LIFETIME BRANDS, INC
Form 10-K
March 15, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

or

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

For the transition period from _________ to _________

Commission file number: 0-19254

LIFETIME BRANDS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**11-2682486**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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	**The NASDAQ Stock Market LLC**
(Title of each class)	**(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 x

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 x

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

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

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	x
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 Act). Yes ¨ No x

The aggregate market value of 9,562,520 shares of the voting common equity held by non-affiliates of the registrant as of June 30, 2012 was approximately $119,244,624. 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 15, 2013 was 12,756,467.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the registrant s definitive proxy statement for the 2013 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.

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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. and its subsidiaries (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 expr intended to identify forward-looking statements. All forward-looking statements, including, without limitation, the Company s examination of historical operating trends, are based upon the Company s current expectations and various assumptions. The Company believes there is a reasonable basis for its expectations and assumptions, but there can be no assurance that the Company will realize its expectations or that the Company s assumptions will prove correct.

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

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

OTHER INFORMATION

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

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PART I

Item 1. Business

OVERVIEW

The Company designs, sources and sells branded kitchenware, tabletop and other products used in the home and markets its products under a number of well-respected and widely-recognized brand names and trademarks, which are either owned or licensed by the Company, or through retailers private labels. The Company sells its products to retailers and distributors and sells a limited selection of its products directly to consumers through its Internet websites. 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 culture of innovation. The Company brought over 3,600 new or redesigned products to market in 2012 and expects to bring to market over 4,000 new or redesigned products in 2013.

The Company s product categories include two categories of products that people use to prepare, serve and consume foods, Kitchenware (kitchen tools and gadgets, cutlery, cutting boards, bakeware, cookware and novelty housewares) and Tabletop (dinnerware, flatware and glassware); and one category, Home Solutions, which comprises other products used in the home (food storage, pantryware, spices and home décor).

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

The Company has expanded its presence in international markets through investments in various companies that operate outside of the United States. In 2007, the Company acquired a 30% equity interest in Grupo Vasconia, S.A.B. (Vasconia), an aluminum manufacturer and housewares company based in Mexico. In January 2008, the Company entered into a strategic alliance to distribute products in Canada. In January 2011, the Company, together with Vasconia and unaffiliated partners, formed Housewares Corporation of Asia Limited, a Hong Kong-based company that supplies imported kitchenware products to retailers in North, Central and South America. In November 2011, the Company acquired 100% of the share capital of each of Creative Tops Holdings Limited and Creative Tops Far East Limited (collectively, Creative Tops). Creative Tops is a UK-based supplier of private label and branded tabletop and kitchenware products. In December 2011, the Company acquired a 40% equity interest in GS Internacional S/A (GSI). GSI is a wholesale distributor of branded housewares products in Brazil. GSI markets dinnerware, glassware, home décor, kitchenware and barware to customers, including major department stores, housewares retailers and independent shops throughout Brazil. In February 2012, the Company invested in Grand Venture Holdings Limited, a joint venture with Manweal Development Limited, a Chinese corporation, to distribute Mikasa® products in China.

In December 2012, the Company acquired Fred® and Friends, a business which designs and markets novelty houseswares and other products under the Fred® brand. The acquisition resulted in an expansion of the Company s Kitchenware product category to include innovative kitchen tools, tabletop accessories, party goods, personal accessories and other products.

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

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

Brand	Licensed/Owned	Product Category
Farberware®	Licensed*	Kitchenware and Tabletop
KitchenAid®	Licensed	Kitchenware
Mikasa®	Owned	Tabletop and Home Solutions
Pfaltzgraff®	Owned	Tabletop and Home Solutions
Kamenstein®	Owned	Home Solutions
Cuisinart®	Licensed	Kitchenware and Tabletop
Elements®	Owned	Home Solutions
Melannco®	Owned	Home Solutions
Wallace Silversmiths®	Owned	Tabletop and Home Solutions
Misto®	Licensed	Kitchenware
Fred®	Owned	Kitchenware
V&A®	Licensed	Tabletop
Royal Botanic Gardens Kew®	Licensed	Tabletop

* The Company has a 183 year royalty free license to utilize the Farberware® brand for kitchenware and tabletop products.
The Company s wholesale customers include mass merchants, specialty stores, national chains, department stores, warehouse clubs, supermarkets, off-price retailers and Internet retailers.

