LIFETIME BRANDS, INC
Form 10-K
March 16, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2017

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 incorporation or organization)	**(I.R.S. Employer Identification No.)**

1000 Stewart Avenue, Garden City, New York 11530

(Address of principal executive offices, including Zip Code)

(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 Global Select Market**
(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

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter 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

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.

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

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

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

The aggregate market value of 12,313,851 shares of the voting common equity held by non-affiliates of the registrant as of June 30, 2017 was approximately $223,496,396. Directors, executive officers, and trusts controlled by said individuals are considered affiliates for the purpose of this calculation and may 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 2, 2018 was 20,540,268.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the registrant s definitive proxy statement for the 2018 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 of Lifetime Brands, Inc. (the Company and, unless the context otherwise requires, references to the Company shall include its consolidated subsidiaries) contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements include information concerning the Company s and its subsidiaries 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, may, should, seeks, potential and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, the Company s examination of historical operating trends, are based upon the Company s current expectations and various assumptions. The Company believes there is a reasonable basis for its expectations and assumptions, but there can be no assurance that the Company will realize its expectations or that the Company s assumptions will prove correct.

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

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.

WHERE YOU CAN FIND 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 Company also maintains a website at *http://www.lifetimebrands.com.* Information contained on this website is not a part of or incorporated by reference into this Annual Report. The Company makes available on its website the Company s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K and amendments to these reports as soon as reasonably practicable after these reports are filed with or furnished to the SEC. Users can access these reports free of charge on the Company s website. 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.*

PART I

Item 1. Business

OVERVIEW

The Company designs, sources and sells branded kitchenware, tableware and other products used in the home and markets its products under a number of widely-recognized brand names and trademarks, which are either owned or licensed by the Company, or through retailers private labels and their licensed brands. The Company s products, which are targeted primarily towards consumer purchases of moderately priced kitchenware, tableware and housewares, are sold through virtually every major level of trade. The Company generally markets several lines within each of its product categories under more than one brand. The Company sells its products directly to retailers (including through their Internet websites) and, to a lesser extent, to distributors. The Company also sells a limited selection of its products directly to consumers through its own Internet websites. At the heart of the Company is a culture of innovation. The Company expects to introduce approximately 4,000 new or redesigned products globally in 2018. Newly introduced products generally reach their peak sales in 12 to 18 months.

The Company s product categories include two categories of products used to prepare, serve and consume foods, Kitchenware (kitchen tools and gadgets, cutlery, cutting boards, shears, cookware, pantryware, spice racks and bakeware) and Tableware (dinnerware, stemware, flatware and giftware); and one category, Home Solutions, which comprises other products used in the home (thermal beverageware, food storage, neoprene travel products and home décor).

The Company has a presence in international markets through subsidiaries and affiliate companies that are based outside of the United States. Lifetime Brands Europe is comprised of the Kitchen Craft business, acquired in 2014, and Creative Tops, acquired in 2011. Kitchen Craft is a leading supplier of kitchenware products and accessories in the U.K. and in over 80 countries. Creative Tops is a supplier of private label and branded tableware products (including La Cafetière and Randwyck brands, acquired in 2014) in the U.K. and other countries in Europe. The Company also has a subsidiary in China to supply kitchenware and tableware products to the market and a subsidiary based in Hong Kong to facilitate the sale of its products to other parts of Asia and smaller markets elsewhere in the world. The Company has a presence in Mexico and other parts of Latin America (excluding Brazil) through its 30% equity interest in Grupo Vasconia, S.A.B. (Vasconia), a housewares company and aluminum manufacturer based in Mexico; and a strategic alliance with a Canadian company to distribute many of the Company s products in Canada.

The Company continually evaluates opportunities to expand the reach of its brands and to invest in other companies that operate principally outside the United States and that own or license complementary brands. These opportunities involve risks as the industry and foreign markets may not evolve as anticipated and the Company s objectives may not be achieved.

In addition to seeking opportunities to expand the Company s international footprint, the Company regularly evaluates potential acquisitions of businesses or product lines to grow its product offerings and distribution in the United States market. In December 2012, the Company acquired Fred® & Friends, a business which designs and markets novelty housewares and other products under the Fred® brand. The acquisition resulted in an expansion of the Company s Kitchenware product category to include novelty kitchen tools, tableware accessories, party goods, personal accessories and other products. In 2014, the Company acquired certain assets of Built NY, a designer and distributor of brightly colored, uniquely patterned neoprene travel products, including bags, totes, cases and sleeves, and acquired the business and assets of Empire Silver Company, a manufacturer of sterling silver and pewter giftware products.

