

LIFETIME BRANDS, INC
Form 10-Q
May 06, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

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) (Zip Code)

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

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

Yes No

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

Yes No

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

Accelerated filer
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 number of shares of the registrant’s common stock outstanding as of May 6, 2011 was 12,066,543.

LIFETIME BRANDS, INC.
FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2011

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LIFETIME BRANDS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31, 2011 (unaudited)	December 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$1,534	\$3,351
Accounts receivable, less allowances of \$8,403 at 2011 and \$12,611 at 2010	60,964	72,795
Inventory (Note A)	103,904	99,935
Deferred income taxes (Note G)	1,124	1,124
Prepaid expenses and other current assets	5,257	5,048
Income taxes receivable (Note G)	745	
TOTAL CURRENT ASSETS	173,528	182,253
PROPERTY AND EQUIPMENT, net	35,296	36,093
INTANGIBLE ASSETS, net (Note C)	30,667	30,818
INVESTMENT IN GRUPO VASCONIA, S.A.B. (Note B)	25,738	24,068
OTHER ASSETS	4,197	4,354
TOTAL ASSETS	\$269,426	\$277,586
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Revolving Credit Facility (Note D)	\$7,000	\$4,100
Accounts payable	21,846	19,414
Accrued expenses	22,595	31,962
Income taxes payable (Note G)		5,036
TOTAL CURRENT LIABILITIES	51,441	60,512
DEFERRED RENT & OTHER LONG-TERM LIABILITIES	14,452	14,482
DEFERRED INCOME TAXES (Note G)	1,408	1,429
REVOLVING CREDIT FACILITY (Note D)	10,000	10,000
TERM LOAN (Note D)	40,000	40,000
4.75% CONVERTIBLE SENIOR NOTES (Note D)	23,786	23,557
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value, shares authorized: 100 shares of Series A and 2,000,000 shares of Series B; none issued and outstanding		
Common stock, \$.01 par value, shares authorized: 25,000,000; shares issued and outstanding: 12,066,543 in 2011 and 12,064,543 in 2010	121	121
Paid-in capital	132,108	131,350

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Retained earnings	62	1,312
Accumulated other comprehensive (loss)	(3,952)	(5,177)
TOTAL STOCKHOLDERS' EQUITY	128,339	127,606
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$269,426	\$277,586

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

LIFETIME BRANDS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

	Three Months Ended March 31,	
	2011	2010
Net sales	\$91,773	\$88,736
Cost of sales	58,383	53,952
Distribution expenses	10,940	10,133
Selling, general and administrative expenses	22,473	22,124
Income (loss) from operations	(23)	2,527
Interest expense (Note D)	(1,979)	(2,429)
Income (loss) before income taxes and equity in earnings of Grupo Vasconia, S.A.B.	(2,002)	98
Income tax benefit (provision) (Note G)	588	(39)
Equity in earnings of Grupo Vasconia, S.A.B., net of taxes (Note B)	465	670
NET INCOME (LOSS)	\$(949)	\$729
BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE (NOTE F)	\$(0.08)	\$0.06
Cash dividends declared per common share	\$0.025	\$

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

LIFETIME BRANDS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Three Months Ended March 31,	
	2011	2010
OPERATING ACTIVITIES		
Net income (loss)	\$(949)	\$729
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for doubtful accounts	(16)	(1,236)
Depreciation and amortization	1,995	2,542
Amortization of debt discount	229	705
Deferred rent	(3)	233
Stock compensation expense	748	659
Undistributed earnings of Grupo Vasconia, S.A.B.	(465)	(670)
Changes in operating assets and liabilities:		
Accounts receivable	11,847	7,453
Inventory	(3,969)	2,120
Prepaid expenses, other current assets and other assets	(52)	(350)
Accounts payable, accrued expenses and other liabilities	(7,242)	(6,232)
Income taxes receivable	(745)	
Income taxes payable	(5,036)	(726)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(3,658)	5,227
INVESTING ACTIVITIES		
Purchases of property and equipment, net	(1,047)	(578)
NET CASH USED IN INVESTING ACTIVITIES	(1,047)	(578)
FINANCING ACTIVITIES		
Proceeds (repayments) of bank borrowings, net	2,900	(4,531)
Proceeds from the exercise of stock options	9	6
Excess tax benefits from the exercise of stock options	6	10
Payment of capital lease obligations	(27)	(62)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,888	(4,577)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,817)	72
Cash and cash equivalents at beginning of period	3,351	682
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$1,534	\$754

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

LIFETIME BRANDS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011
(unaudited)

NOTE A — BASIS OF PRESENTATION AND SUMMARY ACCOUNTING POLICIES

Organization and business

Lifetime Brands, Inc. (the “Company”) designs, markets and distributes a broad range of consumer products used in the home, including kitchenware, 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 markets and sells its products principally on a wholesale basis to retailers throughout North America. The Company also markets and sells certain products directly to the consumer through its Pfaltzgraff®, Mikasa®, Housewares Deals™ and Lifetime Sterling™ Internet websites and Pfaltzgraff® mail-order catalogs.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation have been included. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010. Operating results for the three-month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The Company’s business and working capital needs are highly seasonal, with a majority of sales occurring in the third and fourth quarters. In 2010, 2009 and 2008, net sales for the third and fourth quarters accounted for 60%, 58%, and 61% of total annual net sales, respectively. In anticipation of the pre-holiday shipping season, inventory levels increase primarily in the June through October time period.

Revenue recognition

Wholesale sales and Retail Direct sales are recognized when title passes to the customer. Wholesale sales are recognized at shipping point and Retail Direct sales are recognized upon delivery to the customer. Shipping and handling fees that are billed to customers in sales transactions are included in net sales and amounted to \$455,000 and \$518,000 for the three months ended March 31, 2011 and 2010, 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. For the three months ended March 31, 2011 and 2010, freight-out expenses for the Wholesale segment amounted to \$722,000 and \$700,000, respectively. For the three months ended March 31, 2011 and 2010, freight-out expenses for the Retail Direct segment amounted to \$1.2 million and \$1.1 million, respectively.

