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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549 QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF

THE SECURITIES EXCHANGE ACT OF 1934

For quarter ended September 30, 1996

Commission file number 1-19254

Lifetime Hoan Corporation

(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.)

One Merrick Avenue, Westbury, NY

11590

(Address of principal executive offices)

(Zip Code)

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

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Yes X No

## APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$.01 Par Value 11,276,194 shares outstanding as of October 31, 1996

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ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS  
LIFETIME HOAN CORPORATION

|  | September<br>30,<br>1996<br>(unaudited) | December<br>31,<br>1995<br>(Note) |
|--|---|-----------------------------------|
| ASSETS   |   |                                   |
| CURRENT ASSETS   |   |                                   |
| Cash and cash equivalents  | \$56,847                                | \$89,797                          |
| Accounts receivable, less allowances of \$734,000<br>(1996)  |   |                                   |
| and \$663,000 (1995)   | 14,211,673                              | 12,682,401                        |
| Merchandise inventories  | 43,410,089                              | 43,337,000                        |
| Prepaid expenses   | 5,608,638                               | 4,578,813                         |
| Deferred income taxes  | 1,116,000                               | 1,186,000                         |
| Other current assets   | 1,840,996                               | 695,241                           |
| TOTAL CURRENT ASSETS   | 66,244,243                              | 62,569,252                        |
| PROPERTY AND EQUIPMENT, at cost, net of<br>accumulated depreciation  |   |                                   |
| and amortization of \$3,680,959 (1996) and<br>\$2,841,202 (1995)   | 8,749,752                               | 7,882,166                         |
| EXCESS OF COST OVER NET ASSETS ACQUIRED, net of<br>accumulated amortization of \$757,000 (1996) and<br>\$708,100 (1995)              | 1,922,202                               | 1,971,102                         |
| OTHER INTANGIBLES, net of accumulated<br>amortization of   |   |                                   |
| \$238,294 (1996) and \$24,000 (1995)   | 11,316,071                              | 2,452,748                         |
| OTHER ASSETS   | 938,938                                 | 880,766                           |
|  | \$89,171,206                            | \$75,756,034                      |
| LIABILITIES AND STOCKHOLDERS' EQUITY   |   |                                   |
| CURRENT LIABILITIES  |   |                                   |
| Accounts payable and trade acceptances   | \$5,387,069                             | \$3,072,401                       |
| Accrued expenses   | 6,401,823                               | 5,931,414                         |
| Income taxes   | 976,518                                 | 232,447                           |
| Short term borrowings  | 8,400,000                               | 4,600,000                         |
| TOTAL CURRENT LIABILITIES  | 21,165,410                              | 13,836,262                        |
| STOCKHOLDERS' EQUITY   |   |                                   |
| Series B Preferred Stock, \$1 par value,<br>authorized 2,000,000<br>shares; none issued  |   |                                   |
| Common Stock, \$.01 par value, authorized<br>25,000,000 shares;<br>issued and outstanding 11,276,194 (1996) and<br>11,257,276 (1995) | 112,762                                 | 112,573                           |
| Paid-in capital  | 61,221,113                              | 61,103,589                        |
| Retained earnings  | 7,661,480                               | 1,845,007                         |
|  | 68,995,355                              | 63,061,169                        |
| Less:  |   |                                   |
| Notes receivable for shares issued to<br>stockholders  | 908,064                                 | 1,048,064                         |

|                       |              |              |
|-----------------------|--------------|--------------|
| Deferred compensation | 81,495       | 93,333       |
|                       | 68,005,796   | 61,919,772   |
|                       | \$89,171,206 | \$75,756,034 |