In 2016, the Company further expanded its brand portfolio through the acquisition of certain brands and certain other assets of Wilton Armetale, the acquisition of certain assets of the Kitchen division of Focus Products Group, LLC, and the acquisition of the Copco® product line. The Focus Products Group acquisition included kitchenware and bakeware products marketed under the Amco Houseworks®, Chicago Metallic and Swing-A-Way® brands. The Copco® product line specializes in thermal and hydration beverageware, tea kettles and kitchen organization products. In 2017, the Company acquired the Fitz and Floyd business. Fitz and Floyd designs, sources, markets and distributes Fitz and Floyd® and other branded tabletop products and decorative ceramic collections.

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On December 22, 2017, the Company entered into a merger agreement (the Merger Agreement) by and among the Company, certain of the Company s wholly-owned subsidiaries created for the purpose of entering into the Merger Agreement and performing the transactions contemplated thereby, Taylor Parent, LLC, a Delaware limited liability company (Taylor Parent) and Taylor Holdco, LLC, a Delaware limited liability company (Taylor), providing for the acquisition of Taylor by the Company. At a special meeting of stockholders held on February 28, 2018, stockholders approved the issuance of shares of common stock of the Company pursuant to the Merger Agreement and the acquisition was completed on March 2, 2018. Taylor and its subsidiaries (dba Filament Brands) primarily design, market and distribute consumer and food service precision measurement products, including kitchen scales, thermometers and timers, bath scales, wine accessories, kitchen tools, hydration products and select outdoor products to major retailers in the United States, Canada and select distributors throughout Europe and Asia. Taylor distributes products under the Taylor, Salter, Springfield, HoMedics, Rabbit, Houdini, Metrokane, Mako, EatSmart, TravelWise, Chef n, Vibe, d.stil, RBT and private label brand names. The aggregate consideration for Taylor was approximately $297.3 million, including 5.6 million newly issued shares of the Company s common stock, with a value equal to $76.9 million.

The Company is a Delaware corporation, incorporated on December 22, 1983.

The Company s top brands and their respective product categories as of December 31, 2017 are:

Brand	**Licensed/Owned**	**Product Category**
Farberware®	Licensed (1)	Kitchenware
Mikasa®	Owned	Tableware and Home Solutions
KitchenAid®	Licensed	Kitchenware
Pfaltzgraff®	Owned	Kitchenware, Tableware and Home Solutions
KitchenCraft®	Owned	Kitchenware
Fitz and Floyd®	Owned	Tableware
Sabatier®	Licensed	Kitchenware
Kamenstein®	Owned	Kitchenware
BUILT NY®	Owned	Home Solutions
MasterClass®	Owned	Kitchenware
Fred®	Owned	Kitchenware
LaCafetière®	Owned	Tableware

(1) The Company has a royalty free license to utilize the Farberware® brand for kitchenware and tableware products for a term that expires in 2195, subject to earlier termination under certain circumstances.

With the exception of the Company s sterling silver products, 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 canisters with spices and assembles spice racks at its owned Winchendon, Massachusetts distribution facility.

BUSINESS SEGMENTS

The Company s segments include three categories, U.S. Wholesale, International and Retail Direct. The U.S. Wholesale segment includes the domestic operations of the Company s primary business that designs, markets and distributes its products to retailers and distributors. Certain business operations conducted outside the U.S., including

Kitchen Craft and Creative Tops, are included in the International segment. The Retail Direct segment is that in which the Company markets and sells a limited selection of its products through its Pfaltzgraff, Mikasa, Fred and Friends, Built NY, Fitz and Floyd, Housewares Deals and Lifetime Sterling internet websites. The Company has segmented its operations to reflect the manner in which management reviews and evaluates the results of its operations.

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

CUSTOMERS

The Company s wholesale customers include mass merchants, specialty stores, national chains, department stores, warehouse clubs, supermarkets, off-price retailers, home and garden centers, pharmacies and Internet retailers.

The Company s products are sold globally to a diverse customer base including mass merchants (such as Walmart and Target), specialty stores (such as Bed Bath & Beyond and Dunelm), national chains (such as Kohl s and JCPenney), department stores (such as Macy s, Belk and John Lewis), warehouse clubs (such as Costco, Sam s Club and BJs), supermarkets (such as Stop & Shop, Meijer, Winn-Dixie, Kroger, Tesco, Waitrose and Sainsbury s), off-price retailers (such as TJX Companies, Ross Stores and Big Lots), home and garden centers (such as TrueValue, ACE Hardware Stores and Wyevale), pharmacies (such as Walgreens) and Internet retailers (such as Amazon). The Company also does business with independent retailers, including through business-to-business Internet sites aimed at independent retailers.

The Company also operates its own consumer 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, 2017, 2016 and 2015, Wal-Mart Stores, Inc., including Sam s Club and Asda Superstore, (Walmart), accounted for 15%, 16% and 16% of consolidated net sales, respectively. During the year ended December 31, 2016, Costco Wholesale Corporation, (Costco), accounted for 10% of consolidated net sales. No other customer accounted for 10% or more of the Company s net sales during these periods.

