

LIFETIME BRANDS, INC
Form 10-K
March 14, 2016
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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, 2015

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 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

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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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer

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

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

The aggregate market value of 11,093,655 shares of the voting common equity held by non-affiliates of the registrant as of June 30, 2015 was approximately \$163,853,284. 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 February 29, 2016 was 14,030,645.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the registrant's definitive proxy statement for the 2016 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>.

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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 brought over 5,500 new or redesigned products to market in 2015 and expects to introduce approximately 5,500 new or redesigned products in 2016. Historically, new products generally reach their peak sales in 12 to 18 months following introduction.

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 and bakeware) and Tableware (dinnerware, stemware, flatware and giftware); and one category, Home Solutions, which comprises other products used in the home (pantryware, spice racks, 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. The Company has two wholly-owned businesses based in the United Kingdom (U.K.). One is Kitchen Craft, acquired in 2014, a leading supplier of kitchenware products and accessories in the U.K. and in over 70 countries. The other is Creative Tops, acquired in 2011, a supplier of private label and branded tableware (including La Cafetière and Randwyck brands, acquired in 2014) products in the U.K. 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; a presence in Brazil through a 40% equity interest in GS Internacional S/A (GSI) a wholesale distributor of branded housewares products in Brazil; 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.

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

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

Brand	Licensed/Owned	Product Category
Farberware®	Licensed*	Kitchenware
Mikasa®	Owned	Tableware and Home Solutions
KitchenAid®	Licensed	Kitchenware
KitchenCraft®	Owned	Kitchenware
Pfaltzgraff®	Owned	Tableware and Home Solutions
Sabatier®	Licensed	Kitchenware
Kamenstein®	Owned	Home Solutions
masterclass®	Owned	Kitchenware
Fred®	Owned	Kitchenware
Towle®	Owned	Tableware
Built®	Owned	Home Solutions

* 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. 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, Built NY, Fred & Friends 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.

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 wholesale customers include mass merchants, specialty stores, national chains, department stores, warehouse clubs, supermarkets, off-price retailers 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 and Bon-Ton), warehouse clubs (such as Costco and Sam's Club), supermarkets

(such as Stop & Shop, Meijer, Winn-Dixie, Tesco 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) 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.

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During the years ended December 31, 2015, 2014 and 2013, Wal-Mart Stores, Inc., including Sam's Club and Asda Superstore, (Walmart), accounted for 16%, 16% and 15% of consolidated net sales, respectively. 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	753,000
Robbinsville, New Jersey	700,000
Birmingham, England	204,000
Winchendon, Massachusetts	175,000
Corby, England	121,000
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; Carlisle, Pennsylvania; 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 in-house design and development teams currently consist of 122 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, the United States, the United Kingdom, Vietnam, Malaysia, Indonesia, India, Slovakia, Canada, Czech Republic, Taiwan, Mexico, France, Poland, Italy, Japan, American Samoa, Brazil, Korea, Thailand, Portugal, Slovenia, Portugal, Germany, Netherlands,

Belgium and Israel. 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.

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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 320 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, 2015, the Company had a total of 1,414 full-time employees, of whom 215 were located in Asia and 303 in Europe. In addition, the Company employed 40 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. A recent vote to unionize a certain class of employees in our Robbinsville, New Jersey warehouse was defeated. The Company considers its employee relations to be good.

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.

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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 2015, net sales in the third and fourth quarters accounted for 59% 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 J of the Notes to the Consolidated Financial Statements included in Item 15 of this annual report.

RESTRUCTURING

In the fourth quarter of 2015, a restructuring plan relating primarily to the U.S. Wholesale segment commenced. The restructuring plan is intended to realign product categories to best achieve the Company's strategic plan and implement cost reduction initiatives. The Company recorded a charge of \$437,000 in the year ended December 31, 2015 and expects to record an additional \$0.5 million, primarily for severance, in fiscal 2016 related to this plan. The Company's 2015 results do not present the realignment of product categories within the U.S. Wholesale segment. The realignment includes grouping certain pantryware products and spice racks within the Kitchenware product category. The Company does not expect this restructuring plan to impact total net sales of the U.S. Wholesale segment.

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.