LIFETIME BRANDS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011
(unaudited)

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

Inventory

Inventory consists principally of finished goods sourced from third-party suppliers. Inventory also includes finished goods, work in process and raw materials related to the Company's manufacture of sterling silver products. Inventory is priced by the lower of cost (first-in, first-out basis) or market method. The Company estimates the selling price of its inventory on a product by product basis based on the current selling environment and considering the various available channels of distribution (e.g. wholesale: specialty store, off-price retailers, etc. or the Internet and catalog). If the estimated selling price is lower than the inventory's cost, the Company reduces the value of the inventory to its net realizable value.

The components of inventory are as follows:

	March 31, 2011	December 31, 2010
	(in thousands)	
Finished goods	\$ 99,572	\$ 96,375
Work in process	2,156	1,890
Raw materials	2,176	1,670
Total	\$ 103,904	\$ 99,935

Fair value measurements

ASC Topic No. 820, Fair Value Measurements and Disclosures, provides enhanced guidance for using fair value to measure assets and liabilities and 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. Fair value measurements included in the Company's condensed consolidated financial statements relate to the Company's convertible senior notes described in Note A.

Fair value of financial instruments

The Company determined 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 determined 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 \$24.1 million 4.75% Convertible Senior Notes (the "Notes") at March 31, 2011 was \$24.1 million and was determined based on Level 2 observable inputs consisting of the most recent quoted price for the Notes obtained from the FINRA Trade Reporting and Compliance Engine™ system at March 31, 2011.

LIFETIME BRANDS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011
(unaudited)

NOTE B — INVESTMENT IN GRUPO VASCONIA, S.A.B.

The Company owns a 30% interest in Grupo Vasconia S.A.B. (“Vasconia”). The Company accounts for its investment in Vasconia using the equity method of accounting and records its proportionate share of Vasconia’s net income in the Company’s statement of operations. Accordingly, the Company has recorded its proportionate share of Vasconia’s net income (reduced for amortization expense related to the customer relationships acquired) for the three months ended March 31, 2011 and 2010 in the accompanying condensed consolidated statements of operations. The value of the Company’s investment balance has been translated from Mexican Pesos (“MXN”) to U.S. Dollars (“USD”) using the spot rate of MXN 11.89 and MXN 12.42 at March 31, 2011 and 2010, respectively. The Company’s proportionate share of Vasconia’s net income has been translated from MXN to USD using the average daily exchange rate of MXN 12.09 and MXN 12.77 during the three months ended March 31, 2011 and 2010, respectively. The effect of the translation of the Company’s investment resulted in an increase to the investment balance of \$1.2 million and \$946,000 at March 31, 2011 and 2010, respectively (also see Note J). These translation effects are recorded in accumulated other comprehensive loss. Included in prepaid expenses and other current assets at March 31, 2011 and December 31, 2010 are amounts due from Vasconia of \$101,000 and \$102,000, respectively.

The Company evaluated the requirements of ASC Topic No. 860, Transfers and Servicing, upon adoption in 2010, and determined that the Company did not have a controlling voting interest or variable interest in Vasconia and, therefore, continued accounting for its investment using the equity method of accounting.

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

	Three Months Ended March 31,			
	2011		2010	
	USD	MXN	USD	MXN
	(in thousands)			
Net Sales	\$ 28,571	\$ 345,477	\$ 25,138	\$ 321,125
Gross Profit	8,083	97,737	7,329	93,621
Income from operations	3,325	40,206	3,534	45,146
Net Income	2,131	25,768	2,316	29,592

NOTE C — INTANGIBLE ASSETS

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

	March 31, 2011			December 31, 2010		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Indefinite-lived intangible assets:						

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Trade names	\$19,433	\$	\$19,433	\$19,433	\$	\$19,433
Finite-lived intangible assets:						
Licenses	15,847	(6,299)	9,548	15,847	(6,186)	9,661
Trade names	2,477	(1,288)	1,189	2,477	(1,267)	1,210
Customer relationships	586	(538)	48	586	(530)	56
Patents	584	(135)	449	584	(126)	458
Total	\$38,927	\$ (8,260)	\$30,667	\$38,927	\$ (8,109)	\$30,818

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LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(unaudited)

NOTE D — DEBT

Revolving Credit Facility

The Company has a \$125.0 million secured credit agreement (the “Revolving Credit Facility”), which matures on June 9, 2015, with a bank group led by JPMorgan Chase Bank, N.A.

Borrowings under the Revolving Credit Facility bear interest, at the Company’s option, at one of the following rates: (i) the Alternate Base Rate, defined as the greater of the Prime Rate, Federal Funds Rate plus 0.5% or the Adjusted LIBOR rate plus 1.0%, plus a margin of 1.25% to 1.75%, or (ii) the Eurodollar Rate, defined as the Adjusted LIBOR Rate plus a margin of 2.25% to 2.75%. The respective margin is based upon availability. In addition, the Company pays a commitment fee of 0.50% on the unused portion of the Revolving Credit Facility. Availability under the Revolving Credit Facility was approximately 48.9% of the total facility commitment at March 31, 2011.

At March 31, 2011, the Company had \$1.4 million of open letters of credit and \$17.0 million of borrowings outstanding under the Revolving Credit Facility. The interest rate on the outstanding borrowings at March 31, 2011 was 2.56%.

Pursuant to the provisions of the FASB ASC Topic No. 470-10, Short-term Obligations Expected to be Refinanced, at March 31, 2011, the Company had classified \$7.0 million of the Revolving Credit Facility as a current liability, based on planned repayments associated with anticipated changes in working capital principally from cash flows from operations, including collections of accounts receivable and sales of inventory which are expected to occur within one year. Repayments are planned to the extent that such anticipated cash flows are generated although the Company is not obligated to repay any portion of the debt until maturity of the facility in June 2015, provided that availability exists under the facility. The Company had classified the remaining amount outstanding under the Revolving Credit Facility of \$10.0 million as long-term at March 31, 2011. The Company expects that it will continue to borrow and repay funds under the facility based on working capital needs which is subject to availability.