DISTRIBUTION

The Company sells its products directly to retailers and, to a lesser extent, to distributors. The Company also sells a limited quantity of the Company s products to individual consumers and smaller retailers through its own Internet sites. The Company operates distribution centers at the following locations:

Location	**Size** (square feet)
Fontana, California [1]	753,000
Rialto, California [1]	703,000
Robbinsville, New Jersey	700,000
Birmingham, England	183,000
Winchendon, Massachusetts	175,000
Corby, England	143,000
Medford, Massachusetts	5,590

[1] In February 2017 the Company entered into a lease agreement for warehouse and distribution space in Rialto, California. The Company took possession of this facility in December 2017. The facility will serve as the Company s West Coast distribution facility primarily for its U.S. Wholesale segment and will replace the

Company s existing Fontana, California facility, the lease for which expires in March 2018.

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; Issaquah, Washington; Pawtucket, Rhode Island; Menomonee Falls, Wisconsin; Birmingham, England; Corby, England and Hong Kong.

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 global in-house design and development teams currently consist of approximately 120 professional designers, artists and engineers. Utilizing the latest available design tools, technology and materials, these teams create new products, redesign existing products and create packaging and merchandising concepts.

SOURCES OF SUPPLY

The Company sources its products from hundreds of 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, Vietnam, the United States, Taiwan, Slovakia, the United Kingdom, Malaysia, India, Indonesia, Netherlands, Thailand, Czech Republic, American Samoa, Mexico, Portugal, Italy, Japan, South Korea, Poland, Slovenia, France, Canada, Turkey, Germany, Israel and New Zealand. 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 jars and other canisters with spices and assembles spice racks at the Company s owned Winchendon, Massachusetts distribution facility. The Company does not manufacture any of its other products.

COMPETITION

The markets for kitchenware, tableware 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 and selling price.

PATENTS

The Company owns approximately 350 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, 2017, the Company had a total of 1,372 full-time employees, of whom 215 were located in Asia and 313 in Europe and 844 were located in the United States. In addition, the Company employed 31 people on a part-time basis, predominately in Corporate Marketing/Sales Support. The Company also hires seasonal workers at its distribution centers through temporary staffing agencies. None of the Company s employees are represented by a labor union or subject to collective bargaining agreements, except as required by local law. The Company believes that its relations with its employees are good.

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REGULATORY MATTERS

The Company and its 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 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.

SEASONALITY

The Company s business and working capital needs are highly seasonal, with a majority of sales occurring in the third and fourth quarters. In 2017, net sales in the third and fourth quarters accounted for 60% of total annual net sales. In anticipation of the pre-holiday shipping season, inventory levels increase primarily in the June through October time period.

GEOGRAPHIC INFORMATION

Geographic information concerning the Company s revenues and long-lived assets is contained in Note K of the Notes to the Consolidated Financial Statements included in Item 15 of this Annual Report.

RESTRUCTURING

In 2016, to reduce costs and achieve synergies, the Company began the process of integrating its legal entities operating in Europe. During the year ended December 31, 2017, the Company recorded $1.0 million of restructuring expense related to the execution of this plan, primarily related to severance. The Company does not expect to incur additional restructuring charges in 2018 related to this integration.

In 2015 the Company commenced an in-depth review of its U.S. Wholesale business segment, which included the evaluation of the segment s efficiency and effectiveness, with the objective of developing a plan to restructure its operations as appropriate. During 2016 the Company expanded this restructuring plan to focus on specific actions required to achieve the plan s objectives. The restructuring plan included the realignment of product categories to best achieve the Company s strategic plan and the implementation of cost reduction initiatives. During the years ended December 31, 2016 and 2015, the Company recorded $2.4 million and $437,000, respectively, of restructuring expense. The Company does not expect to incur additional charges related to the U.S. Wholesale restructuring.

Item 1A. Risk Factors

The Company s businesses, operations, liquidity and financial condition are subject to various risks. The Company s business, financial condition or results of operation could be significantly affected by the risks below or additional risks not presently known to the Company or by risks that the Company presently deems immaterial such as changes in the economy, disruptions due to terrorist activity or manmade or natural disasters, or changes in law or accounting standards. The risks and uncertainties described below are those that the Company considers material.

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Economic and political risks

The Company may be adversely affected by changes in U.S. and non-U.S. tax laws in the countries in which it operates.

On December 22, 2017, the Tax Cuts and Jobs Act (the Tax Act) was enacted. The Tax Act is one of the most comprehensive changes in U.S. corporate tax law and policy since 1986 and certain provisions are extremely complex in their application. The Tax Act revises the U.S. corporate income tax by, among other things, lowering the corporate income tax rate from 35% to 21%, adopting a quasi-territorial income tax system and imposing a one-time transition tax on foreign unremitted earnings, and setting limitations on deductibility of certain costs (e.g., interest expense).