BUSINESS SEGMENTS

The Company operates in two business segments: the Wholesale segment, which is the Company s primary business that designs, markets and distributes its products to retailers and distributors, and the Retail Direct segment in which the Company markets and sells a limited selection of its products through its Pfaltzgraff®, Mikasa®, Lifetime Sterling® and Housewares Deals® Internet websites. The Company has segmented its operations to reflect the manner in which management reviews and evaluates the results of its operations.

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

CUSTOMERS

The Company s products are sold globally to a diverse customer base including mass merchants (such as Wal-Mart and Target), specialty stores (such as Bed Bath & Beyond and Dunelm), national chains (such as Kohl s), department stores (such as Macy s and Bon-Ton), warehouse clubs (such as Costco and Sam s Club), supermarkets (such as Stop & Shop, Kroger, Tesco and Sainsbury s), off-price retailers (such as Marshalls, T.J. Maxx, Home Goods, Ross Stores and Big Lots) and Internet retailers (such as Amazon.com).

The Company also operates its own Internet sites that provide information about the Company s products and offer consumers the opportunity to purchase a limited selection of the Company s products directly from the Company.

During the years ended December 31, 2012, 2011 and 2010, Wal-Mart Stores, Inc. (including Sam s Club and Asda Superstore) accounted for 16%, 15% and 15% of net sales, respectively. No other customer accounted for 10% or more of the Company s net sales during these periods.

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DISTRIBUTION

The Company operates distribution centers at the following locations:

Location	Size (square feet)
Fontana, California	753,000
Robbinsville, New Jersey	700,000
Winchendon, Massachusetts	175,000
Corby, England	130,000
Cumberland, Rhode Island	28,000
Medford, Massachusetts	5,590

SALES AND MARKETING

The Company s sales and marketing staff coordinates directly with its wholesale customers to devise marketing strategies and merchandising concepts and to furnish advice on advertising and product promotion. The Company has developed many 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; Menomonee Falls, Wisconsin; and Corby, England.

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

DESIGN AND INNOVATION

At the heart of the Company is a culture of innovation and new product development. The Company s in-house design and development teams currently consist of 101 professional designers, artists and engineers. Utilizing the latest available design tools, technology and materials, these teams create new products, redesign products and create packaging and merchandising concepts.

SOURCES OF SUPPLY

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

MANUFACTURING

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

COMPETITION

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

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PATENTS

The Company owns approximately 140 design and utility patents. 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 received within close proximity to the required shipment dates.

EMPLOYEES

At December 31, 2012, the Company had a total of 1,247 full-time employees, of whom 200 are located in Asia and 115 in Europe. In addition, the Company employed 51 people on a part-time basis, predominately in Corporate Marketing/Sales Support. None of the Company s employees are represented by a labor union. The Company considers its employee relations to be good.

REGULATORY MATTERS

The Company, its subsidiaries and affiliates are subject to significant regulation by various governmental, regulatory and other administrative authorities.

As a manufacturer and distributor of consumer products, the Company is subject to the Consumer Products Safety Act in the United States and the Consumer Protection Act in the United Kingdom. Additionally, laws regulating certain consumer products exist in some cities and states, as well as in other countries in which the Company or its subsidiaries and affiliates sell products.

The Company s spice container filling operation is regulated by the Food and Drug Administration.

The Company s operations also are subject to national, state and local environmental and health and safety laws and regulations, including those that impose workplace standards and regulate the discharge of pollutants into the environment and establish standards for the handling, generation, emission, release, discharge, treatment, storage and disposal of materials and substances including solid and hazardous wastes.

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

Item 1A. Risk Factors

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

General Economic Factors and Political Conditions

The Company s performance is affected by general economic factors, strength of retail economies and political conditions that are beyond its control. Retail economies are impacted by factors such as consumer demand and the condition of the retail industry, which in turn, is effected by general economic factors. These general economic factors include, among other factors, recession, inflation, deflation, housing markets, consumer credit availability, consumer debt levels, fuel and energy costs, material input costs, foreign currency translation, labor cost inflation, interest rates, government policies including tax policies relating to value-added taxes, import and export duties and quotas, anti-dumping regulations and related tariffs and social compliance standards, unemployment trends, the impact of natural disasters and terrorist activities, conditions affecting the retail environment for the home and other matters that influence consumer spending. Unfavorable economic conditions in the United States, the United Kingdom and elsewhere could adversely affect the Company s performance in the future. Unstable economic and political conditions, civil unrest and political activism, particularly in Asia, could adversely impact the Company s businesses. Any substantial deterioration in general economic conditions could also adversely affect consumer spending patterns which tend to be highly correlated with the levels of disposable income of consumers. If the global economy experiences significant disruptions or a slowdown, the Company s business could be negatively impacted by reduced demand for its products.