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. The Company's 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 (as amended, the Credit Agreement) provides for, among other things, a Revolving Credit Facility commitment totaling \$175.0 million (the Revolving Credit Facility) and a term loan facility of \$35.0 million at December 31, 2015 (Term Loan). As of December 31, 2015, the Company had approximately \$100.9 million of consolidated debt, including \$100.6 million under the Credit Agreement, representing approximately 25% of total capital (indebtedness plus stockholders' equity). The Company may borrow under its Revolving Credit Facility, subject to the limitations of a borrowing base. Because the borrowing capacity under the Revolving Credit Facility depends on levels of eligible inventory, accounts receivable and the appraised value of certain intellectual property that fluctuate from time to time, the full commitment amount may not represent actual borrowing capacity. The financial covenants governing the Company's Term Loan agreement limit its ability to incur senior indebtedness. 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 fluctuates largely based upon its working capital requirements.

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 one or more of the financial ratio covenants contained in its debt agreements or to generate cash sufficient to pay interest or principal due under those agreements, which could result in an acceleration of some or all of the Company's outstanding debt;

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increasing the Company's vulnerability to general adverse economic and industry conditions;

limiting the Company's ability to obtain additional debt or equity financing;

increasing the Company's borrowing costs if it were to obtain additional debt financing or amend its existing debt agreements;

requiring the dedication of a substantial portion of the Company's cash flow from operations to service the Company's debt, thereby reducing the amount of cash flow available for other purposes, including working capital, capital expenditures or acquisitions;

requiring the Company to seek debt or equity financing or to sell some of the Company's core assets, possibly on unfavorable terms, to meet payment obligations;

limiting the Company's flexibility in planning for, or reacting to, changes in its business and the markets in which the Company competes;

limiting the Company's ability to declare and pay dividends to its stockholders and engage in share repurchase programs; and

placing the Company at a possible competitive disadvantage to less leveraged competitors and competitors that may have better access to capital resources.

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

The Credit Agreement, under certain circumstances, requires the Company to maintain a certain fixed charge coverage ratio. In addition, at any time the Company's Term Loan is outstanding, the Company's Credit Agreement requires the Company to maintain its Senior Leverage Ratio within defined parameters. As a result of these requirements within the Credit Agreement, 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 Credit Agreement 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 Credit Agreement, 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 Credit Agreement, 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 payments due under the Credit Agreement or the Company's other indebtedness.

The Company's borrowings 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. The Company has entered into interest rate swap agreements 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.

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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, anti-dumping 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 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 Company's business, results of operations and financial condition could be materially and adversely affected.

Changes in the Company's customer purchasing practices could materially adversely affect the Company's operating results.

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,

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limitations on shelf space, more extensive packaging requirements, changes in order quantities, use of private label brands and other practices, could materially and adversely affect the Company's business, results of operations and financial condition. 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.

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 material adverse effect on the Company's business, results of operations and financial condition. Significant changes or financial difficulties, including consolidations of ownership, restructurings, bankruptcies, liquidations or other events that affect retailers, could result in fewer retailers selling the Company's products, reliance 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, results of operations and financial condition.

Retailers place great emphasis on timely delivery of products for specific selling seasons, especially during the third fiscal quarter, and on the fulfillment of consumer demand throughout the year. The Company cannot control all of the various factors that might affect product delivery to retailers. Failure to deliver products to the Company's retailers in a timely and effective manner, often under special vendor requirements to use specific carriers and delivery schedules, could damage the Company's reputation and brands and result in a loss of customers or reduced orders.

Changes at the Company's large customers, or actions taken by them, and consolidation in the retail industry could materially adversely affect the Company's operating results.

In 2015, Wal-Mart Stores, Inc., including Sam's Club and, in the United Kingdom, Asda Superstore (Walmart), accounted for 16% of the Company's consolidated net sales. The Company's top ten customers accounted for approximately 54% of the Company's net sales in 2015. A material reduction in purchases by any of such customers could have a significant adverse effect on the Company's business and operating results. In addition, pressures by such customers 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. Any significant changes or financial difficulties that affect these customers, such as reduced sales by such customers (whether for reasons that affect a particular customer or the retail industry in general) may also result in reduced demand for the Company's products. The Company would also be subject to increased credit risk with respect to such customers. In particular, the concentration of the Company's business with Walmart extends to its international business, including in China, as well as through Vasconia in Mexico, GSI in Brazil and the Company's strategic alliance in Canada, due to the market presence of Walmart in these foreign countries. Further, with the continuing trend of consolidation in the retail industry, the ability of the Company's largest customers to continue to purchase from the Company is always subject to risk. Any changes in purchasing practices or decline in the financial condition, of Walmart or other large customers may have a material adverse impact on the business, results of operations and financial condition of the Company.