The lower U.S. corporate income tax rate is effective January 1, 2018; however the Company s U.S. deferred tax assets and liabilities were adjusted in 2017 when the new tax law was enacted. Additionally, in 2017, as part of the transition to the new quasi-territorial tax system, the Tax Act imposes a one-time tax on deemed repatriation of foreign subsidiaries earnings.

Due to the complexities involved in the accounting for the Tax Act, on December, 22, 2017, the Securities and Exchange Commission s Staff Accounting Bulletin (SAB) 118 was issued to provide guidance to companies that have not yet completed their accounting for the Tax Act in the period of enactment. SAB 118 requires the Company to include in its financial statements a reasonable estimate of the impact of the Tax Act on earnings to the extent such estimate has been determined. Accordingly, the U.S. provision for income tax for 2017 is based on the reasonable estimate guidance provided by SAB 118. The Company is continuing to assess the impact from the Tax Act and will record adjustments in 2018. The final impact on the Company from the Tax Act s transition tax legislation may differ from the reasonable estimate due to the complexity of calculating and supporting with primary evidence such U.S. tax attributes as accumulated foreign earnings and profits, foreign tax paid, and other tax components involved in foreign tax credit calculations for prior years back to 1986. Such differences could be material, due to, among other things, changes in interpretations of the Tax Act, future legislative action to address questions that arise because of the Tax Act, changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates the Company has utilized to calculate the transition tax s reasonable estimate. Such differences could have a material adverse effect upon the Company s results of operations.

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

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

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

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

conditions affecting the housing markets;

consumer credit availability and consumer debt levels;

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

foreign currency translation;

interest rates and the ability to hedge interest rate risks;

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

the impact of natural disasters, conflicts and terrorist activities;

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

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

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

Liquidity and financial risks

The Company has substantial indebtedness and the Company s business is highly seasonal.

The Company has a substantial amount of indebtedness and is dependent on the availability of its bank loan facilities to finance its liquidity needs. As of December 31, 2017, the Company had approximately $94.8 million of consolidated debt, including $94.7 million under its Second Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A, as Administrative Agent and Co-Collateral Agent, and HSBC Bank USA, National Association, as Syndication Agent and Co-Collateral Agent, and the other Lenders and Loan Parties party thereto, as amended, (the Former Credit Agreement). Until it was replaced, as described below, the Former Credit Agreement provided for, among other things, a Revolving Credit Facility commitment totaling $175.0 million (the Revolving Credit Facility) and a term loan that had been repaid in full in April 2017 (Term Loan). At December 31, 2017, borrowings under the Former Credit Agreement represented approximately 24% of total capital (indebtedness plus stockholders equity). The Company was permitted to borrow under its Revolving Credit Facility, subject to the limitations of a borrowing base. Because the borrowing capacity under the Revolving Credit Facility depended on levels of eligible inventory, accounts receivable and the appraised value of certain intellectual property that fluctuated from time to time, the full commitment amount might not have represented actual borrowing capacity at any given time. The financial covenants in the Former Credit Agreement limited the Company s ability to incur indebtedness.

In connection with the Company s acquisition of Taylor, on March 2, 2018 (1) the Company entered into a new credit agreement (with all exhibits, schedules and attachments thereto, the ABL Credit Agreement) with the Company, as a borrower and a guarantor, the other borrowers (the ABL Borrowers) party thereto, the other guarantors party thereto, JPMorgan Chase Bank, N.A. (JPMorgan), as administrative agent, and the lenders and issuing banks party thereto, evidencing a senior secured asset-based revolving credit facility provided to the Company and the ABL Borrowers in the maximum aggregate principal amount of $150.0 million, which facility will mature on March 2, 2023, and (2) the Company entered into a new loan agreement (with all exhibits, schedules and attachments thereto, the TLB Credit Agreement and, collectively with the ABL Credit Agreement, the Debt Agreements) with the Company, as the borrower and a guarantor, the other guarantors, JPMorgan, as administrative agent, Golub Capital LLC, as syndication agent, and the lenders party thereto, providing for a senior secured term loan credit facility to the Company in the principal amount of $275.0 million, which will mature on February 28, 2025. The term loan facility will be repaid, commencing June 30, 2018, in quarterly payments of principal equal to 0.25% of the original aggregate principal amount of the term loan facility. The maximum borrowing under the ABL Credit Agreement may be increased to up to $200.0 million if certain conditions are met. One or more tranches of additional term loans (the Incremental Facilities) may be added under the TLB Credit Agreement if certain conditions are met. The Incremental Facilities may not exceed the sum of (i) $50.0 million plus (ii) an unlimited amount so long as, in the case of (ii) only, the Company s secured net leverage ratio, as defined in and computed pursuant to the TLB Credit Agreement, is no greater than 3.75 to 1.00 subject to certain limitations and for the period defined pursuant to the TLB Credit Agreement.