Term Loan

The Company has a \$40.0 million second lien credit agreement (the “Term Loan”), which matures on June 8, 2015, with Citibank, N.A.

The Term Loan bears interest, at the Company’s option, at one of the following rates: (i) the Alternate Base Rate, defined as the greater of the corporate rate published by the lender and the Federal Funds Rate plus 0.50% provided that such calculated rate is a minimum of 2.50%, plus a margin of 7.50%, or (ii) the Adjusted LIBOR rate which shall be a minimum of 1.50%, plus a margin of 8.50%. The interest rate on the outstanding borrowings at March 31, 2011 was 10.0%.

The Term Loan requires the Company to have EBITDA, as defined, of not less than \$30.0 million for all trailing four fiscal quarters and limits capital expenditures to \$7.5 million for the year ending December 31, 2011. The Company was in compliance with these financial covenants at March 31, 2011.

4.75% Convertible Senior Notes

At March 31, 2011, the Company had outstanding \$24.1 million aggregate principal amount of the Notes due July 15, 2011. The Notes are convertible at the option of the holder any time prior to maturity into shares of the Company's common stock at a conversion price of \$28.00 per share, subject to adjustment upon the occurrence of certain events. The Company has reserved 860,714 shares of common stock for issuance upon conversion of the Notes. Pursuant to the provisions of ASC Topic No. 470-10, the Company classified the Notes as a long-term liability based on the Company's intent and ability to repay the Notes with borrowings from the Revolving Credit Facility.

LIFETIME BRANDS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011
(unaudited)

NOTE D — DEBT (continued)

4.75% Convertible Senior Notes

At March 31, 2011 and December 31, 2010, the carrying amounts of the debt and equity components of the Notes were as follows (in thousands):

	March 31, 2011	December 31, 2010
Carrying amount of equity component, net of tax	\$ 8,262	\$ 8,262
Principal amount of debt component	\$ 24,100	\$ 24,100
Unamortized discount	(314)	(543)
Carrying amount of debt component	\$ 23,786	\$ 23,557

At March 31, 2011, the remaining period over which the debt discount will be amortized is approximately three months. The effective interest rate of the debt component was 9.02% at the date of issuance. Total interest recognized related to the Notes, including amortization of the debt discount and offering costs, was \$577,000 and \$1.7 million for the three months ended March 31, 2011 and 2010, respectively. In June 2010, the Company purchased \$50.9 million principal amount of the Notes.

NOTE E — STOCK COMPENSATION

A summary of the Company's stock option activity and related information for the three months ended March 31, 2011 is as follows:

	Options	Weighted- average exercise price	Weighted- average remaining contractual life (years)	Aggregate intrinsic value
Options outstanding, January 1, 2011	2,219,200	\$12.46		
Grants	150,000	11.73		
Exercises	(2,000)	4.60		
Cancellations	(1,200)	22.46		
Options outstanding, March 31, 2011	2,366,000	12.41	6.07	\$12,277,235
Options exercisable, March 31, 2011	1,056,750	13.48	5.01	\$6,047,333

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 March 31, 2011. 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 March 31, 2011 and the exercise price.

The total intrinsic value of stock options exercised for the three months ended March 31, 2011 and 2010 was \$16,990 and \$6,100, respectively. The intrinsic value of a stock option that is exercised is calculated at the date of exercise.

The Company recognized stock compensation expense of \$748,000 and \$659,000 for the three months ended March 31, 2011 and 2010, respectively.

Total unrecognized compensation cost related to unvested stock options at March 31, 2011, before the effect of income taxes, was \$5.0 million and is expected to be recognized over a weighted-average period of 1.87 years.

At March 31, 2011, there were 585,126 shares available for grants of awards under the Company's 2000 Long-Term Incentive Plan.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(unaudited)

NOTE F — INCOME (LOSS) PER COMMON SHARE

Basic income (loss) per common share has been computed by dividing net income (loss) by the weighted-average number of shares of the Company's common stock outstanding. Diluted income (loss) per common share adjusts net income (loss) and basic income (loss) per common share for the effect of all potentially dilutive shares of the Company's common stock. The calculations of basic and diluted income (loss) per common share for the three months ended March 31, 2011 and 2010 are as follows:

		Three Months Ended	
		March 31,	
		2011	2010
		(in thousands, except per share amounts)	
Net income (loss)	Basic	\$ (949)	\$ 729
Interest expense, 4.75% Convertible Senior Notes, net of tax			
Net income (loss)	Diluted	\$ (949)	\$ 729
Weighted-average shares outstanding Basic			
		12,066	12,015
Effect of dilutive securities:			
Stock options			306
4.75% Convertible Senior Notes			
Weighted-average shares outstanding Diluted		12,066	12,321
Basic and Diluted income (loss) per common share		\$ (0.08)	\$ 0.06

The computation of diluted income (loss) per common share for the three months ended March 31, 2011 and 2010 excludes: (i) options to purchase 2,366,000 shares and 697,500 shares, respectively; and (ii) 860,714 and 2,678,571 shares of the Company's common stock issuable upon the conversion of the Company's Notes and related interest expense due, respectively. The above shares were excluded due to their antidilutive effect.

NOTE G — INCOME TAXES

As of December 31, 2010, the Company had fully utilized the Federal net operating loss and other credit carryforwards generated in previous years. The Company has generated various state net operating loss carryforwards of \$8.6 million that will begin to expire in 2014. The Company has net operating losses in foreign jurisdictions of \$4.0 million that will begin to expire in 2013. In accordance with ASC Topic No. 740, Income Taxes, the Company has offset its total deferred tax assets with certain deferred tax liabilities that are expected to reverse in the carryforward period. As of December 31, 2010, management had determined that it was "more likely than not" that certain deferred tax assets would be realized and the corresponding valuation allowance had been released based on

the Company's ability to utilize deferred tax assets currently and the expected future use of temporary differences in the carryback period. The Company did not release any valuation allowance during the quarter ended March 31, 2011 as the evaluation of the realization of deferred tax assets was unchanged.