Note: The Balance Sheet at December 31, 1995 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)  
LIFETIME HOAN CORPORATION

|   | Three Months Ended<br>September 30,<br>1996 |              | Nine Months Ended<br>September 30,<br>1996 |              |
|---|---|--------------|--|--------------|
|   | 1995  |              | 1995                                       |              |
| Net sales   | \$25,116,29                                 | \$22,093,672 | \$65,380,614                               | \$56,327,592 |
| Cost of sales   | 11,707,992                                  | 11,758,701   | 32,782,813                                 | 29,673,714   |
|   | 13,408,304                                  | 10,334,971   | 32,597,801                                 | 26,653,878   |
| Selling, general and<br>administrative expenses           | 8,502,046                                   | 6,378,161    | 22,622,276                                 | 18,152,488   |
| INCOME FROM OPERATIONS                                    | 4,906,258                                   | 3,956,810    | 9,975,525                                  | 8,501,390    |
| Other (income) deductions:                                |   |              |  |              |
| Interest expense  | 193,399                                     | 152,198      | 527,932                                    | 217,932      |
| Other (income), net                                       | (25,120)                                    | (23,980)     | (78,881)                                   | (121,321)    |
| INCOME BEFORE INCOME TAXES                                | 4,737,979                                   | 3,828,592    | 9,526,474                                  | 8,404,779    |
| Provision for federal, state<br>and local<br>income taxes | 1,865,000                                   | 1,465,000    | 3,710,000                                  | 3,252,000    |
| NET INCOME  | \$2,872,979                                 | \$2,363,592  | \$5,816,474                                | \$5,152,779  |
| NET INCOME PER SHARE                                      | \$0.25                                      | \$0.20       | \$0.50                                     | \$0.44       |
| WEIGHTED AVERAGE SHARES<br>OUTSTANDING                    | 11,535,483                                  | 11,530,253   | 11,526,207                                 | 11,636,283   |

See notes to condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(UNAUDITED)

LIFETIME HOAN CORPORATION

|  | Common Stock |           | Paid-in      | Retained    | Notes                              | Deferred         | Total        |
|--|--------------|-----------|--------------|-------------|------------------------------------|------------------|--------------|
|  | Shares       | Amount    | Capital      | Earnings    | Receivable<br>from<br>Stockholders | Compensati<br>on |              |
| Balance at<br>Dec. 31, 1995  | 11,257,276   | \$112,573 | \$61,103,589 | \$1,845,006 | (\$1,048,064)                      | (\$93,333)       | \$61,919,771 |
| Exercise of stock<br>options   | 17,860       | 178       | 111,388      |             |                                    |                  | 111,566      |
| Exercise of<br>warrants  | 1,058        | 11        | 6,136        |             |                                    |                  | 6,147        |
| Net income for<br>the<br>nine months<br>ended<br>September<br>30, 1996 |              |           |              | 5,816,474   |                                    | 5,816,474        |              |
| Repayment of note<br>receivable  |              |           |              |             | 140,000                            |                  | 140,000      |
| Amortization of<br>deferred<br>compensation                            |              |           |              |             |                                    | 11,838           | 11,838       |
| Balance at<br>Sept. 30, 1996   | 11,276,194   | \$112,762 | \$61,221,113 | \$7,661,480 | (\$908,064)                        | (\$81,495)       | \$68,005,796 |

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

LIFETIME HOAN CORPORATION

|  | Nine<br>Months<br>Ended<br>September<br>30,<br>1996 | Nine<br>Months<br>Ended<br>September<br>30,<br>1995 |
|--|---|---|
| OPERATING ACTIVITIES   |   |   |
| Net income   | \$5,816,474   | \$5,152,779   |
| Adjustments to reconcile net income to<br>net cash<br>provided by / (used in) operating<br>activities: |   |   |
| Depreciation and amortization  | 1,122,484   | 649,971   |
| Amortization of deferred compensation  | 11,838  | 44,909  |
| Deferred tax (benefit)   | 70,000  | (246,000)   |
| Provision for losses on accounts   | 446,256   | 460,568   |