The Company utilized the proceeds of borrowings under the revolving credit facility and the proceeds of the term loan (i) to repay in full all existing indebtedness for borrowed money under the Former Credit Agreement and (ii) to finance the acquisition of Taylor, the refinancing of certain indebtedness of Taylor and its subsidiaries, and the payment of fees and expenses in connection with the foregoing. The Company may be unable to generate cash sufficient to pay when due the principal of, interest on, or other amounts due with respect to, its indebtedness. In addition, the Company s business is seasonal with a significant amount of its revenue being realized during the latter portion of the year. Therefore, the Company s borrowing needs fluctuate widely based upon its working capital requirements.

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The debt financing obtained in connection with the Company s acquisition of Taylor increased the Company s debt and caused the Company to become more highly leveraged, resulting in increased risk of default on its obligations and an increase in debt service requirements which will adversely affect the Company s financial condition. The Company s leverage and the effects of seasonal fluctuations in its cash flow, borrowing requirements and ability to borrow could have significant negative consequences on the Company s financial condition and results of operations, including:

- impairing the Company s ability to meet the financial covenants, if and when applicable, contained in the ABL Credit Agreement or to generate cash sufficient to pay interest or principal due under its Debt Agreements, which could result in an acceleration of some or all of the Company s outstanding debt;
- limiting the Company s ability to borrow money, dispose of assets or sell equity to fund the Company s working capital, capital expenditures, dividend payments, debt service, strategic initiatives or other obligations or purposes;
- limiting the Company s flexibility in planning for, or reacting to, changes in the economy, the markets, regulatory requirements, its operations or business;
- making the Company more highly leveraged than some of its competitors, which may place the Company at a competitive disadvantage;
- making the Company more vulnerable to downturns in the economy or its business;
- requiring a substantial portion of the Company s cash flow from operations to make interest payments;
- making it more difficult for the Company to satisfy other obligations;
- increasing the risk of a future credit ratings downgrade of the Company, which could increase future debt costs and limit the future availability of debt financing; and
- preventing the Company from borrowing additional funds as needed or taking advantage of business opportunities as they arise, pay cash dividends or repurchase common stock.

To the extent the Company incurs additional indebtedness, the risks described above could increase. In addition, the Company s actual cash requirements in the future may be greater than expected. The Company s cash flow from operations may not be sufficient to service its outstanding debt or to repay the outstanding debt as it becomes due, and the Company may not be able to borrow money, sell assets or otherwise raise funds on acceptable terms, or at all, to service or refinance its debt.

The Company s failure to meet certain covenants or comply with other requirements of its Credit Agreement may materially and adversely affect the Company s assets, financial position and cash flows.

The ABL Credit Agreement, under certain circumstances, requires the Company to maintain a certain fixed charge coverage ratio. As a result of this and other covenants within the Debt Agreements, the Company is limited in its ability to incur additional debt, make investments or undertake certain other business activities. These requirements could limit the Company s ability to obtain future financing and may prevent the Company from taking advantage of attractive business opportunities. The Company s ability to meet the covenants or requirements in its Debt Agreements may be affected by events beyond the Company s control, and the Company cannot assure you that it will satisfy such covenants and requirements. A breach of these covenants or the Company s inability to comply with the restrictions could result in an event of default under the Debt Agreements, which in turn could result in an event of default under the terms of the Company s other indebtedness. Upon the occurrence of an event of default under the Company s Debt Agreements, after the expiration of any grace periods, the Company s lenders could elect to declare all amounts outstanding under the Company s debt arrangements, together with accrued interest, to be immediately due and payable. If this happens, the Company cannot assure that its assets would be sufficient to repay in full the amounts due under the Debt Agreements or the Company s other indebtedness.

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The Company s sale of certain accounts receivable subjects the Company to additional liquidity risks.

In order to improve its liquidity during seasonally high working capital periods, in 2016 the Company entered into an uncommitted Receivables Purchase Agreement with HSBC Bank USA, National Association (HSBC), as Purchaser (the Receivables Purchase Agreement). If HSBC terminates the Company s Receivables Purchase Agreement, the Company may experience a material and adverse loss of its liquidity, which could have a material adverse effect on its financial condition, results of operations and cash flows.

The Company s borrowings, and discount rate applied to sale of receivables, are subject to interest rate fluctuations and an increase in interest rates could adversely affect the Company s financial results.

The Company s borrowings bear interest at floating rates. An increase in interest rates would adversely affect the Company s profitability. 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.

The Company s Receivables Purchase Agreement also depends upon LIBOR, as it is a component of the discount rate applicable to the agreement. If LIBOR increases, the Company may not be able to rely on the Receivables Purchase Agreement, which could have a material and adverse effect upon the Company s financial condition, results of operations and cash flows.