The estimated value of the Company's tax positions at March 31, 2011 is a liability of \$356,000. If the Company's tax positions are sustained by the taxing authorities in favor of the Company, the Company's liability would be reduced by \$301,000, all of which would impact the Company's tax provision. On a quarterly basis, the Company evaluates its tax positions and revises its estimates accordingly. The Company believes that \$170,000 of its tax positions will be resolved within the next twelve months.

LIFETIME BRANDS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(unaudited)

NOTE G — INCOME TAXES (continued)

The Company has identified the following jurisdictions as “major” tax jurisdictions: U.S. Federal, California, Massachusetts, Pennsylvania, New York and New Jersey. As of December 31, 2009, the Company had settled its Federal tax examination for the periods 2006 through 2008. The Company is no longer subject to U.S. Federal income tax examinations for the years prior to 2009. The periods subject to examination for the Company’s major state jurisdictions are the years ended 2007 through 2010.

The Company’s policy for recording interest and penalties is to record such items as a component of income taxes. Interest and penalties were not material to the Company’s financial position, results of operations or cash flows as of and for the three months ended March 31, 2011 and 2010.

NOTE H — BUSINESS SEGMENTS

The Company operates in two reportable business segments; the Wholesale segment, the Company’s primary business, in which the Company designs, markets and distributes products to retailers and distributors, and the Retail Direct segment, in which the Company markets and sells to consumers through its Pfaltzgraff®, Mikasa®, Housewares Deals™ and Lifetime Sterling™ Internet websites and the Company’s Pfaltzgraff® mail-order catalogs.

The Company has segmented its operations to reflect the manner in which management reviews and evaluates the results of its operations. While both segments distribute similar products, the segments are distinct due to the different types of customers and the different methods the Company uses to sell, market and distribute the products.

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

	Three Months Ended	
	March 31,	
	2011	2010
	(in thousands)	
Net sales		
Wholesale	\$ 84,903	\$ 82,110
Retail Direct	6,870	6,626
Total net sales	\$ 91,773	\$ 88,736
Income (loss) from operations		
Wholesale	\$ 2,914	\$ 5,021
Retail Direct	(104)	(130)

Unallocated corporate expenses	(2,833)	(2,364)
Total income (loss) from operations	\$ (23)	\$ 2,527
Depreciation and amortization		
Wholesale	\$ (1,975)	\$ (2,519)
Retail Direct	(20)	(23)
Total depreciation and amortization	\$ (1,995)	\$ (2,542)

LIFETIME BRANDS, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2011
 (unaudited)

NOTE I — CONTINGENCIES

Increase in unearned insurance premiums	23,784	7,891	8,586
Increase (decrease) in income taxes payable	893	(20,876)	20,398
Proceeds from sales of rental furniture, less gross profit included in net income	48,173	44,225	34,252
Other, net	(239)	(6,717)	538

Net cash flows from operating activities	188,429	164,543	(271,506)
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Cash flows from investing activities:

Purchases of securities with fixed maturities	(289,117)	(719,769)	(1,204,104)
Maturities and redemptions of securities with fixed maturities	427,387	631,639	20,385
Sales of marketable equity securities	1,396,997		
Sales of securities with fixed maturities	674,660		
Acquisition of businesses, net of cash and cash equivalents acquired	(37,082)	(20,009)	(394,523)
Purchases of rental furniture	(44,550)	(56,065)	(103,693)
Other, net	(5,974)	(2,008)	(7,450)

Net cash flows from investing activities	50,664	(166,212)	382,272
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Cash flows from financing activities:

Increase (decrease) in notes payable, net	(2,508)	9,714
Borrowings (repayments) of line of credit borrowings, net	1,700	(32,100) (14,600)
Payment of cash dividends	(9,257)	(8,971) (8,687)

Net cash flows from financing activities	(10,065)	(31,357) (23,287)
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Increase (decrease) in cash and cash equivalents	229,028	(33,026) 87,479
Cash and cash equivalents beginning of year	120,784	153,810 66,331

Cash and cash equivalents end of year	\$349,812	\$120,784 \$153,810
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Supplementary disclosures:

Interest paid during year	\$1,241	\$4,356 \$4,818
Income taxes paid during year	27,306	49,668 491,288

See accompanying notes to consolidated financial statements.

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WESCO FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands except for amounts per share)

Note 1. Presentation

Wesco Financial Corporation (Wesco) is an indirect, 80.1%-owned subsidiary of Berkshire Hathaway Inc. (Berkshire).

Wesco's consolidated financial statements include the accounts of Wesco and its subsidiaries, which, with one minor exception, are all either directly or indirectly wholly owned. The principal subsidiaries are Wesco-Financial Insurance Company (Wes-FIC), The Kansas Bankers Surety Company (KBS), CORT Business Services Corporation (CORT) and Precision Steel Warehouse, Inc. (Precision Steel). Intercompany balances and transactions have been eliminated in the preparation of the consolidated statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates and assumptions are based on management's evaluation of the relevant facts and circumstances using information available at the time such estimates and assumptions are made. For example, the process of establishing loss reserves for property and casualty reinsurance and insurance is subject to considerable estimation error due to the inherent uncertainty in projecting the claim amounts that will be reported and ultimately paid over many years. Although the amounts of such assets, liabilities, revenues and expenses included in the consolidated financial statements may differ significantly from those that might result from use of estimates and assumptions based on facts and circumstances not yet available, Wesco's management does not believe such differences would have a material adverse effect on reported shareholders' equity.

Wesco's management does not believe that any accounting pronouncements issued to date by the Financial Accounting Standards Board and required to be adopted after yearend 2002 will have a material effect on reported shareholders' equity. See Note 2 for explanation of an accounting change effected in 2002.