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The Company conducts business outside of the United States through subsidiaries, affiliates and joint ventures. These entities have operations in the United Kingdom, Mexico, Canada, Brazil, Hong Kong and China; therefore, the Company is subject to increases and decreases in its investments resulting from the impact of fluctuations in foreign currency exchange rates. These entities also bear risks similar to those risks of the Company; however, there are specific additional risks related to these organizations such as the failure of the Company s partners or other investors to meet their obligations and higher credit and liquidity risks related to thinly capitalized entities. Failure of these entities or the Company s vendors to adhere to required regulatory or other standards, including social compliance standards, could impact the Company s reputation and adversely impact the Company s business.

The Company has achieved growth through investments and acquisitions. There can be no assurance that the Company will continue to be able to successfully integrate these businesses or identify and integrate future acquisitions into its existing business without substantial costs, delays or other operational or financial difficulties. Additionally, the failure of these businesses to achieve expected results, the diversion of the Company s management s attention and the failure to retain key personnel at these businesses could have a material adverse effect on the Company s business, results of operations and financial condition.

Liquidity

The Company has substantial indebtedness and depends upon its bank lenders to finance its liquidity needs. In July 2012, the Company amended its $150.0 million secured credit agreement (the Revolving Credit Facility) to increase the lenders commitment to $175.0 million and replaced its $40.0 million second lien credit agreement (the Term Loan) with a $35.0 million senior secured credit agreement (the Senior Secured Term Loan).

Interest

The Company s borrowings bear interest at floating rates. An increase in interest rates would adversely affect the Company s profitability. The Company entered into an interest rate swap agreement in August 2012 to manage interest rate exposure in connection with a portion of its variable interest rate borrowings. To the extent that the Company s access to credit may be restricted because of its own performance, its bank lenders performances or conditions in the capital markets generally, the Company would not be able to operate normally.

Competition

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

Customers

The Company s wholesale customers include mass merchants, specialty stores, national chains, department stores, warehouse clubs, supermarkets, off-price retailers and Internet retailers. Unanticipated changes in purchasing and other practices by the Company s customers, including a customer s pricing and payment terms, inventory destocking, limitations on shelf space, more extensive packaging requirements, changes in order quantities, use of private label brands and other practices, could adversely affect the Company s profitability. In addition, as a result of the desire of retailers to more closely manage inventory levels, there is a growing trend among retailers to make purchases on a just-in-time basis. This requires the Company to shorten its lead time for production in certain cases and more closely anticipate demand, which could in the future require the Company to carry additional inventories. The Company s annual earnings and cash flows also depend to a great extent on the results of operations in the latter half of the year due to the seasonality of its sales. The Company s success and sales growth is also dependent on its evaluation of consumer preferences and changing trends. The Company also sells a limited quantity of the Company s products to individual consumers and smaller retailers through its own Internet sites.

Many of the Company s wholesale customers are significantly larger than the Company, have greater financial and other resources and also purchase goods directly from vendors in Asia and elsewhere. Decisions by large customers to increase their purchases directly from overseas vendors could have a materially adverse effect on the Company. Significant changes or financial difficulties, including consolidations of ownership, restructurings, bankruptcies, liquidations or other events that affect retailers, could result in fewer stores selling the Company s products, the Company having to rely on a smaller group of customers, an increase in the risk of extending credit to these customers or limitations on the Company s ability to collect amounts due from these customers. Although the Company has long-established relationships with many of its customers, the Company does not have any long-term supply or binding contracts or guarantees of minimum purchases. Purchases by the Company s customers are generally made using individual purchase orders. Customers may cancel their orders, change purchase quantities from forecast volumes, delay purchases for a number of reasons beyond the Company s control or change other terms of their business relationship with the Company. Significant or numerous cancellations, reductions, delays in purchases or changes in business practices by customers could have a material adverse effect on the Company s business.

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In 2012, Wal-Mart Stores, Inc. (including Sam s Club and Asda Superstore) accounted for 16% of the Company s net sales. A material reduction in purchases by Wal-Mart Stores, Inc. could have a significant adverse effect on the Company s business and operating results. In addition, pressures by Wal-Mart Stores, Inc. that would cause the Company to materially reduce the price of the Company s products could result in reductions of the Company s operating margin. The concentration of the Company s business with Wal-Mart extends to its international businesses, including Vasconia in Mexico and its strategic alliance in Canada, due to the market presence of Wal-Mart in these foreign countries.