The Company s ability to complete future acquisitions or strategic alliances and/or integrate acquired businesses could have a material adverse effect on the Company s business and results of operations.

The Company has historically achieved growth through acquisitions, investments and joint ventures. In addition to the acquisition of Taylor, the Company seeks acquisition opportunities that complement and expand its operations, some of which are based outside the United States. There can be no assurance that the Company will be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions on satisfactory terms, obtain regulatory approval or otherwise complete acquisitions in the future.

Additionally, the Company may not be able to successfully integrate the business of Taylor or future acquired businesses into its existing business without substantial costs, delays or other operational or financial difficulties. Potential difficulties the Company may encounter as part of the integration process include the following:

- the potential inability to successfully combine businesses in a manner that permits the Company to achieve the cost synergies expected to be achieved as a result of the consummation of the acquisition and other benefits anticipated to result from the acquisition;

- the potential inability to integrate acquired companies products and services;

- challenges leveraging the customer information and technology of the two companies;

- challenges effectuating the diversification strategy, including challenges achieving revenue growth from sales of each company s products and services to the clients and customers of the other company;

- complexities associated with managing the combined businesses, including difficulty addressing possible differences in corporate cultures and management philosophies and the challenge of integrating complex systems, technology, networks, and other assets of each of the companies in a seamless manner that minimizes any adverse impact on customers, clients, employees, lenders, and other constituencies; and

- potential unknown liabilities and unforeseen increased expenses or delays associated with the acquisition.

It is possible that the integration process could result in diversion of the attention of each company s management which could adversely affect each company s ability to maintain relationships with customers, clients, employees, and other constituencies or the Company s ability to achieve the anticipated benefits of the acquisition, or could reduce each company s operating results or otherwise adversely affect the Company s business and financial results following the acquisition.

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The Company s future results and reputation will suffer if it does not effectively manage its expanded operations following the acquisition.

Following the acquisition of Taylor, the size of the Company s business will increase substantially. The Company s future success depends, in part, upon its ability to manage this expanded business, which will pose substantial challenges for management, including challenges related to the management and monitoring of new operations, significantly increased foreign operations, and associated increased costs and complexity. There can be no assurances that the Company will be successful following the acquisition.

The Company expects to incur substantial expenses related to the acquisition and integration of Taylor.

The Company expects to incur significant transaction costs and significant synergy planning and integration costs in connection with the acquisition of Taylor. The Company may have substantial expenses related to the acquisition and the related debt financing. While the Company has assumed that this level of expense will be incurred, there are many factors beyond its control that could affect the total amount or the timing of the acquisition expenses, integration expenses and the debt financing expenses. Moreover, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. To the extent these acquisition expenses, integration expenses and debt financing expenses are higher than anticipated, the Company s future operating results and financial condition may be materially adversely affected and the Company s ability to meet the covenants mandated by its credit obligations may be impaired.

The Company s future results following the acquisition of Taylor may differ materially from the unaudited pro forma financial information included in the definitive proxy statement related to the acquisition.

The unaudited pro forma combined financial information contained in the Company s definitive proxy statement for the special meeting of stockholders to approve the issuance of shares of common stock in connection with the acquisition of Taylor was presented for purposes of presenting the Company s historical consolidated financial statements with Taylor s historical consolidated financial statements as adjusted to give effect to the acquisition and is not necessarily indicative of the financial condition or results of operations of the Company following the acquisition. The unaudited pro forma combined financial information reflected adjustments, which was based upon preliminary estimates, to allocate the purchase price to Taylor s acquired assets and liabilities. The purchase price allocation reflected in the proxy statement is still preliminary, and final allocation of the purchase price will be based upon the actual purchase price and the fair value of the assets and liabilities of Taylor as of March 2, 2018, the date of the consummation of the acquisition, which valuation is not yet complete. In addition, the assumptions used in preparing the pro forma financial information may not prove to be accurate, and other factors may affect the Company s financial condition and results of operations following the acquisition. Any change in the Company s financial condition or results of operations may cause significant variations in the price of the Company s common stock.

The market price of the Company s common stock may decline as a result of the acquisition of Taylor or the issuance of shares to Taylor Parent.

The Company anticipates that the acquisition of Taylor will be accretive to earnings per share, after factoring in synergies and excluding costs to achieve synergies and other one-time costs related to the acquisition. This expectation is based on preliminary estimates that are subject to change. The Company could also encounter additional transaction and integration-related costs, may fail to realize all of the benefits anticipated in the acquisition, or be subject to other factors that affect preliminary estimates. Any of these factors could cause a decrease in the Company s earnings per share or adjusted earnings per share or decrease the expected accretive effect of the acquisition and contribute to a decrease in the price of the Company s common stock.