The Company's large customers also have significant purchasing leverage. They may demand lower pricing, special packaging, shorter lead times for the delivery of products or impose other requirements on product suppliers like the Company. These business demands may relate to inventory practices, logistics or other aspects of the customer-supplier relationship. If the Company does not effectively respond to the demands of its customers, they could decrease or eliminate their purchases from the Company. These risks could be exacerbated if such large customers consolidate, or if the Company's smaller customers consolidate to become larger customers, which would increase their purchasing leverage. A reduction in the purchases of the Company's products by its wholesale customers or the costs of complying with customer business demands could have a material adverse effect on the Company's business, financial condition and results of operations.

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The Company's customers could carry products that directly compete with the Company's products for retail space and consumer purchases. There is a risk that these customers could give higher priority to products of, or form alliances with, our competitors. Failure of customers to provide the Company's products with similar levels of promotional support and retail space could have a material adverse effect on the Company's business, results of operations and financial condition.

The loss of certain licenses or material changes in royalty rates could materially adversely affect the Company's operating margin and cash flow.

Significant portions of the Company's business are dependent on trade names, trademarks and patents, some of which are licensed from third parties. In 2015, sales of licensed brands accounted for approximately 42% of the Company's gross sales. The Company's licenses for many of these brands require it to pay royalties based on sales. Many of these license agreements are subject to termination by the licensor, if, for example, the Company fails to satisfy certain minimum sales obligations or breaches the terms of the license. The loss of significant licenses or a material increase in the royalty rates the Company pays or other new terms negotiated upon renewal of such licenses could result in a reduction of the Company's operating margins and cash flow from operations or otherwise adversely affect its business. In particular, the Company's license to use the KitchenAid brand, which represents a material portion of its sales, is subject to a license agreement that has a three-year term that will expire in December 2018. The Company originally entered into a licensing arrangement for use of the KitchenAid brand in 2000, and has renewed the license, typically for three-year periods, since that time. Although it expects to be able to renew its current KitchenAid license prior to its expiration, there is no assurance that the Company will be able to do so on reasonable terms, or at all, and any failure to do so could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company also holds certain rights to use the Farberware brand for kitchen tools and gadgets, cutlery, cutting boards, shears and certain other products which together represent a material portion of its sales, through a fully-paid, royalty-free license for a term that expires in 2195, subject to earlier termination under certain circumstances. The licensor is a joint venture of which the Company is a 50% owner. The other 50% owner of the joint venture has the right to terminate the Company's license if the Company materially breaches any of the material terms of the license and fails to cure the material breach within 180 days of notice of the breach, if it is determined in an arbitration proceeding that money damages alone would not be sufficient compensation to the licensor and that the breach is so egregious as to warrant termination of the license and forfeiture of the Company's rights to use the brand under that license agreement. If the Company were to lose the Farberware license for kitchen tools and gadgets, cutlery, cutting boards, shears and other products through termination as a result of an uncured breach, its business, results of operations and financial condition would be materially adversely affected.

The Company's international operations present special challenges that the Company may not be able to meet, and this could materially and adversely affect the Company's financial results.

The Company conducts business outside of the United States through subsidiaries, affiliates and joint ventures. These entities have operations and assets in the United Kingdom, Mexico, Canada, Brazil, China and Hong Kong. Therefore, the Company is subject to increases and decreases in its investments in these entities resulting from the impact of fluctuations in foreign currency exchange rates. These entities also bear risks similar to those risks faced by 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 materially and adversely impact the Company's reputation and business.

In addition, the Company sells its products in foreign countries and seeks to increase its level of international business activity. Accordingly, the Company is subject to various risks, including:

U.S.-imposed embargoes of sales to specific countries;

foreign import controls (which may be arbitrarily imposed or enforced);

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import regulations and duties;

export regulations (which require the Company to comply with stringent licensing regimes);

anti-dumping regulations;

price and currency controls;

exchange rate fluctuations;

dividend remittance restrictions;

expropriation of assets;

war, civil uprisings and riots;

government instability;

the necessity of obtaining governmental approval for new and continuing products and operations;

legal systems or decrees, laws, taxes, regulations, interpretations and court decisions that are not always fully developed and that may be retroactively or arbitrarily applied;

unanticipated income taxes, excise duties, import taxes, export taxes or other governmental assessments; and

difficulties in managing a global enterprise.

Any significant violations of these regulations could result in civil or criminal sanctions or the loss of export or other licenses, which could have a material adverse effect on the Company's business, results of operations and financial condition. In addition, the Company's organizational structure may limit its ability to transfer funds between countries, particularly into and out of the United States, without incurring adverse tax consequences. Any of these events could result in a loss of business or other unexpected costs that could reduce sales or profits and have a material adverse effect on the Company's financial condition, results of operations and cash flows.