Note 2. Acquisitions and Goodwill

Effective February 18, 2000, Wesco acquired all of the outstanding common stock of CORT for approximately \$386 million cash pursuant to a tender offer and merger. The acquisition has been accounted for as a purchase, with CORT's accounts included in the consolidated financial statements as of the date of acquisition. CORT is the largest, and only national, provider of rental furniture, accessories and related services in the rent-to-rent segment of the furniture industry. It rents high-quality furniture to corporate and individual customers who desire flexibility in meeting their temporary office, residential or trade show furnishing needs and who typically do not seek to own such furniture. In addition, CORT sells previously rented furniture through company-owned clearance centers.

Under GAAP, companies are required to present pro forma revenues, net income and per-share data which indicate the significance of an acquired business to the combined entity, as if the acquisition had been made at the beginning of the earliest year for which an income statement is included in the consolidated financial statements. Because the CORT purchase was made early in 2000, pro forma data for that year did not materially differ from the actual results of Wesco's operations for the year 2000. Accordingly, pro forma data for that year are not presented herein; they were included in the notes to Wesco's consolidated financial statements in each of the previous two

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annual reports in order to facilitate comparison with pro forma data required to be set forth for the pre-acquisition years.

During 2000, 2001 and 2002, CORT purchased various companies engaged in the furniture rental business. These acquisitions have also been accounted for as purchases, and the results of their operations have been included in CORT's since the dates of acquisition. Pro forma disclosures have not been provided inasmuch as the acquisitions, taken as a whole, were immaterial.

At December 31, 2002, the unamortized balance of goodwill carried as an asset on Wesco's consolidated balance sheet was \$266,203, of which \$239,167 related to CORT and the balance to KBS, acquired by Wesco in 1996.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, changing from an accounting model that required amortization of goodwill, supplemented by impairment tests, to an accounting model based solely on impairment tests performed at least annually. SFAS No. 142 also provided guidance on accounting for identifiable intangible assets that may or may not require amortization. The provisions of SFAS No. 142 became effective for Wesco at the beginning of 2002; as a result, the accompanying consolidated financial statements do not reflect any goodwill amortization in 2002, compared to \$7,476 and \$6,342, before taxes, of goodwill amortization for 2001 and 2000, which had been provided on a straight-line basis, principally over 40 years. Had Wesco adopted the provisions of SFAS No. 142 and ceased goodwill amortization as of the beginning of 2000, its after-tax income would have been \$59,350 (\$8.34 per share) for 2001 and \$928,337 (\$130.38 per share) for 2000, representing increases in after-tax earnings of \$6,814 (\$.96 per share) for 2001 and \$5,867 (\$.82 per share) for 2000. Based on impairment tests performed during 2002, no writedown of goodwill was required.

Note 3. Investments

Cash equivalents consist of funds invested in money-market accounts and other investments maturing less than three months from date acquired.

The appropriate classifications of investments in securities with fixed maturities and marketable equity securities are established at the time of purchase and reevaluated as of each balance sheet date. There are three permissible classifications: held-to-maturity, trading, and, when neither of those classifications is applicable, available-for-sale. In recent years, Wesco's management has classified all of the Wesco group's equity and fixed-maturity investments as available-for-sale; they are carried at fair value, with unrealized gains and losses, net of applicable deferred income taxes, reported as a separate component of shareholders' equity.

Realized gains and losses on sales of investments, determined on a specific-identification basis, are included in the consolidated statement of income, as are provisions for other-than-temporary declines in market or estimated fair value, when applicable.

Although the investments of the Wesco group are subject to market risks, including interest rate risks, the group does not utilize derivatives to manage risks.

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Following is a summary of securities with fixed maturities:

	December 31, 2002		December 31, 2001	
	Amortized Cost	Estimated Fair (Carrying) Value	Amortized Cost	Estimated Fair (Carrying) Value
Mortgage-backed securities	\$463,176	\$484,760	\$886,186	\$899,066
Other, principally U. S. government obligations	308,364	342,777	26,119	25,094
	<u>\$771,540</u>	<u>\$827,537</u>	<u>\$912,305</u>	<u>\$924,160</u>

At 2002 yearend, the estimated fair values of securities with fixed maturities contained \$55,997 of unrealized gains and no unrealized losses, compared with \$13,918 of unrealized gains and \$2,063 of unrealized losses at 2001 yearend.

Fixed-maturity investments other than mortgage-backed securities at 2002 yearend are expected to mature as follows:

	Amortized Cost	Carrying Value
In one year or less	\$ 201	\$ 203
After one year through five years	0	0
After five years through ten years	9,485	10,143
After ten years	298,678	332,431
	<u>\$308,364</u>	<u>\$342,777</u>

Following is a summary of marketable equity securities (all common stocks):

	December 31, 2002			December 31, 2001	
	Number of Shares	Cost	Quoted Market (Carrying) Value	Cost	Quoted Market (Carrying) Value
The Coca-Cola Company	7,205,600	\$ 40,761	\$315,893	\$ 40,761	\$339,744
The Gillette Company	6,400,000	40,000	194,304	40,000	213,760
Other		27,020	116,571	27,020	113,758
		<u>\$107,781</u>	<u>\$626,768</u>	<u>\$107,781</u>	<u>\$667,262</u>

There were no unrealized losses with respect to marketable equity securities at December 31, 2002 or December 31, 2001.

Realized investment gains (losses), before income taxes, from sales and redemptions of investments are summarized below for each of the past three years:

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	<u>2002</u>	<u>2001</u>	<u>2000</u>
Securities with fixed maturities			
Gross realized gains	\$	\$	\$ 3,012
Gross realized losses			(8,644)
Marketable equity securities			
Gross realized gains			1,318,060
Gross realized losses			(1,158)
	—	—	—
	\$	\$	\$ 1,311,270
	—	—	—

Dollar amounts in thousands except for amounts per share

Table of Contents**Note 4. Insurance**

Insurance premiums are recognized as earned revenues in proportion to the insurance protection provided, which in most cases is pro rata over the term of each contract. Unearned insurance premiums are deferred in the liability section of the consolidated balance sheet. Certain costs of acquiring insurance premiums—commissions, premium taxes, and other—are deferred, and charged to income as the premiums are earned. Deferred premium acquisition costs are included in other assets on the accompanying consolidated balance sheet and amounted to \$6,015 and \$4,005 at December 31, 2002 and December 31, 2001.