In addition, the Company is unable to predict the potential effects of the issuance of the shares to Taylor parent on the trading activity and market price of the Company s common stock. The Company granted certain registration rights to Taylor Parent for the resale of the shares of common stock issued in connection with the acquisition. These registration rights would facilitate the resale of such securities into the public market, and any such resale would increase the number of shares of the Company s common stock available for public trading. Sales of a substantial number of shares of the Company s common stock in the public market, or the perception that such sales might occur, could have a material adverse effect on the price of the Company s common stock.

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Foreign exchange variability could materially adversely affect the Company s operating results.

The Company s functional currency is the U.S. Dollar. Changes in the relation of foreign currencies to the U.S. Dollar will affect the Company s sales and profitability and can result in exchange losses because the Company has operations and assets located outside the United States. The Company transacts a portion of its business in currencies other than the U.S. Dollar, primarily British Pounds, and to a lesser degree, Chinese Renminbi, Euros and Canadian Dollars. Such transactions include sales, certain inventory purchases and operating expenses. As a result, portions of the Company s cash, trade accounts receivable and trade accounts payable, as well as other assets and liabilities, are denominated in foreign currencies. Accordingly, foreign operations expose the Company to foreign currency fluctuations, both for purposes of actual conversion and financial reporting purposes. In the consolidated financial statements, local currency financial results are translated into U.S. dollars based on the exchange rates prevailing during the reporting periods. During times of a strengthening U.S. dollar, the reported revenues and earnings of the international operations will be reduced because the local currencies will translate into fewer U.S. dollars.

The Company s strategic alliances in Mexico and Canada also subject the Company to increases and decreases in its investments resulting from the impact of fluctuations in foreign currency exchange rates.

The vast majority of products are purchased from China in U.S. Dollars, including products purchased by the Company s international operations. As a result, the gross margin from international operations is subject to volatility from movements in exchange rates, which could have an adverse effect on the financial condition and results of operations and profitability from the growth desired from international operations. The Company has entered into foreign exchange derivative financial instruments to hedge the volatility of exchange rates related to a portion of its international inventory purchases. The Company cannot ensure, however, that these hedges will fully offset the impact of foreign currency rate movements. If the Chinese Renminbi should appreciate against the U.S. Dollar, the costs of the Company s products will likely rise over time because of the impact the fluctuations will have on the Company s suppliers, and the Company may not be able to pass on these price increases to its customers. The Company is also subject to the risks of currency controls and devaluations. Currency controls may limit the Company s ability to convert currencies into U.S. Dollars or other currencies, as needed, or to pay dividends or make other payments from funds held by subsidiaries in the countries imposing such controls, which could adversely affect the Company s liquidity.

As the Company continues to expand its international operations, it will be subject to increased foreign exchange variability which could have a material adverse effect on the Company s results of operations. The impact of future exchange rate fluctuations on the Company s results of operations cannot be accurately predicted.

The Company s business requires it to maintain large fixed-costs that can affect its profitability. Cost reduction efforts and restructurings benefits may not be realized.

The Company s business requires it to maintain large distribution facilities in its key markets, which represent high fixed rental costs relating to its leased facilities. In addition, significant portions of the Company s selling, general and administrative expenses, including leased showrooms, are fixed, they neither increase nor decrease proportionally with sales. Furthermore, the Company s gross margins depend, in part, on its ability to spread certain other costs, of which a significant portion are fixed, over its products sold. Decreased demand or the need to reduce inventories can lower the Company s ability to absorb fixed costs and adversely affect its results of operations. This is exacerbated by the high degree of seasonality impacting the Company, which results in lower demand during the first two quarters of the year, while many of the operating costs remain fixed, which further affects profitability.

In order to operate more efficiently and control costs, the Company may announce from time to time restructuring plans, including workforce reductions, global facility consolidations and other cost reduction initiatives that are intended to generate operating expense savings. The implementation of restructuring plans could be disruptive to the Company s operations, result in higher than anticipated charges and otherwise adversely affect the Company s results of operations and financial condition. In addition, the Company s ability to complete the restructuring plan and achieve the anticipated benefits from the plan is subject to estimates and assumptions and may vary materially from the Company s expectations, including as a result of factors that are beyond the Company s control. Furthermore, following completion of a restructuring plan, the business may not be more efficient or effective than prior to implementation of the plan.

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If the Company s goodwill or other long-term assets become impaired, the Company will be required to record impairment charges, which may be significant.