|   |              |              |
|---|--------------|--------------|
| receivable  |              |              |
| Changes in operating assets and liabilities:                |              |              |
| Accounts receivable   | (1,975,528)  | (1,814,681)  |
| Merchandise inventories                                     | (73,089)     | (14,753,000) |
| Prepaid expenses, other current assets and other assets     | (2,233,752)  | (567,463)    |
| Accounts payable and trade acceptances and accrued expenses | 2,785,077    | 819,287      |
| Income taxes payable  | 744,071      | (38,234)     |
| NET CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES       | 6,713,831    | (10,291,864) |
| INVESTING ACTIVITIES  |              |              |
| Purchase of property and equipment, net                     | (1,726,877)  | (569,068)    |
| Purchase of intangibles                                     | (9,077,617)  | (2,000,000)  |
| NET CASH (USED IN) INVESTING ACTIVITIES                     | (10,804,494) | (2,569,068)  |
| FINANCING ACTIVITIES  |              |              |
| Proceeds from short term borrowings, net                    | 3,800,000    | 11,700,000   |
| Proceeds from the exercise of warrants                      | 6,147        | 43,447       |
| Proceeds from the exercise of stock options                 | 111,566      | 247,963      |
| Repurchase of common stock, net                             |              | (1,609,352)  |
| Repayment of note receivable                                | 140,000      | -            |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                   | 4,057,713    | 10,382,058   |
| (DECREASE) IN CASH AND CASH EQUIVALENTS                     | (32,950)     | (2,478,874)  |
| Cash and cash equivalents at beginning of period            | 89,797       | 2,724,429    |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD...               | \$56,847     | \$245,555    |

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
LIFETIME HOAN CORPORATION

Note A - Basis of PresentationThe accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine month period ended September 30, 1996 are not necessarily indicative of the results that may be expected for the year ended December 31, 1996.

For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1995.

Note B - Inventories

Merchandise inventories, principally finished goods, are recorded at the lower of cost (first-in, first-out basis) or market.

Note C - Line of Credit Agreement

The Company has available an unsecured \$25,000,000 line of credit with a bank (the "Line") which may be used for short term borrowings or letters of credit. As of September 30, 1996, the Company had \$8,400,000 of borrowings and \$9,561,000 of letters of credit and trade acceptances outstanding. The line is cancelable by either party at any time. Borrowings under the Line bear interest payable daily at a negotiated short term borrowing rate (7.00% at September 30, 1996). The Company is charged a nominal fee on the entire Line.

Note D - Capital Stock

Net Income Per Share: Net income per common share is based on net income divided by the weighted average number of common shares and equivalents outstanding during the periods.

As of September 30, 1996, 775,737 shares of Common Stock have been reserved for issuance upon the exercise of options.

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

The following table sets forth the operating data of the Company as a percentage of net sales for the periods indicated below.

|   | Three Months<br>Ended<br>September 30,<br>1996 |   | September 30,<br>1995 |   | Nine Months<br>Ended<br>September 30,<br>1996 |   | September 30,<br>1995 |   |
|---|--|---|-----------------------|---|---|---|-----------------------|---|
| Net sales                                       | 100.   | % | 100.                  | % | 100.0   | % | 100.                  | % |
|   | 0  |   | 0                     |   |   |   | 0                     |   |
| Cost of sales                                   | 46.6   |   | 53.2                  |   | 50.1  |   | 52.7                  |   |
| Gross profit                                    | 53.4   |   | 46.8                  |   | 49.9  |   | 47.3                  |   |
| Selling, general and<br>administrative expenses | 33.9   |   | 28.9                  |   | 34.6  |   | 32.2                  |   |
| Income from operations                          | 19.5   |   | 17.9                  |   | 15.3  |   | 15.1                  |   |
| Other (income), expense                         | 0.8  |   | 0.6                   |   | 0.8   |   | 0.2                   |   |
| Income before income taxes                      | 18.8   |   | 17.3                  |   | 14.5  |   | 14.9                  |   |
| Income taxes                                    | 7.4  |   | 6.6                   |   | 5.7   |   | 5.8                   |   |
| Net Income                                      | 11.4   | % | 10.7                  | % | 8.9   | % | 9.1                   | % |

Three Months Ended September 30, 1996  
Compared to Three Months Ended September 30, 1995

Net Sales Net sales for the three months ended September 30, 1996 were \$25.1 million, an increase of \$3.0 million or 13.7% from the comparable 1995 period. The sales growth was primarily due to net sales from the Farberware Outlet Stores acquired in April 1996, increased net sales of Farberware products, Smart Choice lines and net sales from the new Hoffritz line, partially offset by decreased sales of other Company products.