Supply Chain

The Company sources its products from suppliers located in Asia, Europe and the United States. The Company s Asia vendors are located primarily in the People s Republic of China, which subjects the Company to various risks within the region including regulatory, political, economic and foreign currency changes. The Company s ability to select and retain reliable vendors and suppliers who provide timely deliveries of quality parts and products efficiently will impact its success in meeting customer demand for timely delivery of quality products. The Company s sourcing operations and its vendors are impacted by labor costs in China. Labor historically has been readily available at relatively low cost as compared to labor costs in North America. However, as China is experiencing rapid social, political and economic changes, labor costs have risen in some regions and there can be no assurance that labor will continue to be available to the Company in China at costs consistent with historical levels or that changes in labor or other laws will not be enacted which would have a material adverse effect on the Company s operations in China. Interruption of supplies from any of the Company s vendors, or the loss of one or more key vendors, could have a negative effect on the Company s business and operating results.

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

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

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

Intellectual Property

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

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Regulatory

The Company is subject in the ordinary course of its business, in the United States and elsewhere, to many statutes, ordinances, rules and regulations that if violated by the Company or its affiliates, partners or vendors could have a material adverse effect on the Company s business. The Company is required to comply with the United States Foreign Corrupt Practices Act, the U.K. Bribery Act and similar anti-bribery laws prohibiting the Company from engaging in bribery or making other prohibited payments to foreign officials for the purpose of obtaining or retaining business. The Company s employees and other agents could engage in such conduct for which the Company might be held responsible. If the Company s employees or other agents are found to have engaged in such practices, the Company could suffer substantial penalties.

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, the Office of Fair Trading in the U.K., by other regulatory authorities or through private causes of action. Any defects in products the Company markets could harm the Company s reputation, adversely affect its relationship with its customers and decrease market acceptance of the Company s products and the strength of the brand names under which the Company markets such products. Potential product liability claims may exceed the amount of the Company s insurance coverage and could materially damage the Company s business and its financial condition. The Company s product standards could be impacted by new or revised environmental rules and regulations or other social initiatives.

The Company is subject to significant laws and regulations, including the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the Sarbanes-Oxley Act of 2002 and the regulations under these laws. The Company cannot assure strict adherence to these laws and regulations nor that it will not find material weaknesses in the future or that the Company s independent registered public accounting firm will conclude that the Company s internal control over financial reporting is operating effectively.

The Company is subject to general business laws and regulations, 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 laws and regulations 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 and regulations governing issues such as property ownership, sales and other taxes and personal privacy apply to the Internet and e-commerce. Unfavorable resolutions of these issues would harm the Company s business. This could, in turn, diminish the demand for the Company s products on the Internet and increase the Company s cost of doing business.

Technology

The Company relies on many information technology systems for the operation of its principal business functions, including the Company s enterprise, warehouse management, inventory forecast and re-ordering and call center systems. In the case of the Company s inventory forecast and re-ordering system, most of the Company s orders are received directly through electronic connections with the Company s largest customers. The failure of any of these systems could have a material adverse effect on the Company s business and results of operations. To keep pace within a competitive retail environment, the Company uses and will continue to evaluate new technologies to improve the efficiency of designing new innovative products. The success of certain product categories in a competitive marketplace can be dependent upon the creation and launch of new innovative products.

Availability of information on the Internet and, in particular, on social media websites subjects the Company to reputational risks related to its brands and the perceived quality of its products.

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

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

Personnel

The Company s success depends on its ability to identify, hire and retain skilled personnel. The Company s industry is characterized by a high level of employee mobility and aggressive recruiting among competitors for personnel with successful track records. The Company may not be able to attract and retain skilled personnel or may incur significant costs in order to do so.

Increases in the cost of employee benefits could impact the Company s financial results and cash flows. The Company self-insures a substantial portion of the costs of employee healthcare and workers compensation. This could result in higher volatility in the Company s earnings and exposes the Company to higher financial risks. The U.S. federal healthcare legislation enacted in 2010 and proposed amendments to the legislation contain provisions which could materially impact the Company s future healthcare costs. While the legislation s ultimate impact is not yet known, it is possible that these changes could significantly impact the Company s costs.

