors

### **JEFFREY SIEGEL**

Chairman of the Board of Directors  
Chief Executive Officer and President

### **RONALD SHIFTAN**

Vice Chairman of the Board of Directors and  
Chief Operating Officer

### **ALAN KANTER**

Group President of the Flatware and Home Décor  
Divisions and Executive Vice President

### **EVAN MILLER**

President of Sales and Executive Vice President

### **ROBERT REICHENBACH**

President of the Cutlery, Cutting Boards,  
Bakeware and At-Home Entertaining Divisions  
and Executive Vice President

### **LARRY SKLUTE**

President of the Kitchenware Division  
and Executive Vice President

### **CRAIG PHILLIPS**

Senior Vice President – Distribution  
Executive Officer and Director

### **LAURENCE WINOKER**

Senior Vice President – Finance  
Treasurer and Chief Financial Officer

### **SARA SHINDEL**

General Counsel and Secretary

### **DAVID DANGOOR**

Director

### **MICHAEL JEARY**

Director

### **JOHN KOEGEL**

Director

### **SHELDON MISHER**

Director

### **CHERRIE NANNINGA**

Director

### **WILLIAM WESTERFIELD**

Director

## Offices

### **CORPORATE HEADQUARTERS**

1000 Stewart Avenue  
Garden City, NY 11530  
(516) 683-6000

## Corporate Information

### **CORPORATE COUNSEL**

Samuel B. Fortenbaugh III  
New York, NY

### **INDEPENDENT AUDITORS**

Ernst & Young LLP  
Melville, NY

### **TRANSFER AGENT & REGISTRAR**

The Bank of New York Mellon  
101 Barclay Street  
New York, NY 10286

### **FORM 10-K**

Shareholders may obtain, without charge,  
a copy of the Company's annual report on  
Form 10-K for the year ended December 31, 2008  
as filed with the Securities and Exchange Commission.

*Requests should be sent to:*

### **INVESTOR RELATIONS**

Lifetime Brands, Inc.  
1000 Stewart Avenue  
Garden City, NY 11530

### **ANNUAL MEETING**

The Annual Meeting of Shareholders will  
be held at 10:30 a.m. on Thursday, June 11, 2009,  
at the Corporate Headquarters.



Cuisinart® CA-X Series Chef Knife



Mikasa® Italian Countryside



Speed Prep, the One Handed Mandoline Slicer



Pedrini® 3-in-1 Garlic Press