Gross Profit

Gross profit for the three months ended September 30, 1996 was \$13.4 million, an increase of \$3.1 million or 29.7% over the

comparable 1995 period. Gross profit as a percentage of net sales was 53.4% as compared to 46.8% for the 1995 period. This increase is primarily due to a reduction of royalty expense due to the Farberware acquisition and changes in product mix.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended September 30, 1996 were \$8.5 million, an increase of \$2.1 million or 33.3% from the comparable 1995 period. Selling, general and administrative expenses as a percentage of net sales were 33.9% during this three month period in 1996 as compared to 28.9% for the 1995 period. This increase is primarily attributable to the operations of the Farberware Outlet Stores and increased personnel related expenses.

#### Nine Months Ended September 30, 1996 Compared to Nine Months Ended September 30, 1995

Net Sales Net sales for the nine months ended September 30, 1996 were \$65.4 million, an increase of \$9.1 million or 16.1% from the comparable 1995 period. The sales growth was primarily due to net sales from the Farberware Outlet Stores acquired in April 1996, increased net sales of Farberware products, Smart Choice lines and net sales from the new Hoffritz line, partially offset by decreased sales of other Company products.

#### Gross Profit

Gross profit for the nine months ended September 30, 1996 was \$32.6 million, an increase of \$5.9 million or 22.3% over the comparable 1995 period. Gross profit as a percentage of net sales was 49.9% as compared to 47.3% for the 1995 period. This increase is primarily due to a reduction of royalty expense due to the Farberware acquisition and changes in product mix.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses for the nine months ended September 30, 1996 were \$22.6 million, an increase of \$4.5 million or 24.6% from the comparable 1995 period. Selling, general and administrative expenses as a percentage of net sales were 34.6% during this nine month period in 1996 as compared to 32.2% for the 1995 period. This percentage increase is primarily attributable to the operations of the Farberware Outlet Stores.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company has available an unsecured \$25,000,000 line of credit with a bank (the "Line") which may be used for short term borrowings or letters of credit.

Borrowings under the Line bear interest payable daily at a negotiated short term borrowing rate (7.0% at September 30, 1996). The Company is charged a nominal fee on the entire Line. As of September 30, 1996, the Company had \$8,400,000 of borrowings and \$9,561,000 of letters of credit and trade acceptances outstanding under the Line and, as a result, the availability under the Line was \$7,039,000. The Line is cancelable by either party at any time.

At September 30, 1996, the Company had cash and cash equivalents of \$57,000 versus \$90,000 at December 31, 1995, a decrease of \$33,000. The decrease is primarily attributable to the Company's increased prepaid expenses and other current assets offset by increased accounts payable and trade acceptances.

Products are sold to retailers primarily on 30-day credit terms, and to distributors primarily on 60-day credit terms.

The Company believes that its cash and cash equivalents, internally generated funds and its existing credit arrangements will be sufficient to finance its operations for the next 12 months.

The results of operations of the Company for the periods discussed have not been significantly affected by inflation or foreign currency fluctuation. The Company negotiates its purchase orders with its foreign manufacturers in United States dollars. Thus, notwithstanding any fluctuation in foreign currencies, the Company's cost for any purchase order is not subject to change after the time the order is placed. However, the long term weakening of the United States dollar against local currencies could lead certain manufacturers to increase their United States dollar prices for products. The Company believes it would be able to compensate for any such price increase.