Business Interruptions

The Company s worldwide operations could be subject to natural and man-made disasters, telecommunications failures, water shortages, tsunamis, floods, hurricanes, typhoons, fires, extreme weather conditions, health epidemics and other business interruptions. The occurrence of any of these business disruptions could seriously harm the Company s business, revenue and financial condition and increase the Company s costs and expenses. If the Company s or its manufacturers warehousing facilities or transportation facilities are damaged or destroyed, the Company would be unable to distribute products on a timely basis, which could harm the Company s business. The Company s back-up operations may be inadequate, and the Company s business interruption insurance may not be enough to compensate for any losses that may occur.

Item 1B. Unresolved Staff Comments

None

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Item 2. Properties

The following table lists the principal properties at which the Company operates its business at December 31, 2012:

Location	Description	Size (square feet)	Owned/ Leased
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
Winchendon, Massachusetts	Warehouse and distribution facility, and spice packing line	175,000	Owned
Garden City, New York	Corporate headquarters/main showroom	146,000	Leased
Corby, England	Offices, showroom, warehouse and distribution facility	145,000	Leased
Medford, Massachusetts	Offices, showroom, warehouse and distribution facility	69,000	Leased
San Germán, Puerto Rico	Sterling silver manufacturing facility	55,000	Leased
Cumberland, Rhode Island	Offices, warehouse and distribution facility	34,000	Leased
Shanghai, China	Offices	22,000	Leased
Guangzhou, China	Offices	18,000	Leased
New York, New York	Showrooms	17,000	Leased
York, Pennsylvania	Offices	14,000	Leased
Atlanta, Georgia	Showrooms	11,000	Leased
Kowloon, Hong Kong	Offices and showrooms	9,000	Leased
Bentonville, Arkansas	Offices and showroom	7,000	Leased
Menomonee Falls, Wisconsin	Showroom	4,000	Leased

Item 3. Legal Proceedings

Wallace Silversmiths de Puerto Rico, Ltd. (Wallace de Puerto Rico), a wholly-owned subsidiary of the Company, operates a manufacturing facility in San Germán, Puerto Rico that is leased from the Puerto Rico Industrial Development Company (PRIDCO). In March 2008, the United States Environmental Protection Agency (the EPA) announced that the San Germán Ground Water Contamination site in Puerto Rico (the Site) had been added to the Superfund National Priorities List due to contamination present in the local drinking water supply.

In May 2008, Wallace de Puerto Rico received from the EPA a Notice of Potential Liability and Request for Information Pursuant to 42 U.S.C. Sections 9607(a) and 9604(e) of the Comprehensive Environmental Response, Compensation, Liability Act. The Company responded to the EPA s Request for Information on behalf of Wallace de Puerto Rico. In July 2011, Wallace de Puerto Rico received a letter from the EPA requesting access to the property that it leases from PRIDCO, and the Company granted such access. In February 2013, the EPA requested access to conduct further environmental investigation at the property during May 2013.

The Company is not aware of any determination by the EPA that any remedial action is required for the Site and, accordingly, is not able to estimate the extent of any possible liability.

The Company is, from time to time, involved in other legal proceedings. The Company believes that such other current litigation is routine in nature and incidental to the conduct of the Company s business and that none of this litigation, individually or collectively, would have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosure

Not applicable

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PART II

Item 5. Market For 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 quarterly high and low sales prices for the common stock of the Company for the fiscal periods indicated as reported by NASDAQ.

	2012		2011	
	High	Low	High	Low
First quarter	$ 12.77	$ 10.52	$ 15.00	$ 11.46
Second quarter	12.54	10.18	15.99	10.52
Third quarter	13.25	10.91	11.81	9.23
Fourth quarter	12.40	9.21	13.03	8.67

At December 31, 2012, the Company estimates that there were approximately 2,228 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 were issued or outstanding at December 31, 2012.

In March 2011, the Company determined that it would resume paying cash dividends on its outstanding shares of common stock, which was suspended in February 2009. The Board of Directors declared a dividend of $0.025 per share payable on May 16, 2011, August 16, 2011, November 29, 2011, February 15, 2012, May 15, 2012, August 15, 2012, November 15, 2012 and February 15, 2013. The Board of Directors currently intends to continue paying cash dividends for the foreseeable future, although the Board of Directors may in its discretion determine to modify or eliminate such dividends at any time.

The following table summarizes the Company s equity compensation plan as of December 31, 2012:

Plan category	Number of shares of common stock to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of shares of common stock remaining available for future issuance
Equity compensation plan approved by security holders	2,528,177	$ 13.06	756,832
Equity compensation plan not approved by security holders			
Total	2,528,177	$ 13.06	756,832

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PERFORMANCE GRAPH

The following chart compares the cumulative total return on the C