Liabilities for unpaid losses and loss adjustment expenses represent estimated claim and claim settlement costs. The liabilities are based upon estimates of ultimate claim costs associated with claim occurrences as of the balance sheet date, and are determined from (1) individual case amounts, (2) incurred but not reported losses, based on past experience, and (3) reports from ceding insurers. Considerable judgment is required to evaluate claims and estimate claim liabilities in connection with reinsurance contracts because of the inherent delays in receiving loss information from ceding companies. As further data become available, the liabilities are reevaluated and adjusted as appropriate.

In the third quarter of 2001, Wes-FIC recorded a provision of \$10,000 (\$6,500 after income tax effect), reflecting estimated insurance loss and expenses relating to the September 11, 2001 terrorist activity. The amount is subject to considerable estimation error. Wes-FIC's management believes it will take years to resolve complicated coverage issues, which could produce a material change in the ultimate loss amount.

One area of particular concern to the insurance industry is its exposure to claims for environmental contamination, including asbestos. Wes-FIC's exposure to such claims is believed to be minimal.

Provisions for losses and loss adjustment expenses are reported in the consolidated statement of income after deducting estimates of amounts that will be recoverable under reinsurance contracts. Reinsurance contracts do not relieve the ceding companies of their obligations to indemnify policyholders with respect to the underlying insurance contracts.

Following is a summary of liabilities for unpaid losses and loss adjustment expenses for each of the past three years:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Balance at beginning of year	\$61,879	\$39,959	\$33,642
Less ceded liabilities		(50)	
Net balance at beginning of year	<u>61,879</u>	<u>39,909</u>	<u>33,642</u>
Incurred losses recorded during year			
For current year	39,641	35,913	16,195
For all prior years	(818)	(2,336)	(4,099)
Total incurred losses	<u>38,823</u>	<u>33,577</u>	<u>12,096</u>
Payments made during year			
For current year	12,607	3,597	2,521
For all prior years	15,080	8,010	3,308
Total payments	<u>27,687</u>	<u>11,607</u>	<u>5,829</u>
Net liabilities at end of year	73,015	61,879	39,909
Plus ceded liabilities	50		50
Gross liabilities at end of year	<u>\$73,065</u>	<u>\$61,879</u>	<u>\$39,959</u>

Dollar amounts in thousands except for amounts per share

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Incurring losses for all prior years represent the net amount of estimation error charged (credited) to earnings in a year with respect to the liabilities established as of the beginning of that year.

Payment of dividends by insurance subsidiaries is restricted by insurance statutes and regulations. In 2003, without prior regulatory approval, Wesco can receive dividends from its insurance subsidiaries up to approximately \$184,000.

Combined shareholders' equity of Wesco's insurance subsidiaries determined pursuant to statutory accounting rules of \$1,839,145 and \$1,802,392 at December 31, 2002 and December 31, 2001 approximate the corresponding figures determined under GAAP.

Note 5. Furniture Rental Business Accounting

Since the acquisition of CORT in February 2000 (see Note 2), the principal source of Wesco's consolidated sales and service revenues has been from rental of furniture. Furniture rentals are recognized as revenue in the month due; rentals received in advance are deferred in the liability section of the consolidated balance sheet. Related costs comprise the main element of cost of products and services sold on the consolidated income statement and include depreciation expense, repairs and maintenance and inventory losses.

Rental furniture consists principally of residential and office furniture which is available for rental or, if no longer up to rental standards or excessive in quantity, for sale. It is carried on Wesco's consolidated balance sheet at cost, less accumulated depreciation calculated primarily on a declining-balance basis over 3 to 5 years using estimated salvage values of 25 to 40 percent of original cost.

Following is a breakdown of rental furniture:

	December 31,	
	2002	2001
Cost of rental furniture	\$261,565	\$262,388
Less accumulated depreciation	(74,085)	(49,802)
	<u>\$187,480</u>	<u>\$212,586</u>

Note 6. Notes Payable

Following is a summary of notes payable, at yearend:

	December 31,	
	2002	2001
Revolving line of credit	\$22,000	\$20,300
Other	10,481	13,349
	<u>\$32,481</u>	<u>\$33,649</u>

The line of credit, used in the furniture rental business, totals \$150,000 and is unsecured. The weighted average annual rate of interest on amounts outstanding at December 31, 2002 was 1.69% in addition to an annual commitment fee of .14% of the total credit line. The underlying agreement does not contain any materially restrictive covenants. The credit line expires in August 2003; management does not anticipate any difficulty in renewing or replacing it on satisfactory terms.

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Of the other notes payable at December 31, 2001, notes totaling \$3,635 were fully repaid during 2002. The \$10,481 of principal amount remaining at December 31, 2002 represented convertible notes of a subsidiary of CORT; \$9,606 principal amount of these were converted into equity of the subsidiary in February 2003.

Dollar amounts in thousands except for amounts per share

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Estimated fair values of the notes payable at December 31, 2002 and December 31, 2001 totaled approximately \$32,481 and \$33,756. These figures were calculated using discounted cash flow computations based upon estimates as to interest rates prevailing on those dates for comparable borrowings.