## PART II - OTHER INFORMATION

Item 6. Exhibit(s) and Reports on Form 8-K.

(a) Exhibit(s) in the third quarter of 1996:

Exhibit 27. Financial Data Schedule

(b) Reports on Form 8-K in the third quarter of 1996: NONE

Exhibit 27. Financial Data Schedule

Lifetime Hoan Corporation

Financial Data Schedule

Pursuant to Item 601(c) of Regulation S-K

This schedule contains summary financial information extracted from the financial statements included in the form 10-Q for the nine months ended September 30, 1996.

| Item Number   | Item Description                      | Amount        |
|---------------|---------------------------------------|---------------|
| 5-02(1)       | Cash and Cash Items                   | \$ 56,847     |
| 5-02(2)       | Marketable Securities                 | \$ 0          |
| 5-02(3)(a)(1) | Notes and Accounts Receivable - Trade | \$ 14,286,673 |
| 5-02(4)       | Allowances for Doubtful Accounts      | \$ 75,000     |
| 5-02(6)       | Inventory                             | \$ 43,410,089 |
| 5-02(9)       | Total Current Assets                  | \$ 66,244,243 |
| 5-02(13)      | Property, Plant and Equipment         | \$ 12,430,711 |
| 5-02(14)      | Accumulated Depreciation              | \$ 3,680,959  |
| 5-02(18)      | Total Assets                          | \$ 89,171,206 |
| 5-02(21)      | Total Current Liabilities             | \$ 21,165,410 |
| 5-02(22)      | Bonds, Mortgages and Similar Debt     | \$ 0          |
| 5-02(28)      | Preferred Stock - Mandatory           | \$ 0          |



|             |   |               |
|-------------|---|---------------|
|             | Redemption  |               |
| 5-02(29)    | Preferred Stock - No Mandatory Redemption                 | \$ 0          |
| 5-02(30)    | Common Stock  | \$ 112,762    |
| 5-02(31)    | Other Stockholders' Equity                                | \$ 67,893,034 |
| 5-02(32)    | Total Liabilities and Stockholders' Equity                | \$ 89,171,206 |
| 5-03(b)1(a) | Net Sales of Tangible Products                            | \$ 65,185,081 |
| 5-03(b)1    | Total Revenues  | \$ 65,380,614 |
| 5-03(b)2(a) | Cost of Tangible Goods Sold                               | \$ 32,782,813 |
| 5-03(b)2    | Total Costs and Expenses Applicable to Sales and Revenues | \$ 32,782,813 |
| 5-03(b)3    | Other Costs and Expenses                                  | \$ 0          |
| 5-03(b)5    | Provision for Doubtful Accounts and Notes                 | \$ 446,256    |
| 5-03(b)8    | Interest and Amortization of Debt Discount                | \$ 527,932    |
| 5-03(b)10   | Income Before Taxes and Other Items                       | \$ 9,526,474  |
| 5-03(b)11   | Income Tax Expense  | \$ 3,710,000  |
| 5-03(b)14   | Income/Loss Continuing Operations                         | \$ 5,816,474  |
| 5-03(b)15   | Discontinued Operations                                   | \$ 0          |
| 5-03(b)17   | Extraordinary Items                                       | \$ 0          |
| 5-03(b)18   | Cumulative effect - Changes in Accounting Principles      | \$ 0          |
| 5-03(b)19   | Net Income or Loss  | \$ 5,816,474  |
| 5-03(b)20   | Earnings Per Share - Primary                              | \$ 0.50       |
| 5-03(b)20   | Earnings Per Share - Fully Diluted                        | \$ 0.50       |

#### SIGNATURES

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

Lifetime Hoan Corporation

/s/ Milton L. Cohen

November 14,

1996

\_\_\_\_\_  
Milton L. Cohen  
Chairman of the Board of Directors  
and President  
(Principal Executive Officer)

1996

/s/ Fred Spivak

November 14,

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Fred Spivak

Vice President - Finance and Treasurer

(Principal Financial and Accounting Officer)