International suppliers subject the Company to regional regulatory, political, economic and foreign currency exchange risk that could materially and adversely affect the Company's operating results.

The Company sources its products from suppliers located principally in Asia, Europe and the United States. The Company's vendors in Asia, from whom a substantial majority of the Company's products are sourced, 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, where labor historically has been readily available at low cost relative 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 labor in China may not continue to be available to the Company at costs consistent with historical levels. Changes in labor or other laws may be enacted which would have a material adverse effect on the Company's operations in China, or those of the Company's suppliers. Although China currently enjoys most favored nation trading status with the U.S., the U.S. government has in the past proposed to revoke such status and to impose higher tariffs on products imported from China. Changes in currency exchange rates might negatively affect the Company and its overseas vendors' profitability and business prospects. The Company does not have access to its vendors' financial information and the Company is unable to assess its vendors' financial condition, including their liquidity. 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.

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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 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 our consolidated financial statements, we translate local currency financial results 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 our international operations will be reduced because the local currencies will translate into fewer U.S. dollars.

The Company's strategic alliances in Mexico, Canada and Brazil 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 our 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 international trade subjects it to transportation risks.

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 in 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, weather disruptions and carriers' ability to provide delivery services to meet the Company's shipping needs. Transportation disruptions and increased transportation costs could materially adversely affect the Company's business, results of operations and financial condition.

The Company delivers its products to its customers or makes such products available for customer pickup from its distribution centers. During the third and fourth quarter of 2014, the Company's distribution process was impacted by the longshoremen's work slowdown and the threat of a strike on the west coast. The impact of slowdowns and labor strikes on the Company's operations, prolonged domestic transportation disruptions, as well as workforce or systems issues related to the Company's distribution centers, could have a material adverse effect on the Company's ability to deliver goods to its customers.

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The Company may not be able to adequately establish or protect its intellectual property rights, and the infringement or loss of the Company's intellectual property rights could harm its business.

To establish and protect the Company's intellectual property rights, the Company relies upon a combination of U.S., foreign and multi-national patent, trademark, copyright and trade secret laws, together with licenses, confidentiality agreements and other contractual arrangements. The measures that the Company takes to protect its intellectual property rights may prove inadequate to prevent third parties from infringing or misappropriating the Company's intellectual property, or from breaching their contractual obligations to the Company.

The Company has obtained and applied for numerous U.S. and foreign trademark, service mark and patent registrations, and will continue to evaluate the registration of additional marks, patents or other intellectual property, as appropriate. The Company cannot guarantee that any of its pending applications will be approved by the applicable governmental authorities. Moreover, even if such applications are approved, third parties may seek to oppose, declare invalid or otherwise challenge these registrations. Failure to obtain registrations for the Company's intellectual property in the United States and other countries could limit the Company's ability to protect its intellectual property rights and impede the Company's marketing efforts and operations in those jurisdictions.

The Company may need to resort to litigation to enforce or defend its intellectual property rights. If a competitor or collaborator files a patent application claiming technology also claimed by the Company, or a trademark application claiming a trademark, service mark or trade dress also used by the Company, in order to protect the Company's rights, the Company may have to participate in opposition or interference proceedings before the U.S. Patent and Trademark Office or a similar foreign agency. The Company cannot guarantee that the operation of its business does not infringe or otherwise violate the intellectual property rights of third parties, and the Company's intellectual property rights may be challenged by third parties or invalidated through administrative process or litigation. The costs associated with protecting intellectual property rights, including litigation costs associated with litigation or administrative proceedings, may be material and there can be no assurance that any such litigation or administrative proceedings will be successful. Any such matters or proceedings could be burdensome, divert the time and resources of the Company's personnel and the Company may not prevail. Furthermore, even if the Company's intellectual property rights are not directly challenged, disputes among third parties could lead to the weakening or invalidation of the Company's intellectual property rights, or other parties such as the Company's competitors may independently develop technologies that are substantially equivalent or superior to the Company's technology.

The laws of certain foreign countries in which the Company operates or may operate in the future do not protect, and the governments of certain foreign countries do not enforce, intellectual property rights to the same extent as do the laws and government of the U.S., which may negate the Company's competitive or technological advantages in such markets. Moreover, any repeal or weakening of intellectual property laws or enforcement of those laws in the United States or foreign jurisdictions could make it more difficult for the Company to adequately protect its intellectual property rights, negatively impacting their value and increasing the cost of enforcing the Company's rights. If the Company is unable to establish or adequately protect its intellectual property rights, the Company's business, financial condition and results of operations could be materially and adversely affected.