A portion of the Company s long-term assets consists of goodwill recorded as a result of the Company s acquisitions; other identifiable intangible assets, including trade names; and fixed assets. At December 31, 2017, goodwill totaled $15.8 million. The Company does not amortize goodwill but rather reviews it for impairment on an annual basis or more frequently whenever events or changes in circumstances indicate that its carrying value may not be recoverable. If the carrying value of a reporting unit exceeds its current fair value as determined based on the discounted future cash flows of the reporting unit or comparable market sales and earnings multiples, the goodwill or intangible asset is considered impaired and is reduced to fair value. Events and conditions that could result in impairment include a prolonged period of global economic weakness, a decline in economic conditions or a slow, weak economic recovery, as well as sustained declines in the price of the Company s common stock, adverse changes in the regulatory environment, adverse changes in the market share of the Company s products, adverse changes in interest rates, further corporate income tax reforms or other factors leading to reductions in the long-term sales or profitability that the Company expects. Determination of the fair value of a reporting unit includes developing estimates which are highly subjective and incorporate calculations that are sensitive to minor changes in underlying assumptions. Management s assumptions change as more information becomes available. Changes in these assumptions could result in an impairment charge in the future, which could have a significant adverse impact on the Company s reported earnings. If future operating performance of one or more of the Company s operating segments does not meet expectations, the Company may be required to record a significant charge during the period in which any impairment of the Company s goodwill or other long-term assets is determined.

As of October 1, 2016, the fair value of the Creative Tops reporting unit, which carried goodwill of $2.1 million, was approximately 3% below its carrying value. In 2016 the Company performed the second step of the impairment test by estimating the fair value of the assets and liabilities to determine the implied fair value of goodwill. The implied fair value of goodwill was determined to be greater than the carrying value and no impairment charge was recorded. As of October 1, 2016, the excess of fair value of the Kitchen Craft reporting unit, which carried goodwill of $9.7 million, was approximately 3% over its carrying value.

As of October 1, 2017, the fair values of the Creative Tops and Kitchen Craft reporting units, both exceeded their respective carrying values. Such excess fair value was driven by realized cost savings and, to a larger extent, future cost savings from the combination of the operations expected to be completed in the near term. Changes in any of the significant assumptions used in calculating their respective fair values could materially affect the expected cash flows, and a material non-cash impairment charge could result.

The Company s acquisition of Taylor will be accounted for as a business combination using the acquisition method of accounting in accordance with FASB ASC Topic 805, which will establish a new basis of accounting for all identifiable assets acquired and liabilities assumed at fair value as of the date control is obtained. The allocation of purchase price is preliminary at this time; however, the Company believes long-term assets will consist of goodwill and other identifiable intangible assets, including trade names. If the future operating performance of the acquired business does not meet expectations, the Company may be required to record a significant charge during the period in which any impairment of the Company s goodwill or other long-term assets is determined.

The recognition of an impairment of the Company s goodwill or any of the Company s assets would negatively affect the results of operations and total capitalization, the effect of which could be material.

The Company s projections of product demand, sales and net income are highly subjective in nature and the Company s future sales and net income could vary in a material amount from the Company s projections.

From time to time, the Company may provide projections to its stockholders, lenders, the investment community, and other stakeholders of the Company s future sales and net income. Since the Company does not have long-term purchase commitments from customers and the customer order and shipment process is very short, it is difficult for the Company to accurately predict the demand for many of its products, or the amount and timing of the Company s future sales and related net income. The Company s projections are based on management s best estimate of sales using historical sales data and other information deemed relevant. These projections are highly subjective since sales can fluctuate substantially based on the demands of retail customers and due to other risks described in this Annual Report. Additionally, changes in retailer inventory management strategies could make the Company s inventory management more difficult. Because the Company s ability to forecast product demand and the timing of related sales includes significant subjective input, future sales and net income could vary materially from the Company s projections.

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Increases in the cost of employee benefits could materially adversely 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 Company s medical costs in recent years have generally increased and an aging workforce and other employee demographics could result in an increase in medical costs beyond what the Company has experienced or expects. The Company has stop-loss coverage in place for catastrophic events, but the aggregate impact of a high number of claims up to the Company s stop-loss limit may have an effect on the Company s profitability.

There are inherent limitations on the effectiveness of the Company s controls.

The Company does not expect that its disclosure controls or the Company s internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. The design of a control system must reflect the fact that resource constraints exist, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate due to changes in conditions or deterioration in the degree of compliance with policies or procedures. If the Company s controls become inadequate, it could fail to meet its financial reporting obligations, its reputation may be adversely affected, its business and operating results could be harmed, and the market price of its stock could decline.

Customer risks

The Company faces intense competition from other companies worldwide.

The markets for the Company s products are intensely competitive with the principal competitive factors being product innovation, brand name, product quality, aesthetic appeal to customers, packaging, breadth of product offerings, distribution capability, delivery time and price. Advantages or disadvantages in any of these competitive factors may be sufficient to cause the customer to consider changing providers of the kinds of products that the Company sells. 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. Some competitors may be willing to reduce prices and accept lower profit margins to compete with the Company. As a result of this competition, the Company could lose market share and sales, or be forced to reduce its prices to meet competition. If the Company s product offerings are unable to compete successfully, the Comp