Note 7. Income Taxes

Following is a breakdown of income taxes payable at 2001 and 2000 yearends:

	December 31,	
	2002	2001
Deferred tax liabilities, relating to		
Appreciation of investments	\$ 200,414	\$ 199,070
Other items	32,511	71,880
	<u>232,925</u>	<u>270,950</u>
Deferred tax assets	(8,159)	(44,740)
	<u>224,766</u>	<u>226,210</u>
Net deferred tax liabilities	224,766	226,210
Taxes currently payable (recoverable)	3,136	(545)
	<u>\$ 227,902</u>	<u>\$ 225,665</u>

Income taxes are accounted for using the asset and liability method. Under this method, temporary differences between financial statement and tax return bases of assets and liabilities at each balance sheet date are multiplied by the tax rates in effect at that date, with the results reported on the balance sheet as net deferred tax liabilities or assets. The effect of a change in tax rate on such deferred items is required, under GAAP, to be reflected when enacted in the consolidated statement of income even though the original charge or credit for income taxes has been charged or credited to shareholders' equity, as in the case of unrealized appreciation of investments. As the temporary differences reverse in future periods, the taxes become currently payable or recoverable.

The consolidated statement of income contains a provision (benefit) for income taxes, as follows:

	2002	2001	2000
Federal	\$ 29,046	\$ 29,225	\$ 493,859
State	(847)	(433)	2,063
	<u>\$ 28,199</u>	<u>\$ 28,792</u>	<u>\$ 495,922</u>
Provision for income taxes	\$ 28,199	\$ 28,792	\$ 495,922
	<u>\$ 24,750</u>	<u>\$ 28,461</u>	<u>\$ 495,145</u>
Current	24,750	28,461	495,145
Deferred	3,449	331	777
	<u>\$ 28,199</u>	<u>\$ 28,792</u>	<u>\$ 495,922</u>
Provision for income taxes	\$ 28,199	\$ 28,792	\$ 495,922

Following is a reconciliation of the statutory federal income tax rate with the effective income tax rate resulting in the provision for income taxes appearing on the consolidated statement of income:

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	<u>2002</u>	<u>2001</u>	<u>2000</u>
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increase (decrease) resulting from			
Dividends received deduction	(3.1)	(3.3)	(0.3)
Goodwill amortization		2.4	0.4
State income taxes, less federal tax benefit	(1.0)	(0.3)	0.1
Other differences, net	3.9	1.6	(0.2)
	<u> </u>	<u> </u>	<u> </u>
Effective income tax provision rate	34.8%	35.4%	35.0%
	<u> </u>	<u> </u>	<u> </u>

Dollar amounts in thousands except for amounts per share

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Wesco and its subsidiaries join with other Berkshire entities in the filing of consolidated federal income tax returns for the Berkshire group. The consolidated federal tax liability is apportioned among group members pursuant to methods that result in each member of the group paying or receiving an amount that approximates the increase or decrease in consolidated taxes attributable to that member.

Effective with the conversion into equity in February 2003 of convertible notes issued by Relocation Central Corporation (Relocation Central), a subsidiary formed by CORT in January 2001 (see Note 6), Relocation Central became ineligible to continue to be included in the consolidated federal return group. Because Relocation Central's operations have not become profitable to date, it received federal tax benefits in cash from Berkshire of approximately \$3 million each for 2002 and 2001. So long as Relocation Central remains outside the consolidated return group, it will not realize tax benefits from continued operating losses.

Returns have been examined by and settled with the Internal Revenue Service through 1988.

Note 8. Quarterly Financial Information

Unaudited quarterly consolidated financial information for 2002 and 2001 follows:

	Quarter Ended			
	December 31, 2002	September 30, 2002	June 30, 2002	March 31, 2002
Sales and service revenues	\$ 101,523	\$ 111,683	\$ 111,928	\$ 111,965
Cost of products and services sold	34,142	37,556	36,917	37,062
	<u>\$ 67,381</u>	<u>\$ 74,127</u>	<u>\$ 75,011</u>	<u>\$ 74,903</u>
Total revenues	<u>\$ 139,547</u>	<u>\$ 148,424</u>	<u>\$ 144,397</u>	<u>\$ 143,309</u>
Net income	<u>\$ 8,256</u>	<u>\$ 15,145</u>	<u>\$ 14,880</u>	<u>\$ 14,437</u>
Per capital share	<u>1.16</u>	<u>2.12</u>	<u>2.09</u>	<u>2.03</u>
	December 31, 2001	September 30, 2001	June 30, 2001	March 31, 2001
Sales and service revenues	\$ 97,885	\$ 109,009	\$ 116,203	\$ 120,531
Cost of products and services sold	32,882	35,423	36,955	39,452
	<u>\$ 65,003</u>	<u>\$ 73,586</u>	<u>\$ 79,248</u>	<u>\$ 81,079</u>
Total revenues	<u>\$ 130,259</u>	<u>\$ 136,909</u>	<u>\$ 144,060</u>	<u>\$ 149,851</u>
Net income	<u>\$ 6,422</u>	<u>\$ 11,191</u>	<u>\$ 15,106</u>	<u>\$ 19,817</u>
Per capital share	<u>.91</u>	<u>1.57</u>	<u>2.12</u>	<u>2.78</u>

No securities gains or losses were realized in 2002 or 2001.

Note 9. Business Segment Data

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Consolidated financial information for each of the past three years is presented in the table on the next page. It is broken down as to Wesco's three business segments.

The insurance segment includes the accounts of Wes-FIC and its subsidiary, KBS. Wes-FIC is engaged in the property and casualty insurance and reinsurance business. Its business has included retrocessions from wholly owned insurance subsidiaries of Berkshire and reinsurance with unaffiliated insurance companies. KBS provides specialized insurance coverage to more than 20% of the banks in the United States, mostly small and medium-sized banks in the Midwest. In addition to generating insurance premiums, Wesco's insurance segment has derived dividend and interest income from the

Dollar amounts in thousands except for amounts per share

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investment of float (premiums received before payment of related claims and expenses) as well as shareholder's equity.

The furniture rental segment includes the operating accounts of CORT, which was acquired in February 2002 (see Note 2), and its Relocation Central subsidiary, which was formed in January 2001.

The industrial segment includes the operating accounts of Precision Steel and its subsidiaries. The Precision Steel group operates two service centers, which buy steel and other metals in the form of sheets or strips, cut these to order and sell them directly to a wide variety of industrial customers throughout the United States. The Precision Steel group also manufactures shim stock and other toolroom specialty items and sells them, along with hose clamps and threaded rod, nationwide, generally through distributors.

Wesco's consolidated realized net securities gains—most of which have resulted from sales of investments held by its insurance subsidiaries and goodwill of acquired businesses and related amortization, are shown separately as nonsegment items, consistent with the way Wesco's management evaluates the performance of its operating segments. Other items considered unrelated to Wesco's three business segments include principally (1) investments other than those held by Wes-FIC and KBS, together with related dividend and interest income, (2) commercial real estate, together with related revenues and expenses, (3) the assets, revenues and expenses of the parent company, and (4) related income taxes.

	2002	2001	2000
Insurance segment:			
Premiums earned	\$ 64,627	\$ 43,031	\$ 23,783
Dividend and interest income	70,007	70,048	59,241
Provision for income taxes	(26,427)	(21,143)	(18,114)
Net income	49,471	45,254	45,518
Depreciation and amortization other than of discounts and premiums of investments	26	39	44
Capital expenditures	3	23	39
Assets at yearend	1,818,788	1,724,612	1,820,244
Furniture rental segment:			
Revenues	\$ 388,583	\$ 395,414	\$ 361,055
Provision for income taxes	(1,201)	(7,601)	(18,160)
Net income	2,442	13,076	28,988
Depreciation and amortization other than of discounts and premiums of investments	47,998	53,429	48,657
Capital expenditures	3,497	1,605	6,967
Assets at yearend	277,308	286,269	325,048
Industrial segment:			
Sales, service and other revenues	\$ 48,567	\$ 48,440	\$ 65,119
Provision for income taxes	(413)	(474)	(907)
Net income	250	388	1,281
Depreciation and amortization	592	747	780
Capital expenditures	137	245	303
Assets at yearend	17,905	19,044	22,537
Goodwill of acquired businesses:			
Amortization, net of income taxes	\$	\$ (6,814)	\$ (5,867)
Assets at yearend	266,203	264,465	260,037
Realized net securities gains:			
Before taxes (included in revenues)	\$	\$	\$1,311,270
After taxes (included in net income)			852,383

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	<u>2002</u>	<u>2001</u>	<u>2000</u>
Other items unrelated to business segments:			
Dividend and interest income	\$ 616	\$ 885	\$ 518
Other revenues	3,277	3,261	2,978
Provision for income taxes	(158)	(236)	(329)
Net income	555	632	167
Depreciation and amortization	360	360	367
Capital expenditures	302	135	197
Assets at yearend	26,771	25,303	33,049
	_____	_____	_____
Consolidated revenues (total of those set forth above)	\$ 575,677	\$ 561,079	\$ 1,823,964
	_____	_____	_____
Consolidated assets (total of those set forth above)	\$2,406,975	\$2,319,693	\$2,460,915
	_____	_____	_____

Dollar amounts in thousands except for amounts per share

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WESCO FINANCIAL CORPORATION
SCHEDULE I CONDENSED FINANCIAL
INFORMATION OF REGISTRANT

BALANCE SHEET

(Dollar amounts in thousands)

	December 31,	
	2002	2001
Assets:		
Cash and cash equivalents	\$ 20	\$ 28
Investment in subsidiaries, at cost plus equity in subsidiaries undistributed earnings and unrealized appreciation	2,065,376	2,009,026
Other assets	10	10
	\$2,065,406	\$2,009,064
Liabilities and shareholders' equity:		
Advances from subsidiaries	\$ 104,792	\$ 92,487
Notes payable		1,035
Income taxes payable, principally deferred	2,426	3,119
Other liabilities	26	26
	107,244	96,667
Shareholders' equity (see consolidated balance sheet and statement of changes in shareholders' equity)	1,958,162	1,912,397
	\$2,065,406	\$2,009,064

STATEMENT OF INCOME

(Dollar amounts in thousands)

	Year Ended December 31,		
	2002	2001	2000
Revenues:			
Dividend and interest income	\$	\$ 1	\$ 1
Other			
		1	1
Expenses:			
Interest, including intercompany interest of \$1,511, \$1,899 and \$2,789	1,512	1,978	2,868
General and administrative	531	512	483

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	2,043	2,490	3,351
	<u> </u>	<u> </u>	<u> </u>
Loss before items shown below	(2,043)	(2,489)	(3,350)
Income tax benefit	714	870	1,119
Equity in undistributed earnings of subsidiaries	54,047	54,155	924,701
	<u> </u>	<u> </u>	<u> </u>
Net income	\$52,718	\$52,536	\$922,470
	<u> </u>	<u> </u>	<u> </u>

See notes to accompanying consolidated financial statements

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WESCO FINANCIAL CORPORATION
SCHEDULE I CONDENSED FINANCIAL
INFORMATION OF REGISTRANT (CONTINUED)

STATEMENT OF CASH FLOWS

(Dollar amounts in thousands)

	Year Ended December 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net income	\$ 52,718	\$ 52,536	\$ 922,470
Adjustments to reconcile net income with cash flows from operating activities			
Increase (decrease) in income taxes payable currently	(693)	1,231	(411)
Equity in undistributed earnings of subsidiaries	(54,047)	(54,155)	(924,701)
Other, net	1	14	
Net cash flows from operating activities	(2,021)	(374)	(2,642)
Cash flows from investing activities:			
Principal collections on loans, and other items			377
Net cash flows from investing activities			377
Cash flows from financing activities:			
Advances from subsidiaries, net	12,305	9,347	10,955
Repayment of notes payable	(1,035)		
Payment of cash dividends	(9,257)	(8,971)	(8,687)
Net cash flows from financing activities	2,013	376	2,268
Increase (decrease) in cash and cash equivalents	(8)	2	3
Cash and cash equivalents beginning of year	28	26	23
Cash and cash equivalents end of year	\$ 20	\$ 28	\$ 26

See notes to accompanying consolidated financial statements