If the Company is unable to protect the confidentiality of its proprietary information and know-how, the value of the Company's technology, products and services could be harmed significantly.

In addition to registered intellectual property, the Company relies on know-how and other proprietary information in operating its business. If this information is not adequately protected, then it may be disclosed or used in an unauthorized manner. To the extent that consultants, vendors, key employees or other third parties apply technology independently developed by them or by others to the Company's proposed products in the absence of a valid license or

suitable non-disclosure or assignment of inventions provisions, disputes may arise as to the ownership of or rights to use such technology, which may not be resolved in the Company's favor. The risk that other parties may breach confidentiality or other agreements could harm the Company by enabling the Company's competitors and other entities, who may have greater experience and financial resources, to copy or use the Company's proprietary information in the advancement of their products, methods or technologies.

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The Company sells consumer products which involve an inherent risk of product liability claims.

The marketing of certain of the Company's consumer products involve an inherent risk of product liability claims or recalls or other regulatory or enforcement actions initiated by the U.S. Consumer Product Safety Commission, by the Office of Fair Trading in the U.K., by other regulatory authorities or through private causes of action and the Company has had in the past, and may have in the future, recalls (both voluntary and involuntary) of its products. 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. Additionally, the Company's product standards could be impacted by new or revised environmental rules and regulations or other social initiatives.

The Company operates in a regulated environment that imposes significant compliance requirements.

Non-compliance with these requirements could subject the Company to sanctions and materially adversely affect the Company's business.

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 (FCPA), the U.K. Bribery Act and similar anti-bribery, anti-corruption and anti-kickback laws adopted in many of the countries in which the Company does business which prohibit the Company from engaging in bribery or making other prohibited payments to foreign officials for the purpose of obtaining or retaining business and also require maintenance of adequate record-keeping and internal accounting practices to accurately reflect transactions. Under the FCPA, companies operating in the United States may be held liable for actions taken by their strategic or local partners or representatives. The U.K. Bribery Act is broader in scope than the FCPA in that it directly addresses commercial bribery in addition to bribery of government officials and it does not recognize certain exceptions, notably facilitation payments that are permitted by the FCPA. Civil and criminal penalties may be imposed for violations of these laws. In many of the countries in which the Company operates, particularly those with developing economies, it is or has been common for government officials and businesses to engage in business practices that are prohibited by these laws. If the Company does not properly implement and maintain practices and controls with respect to compliance with applicable anti-corruption, anti-bribery and anti-kickback laws, or if the Company fails to enforce those practices and controls properly, the Company may be subject to regulatory sanctions, including administrative costs related to governmental and internal investigations, civil and criminal penalties, injunctions and restrictions on the Company's business and capital raising activities, any of which could materially and adversely affect the Company's business, results of operations and financial condition. The Company's employees, distributors, dealers and other agents could engage in conduct that is not in compliance with such laws for which the Company might be held responsible. If the Company's employees, distributors, dealers or other agents are found to have engaged in illegal practices, the Company could suffer substantial penalties and the reputation, business, results of operations and financial condition of the Company could be materially adversely affected.

The Company is additionally 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 Internet or other online services and thereby adversely impact the Company's sales. These laws and regulations may cover taxation, user privacy, data security, pricing, content, proprietary rights, advertising, 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 in certain cases 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, diminish the demand for the Company's products on the Internet and increase the Company's cost of doing business.

Demand for new products and the inability to develop and introduce new competitive products at favorable profit margins could adversely affect the Company's performance and prospects for future growth.

New product introductions and product innovation are significant contributors to the Company's growth strategy and the Company's long-term success in the competitive retail environment depends in part on the Company's ability to develop and market a continuing stream of innovative new products that meet changing consumer preferences. The uncertainties associated with developing and introducing new products, such as the market demands and the costs of development and production may impede the successful development and introduction of new products. Acceptance of the new products may

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not meet sales expectations due to several factors, such as the Company's failure to accurately predict market demand or its inability to resolve technical issues in a timely and cost-effective manner. Additionally, the inability to develop new products on a timely basis could result in the loss of business to competitors.

The Company's brands are subject to reputational risks.

The Company's brands and its reputation are among its most important assets. The Company's ability to attract and retain customers depends, in part, upon the external perceptions of the Company, the quality of its products and its corporate and management integrity. The consumer goods industry is by its nature more prone to reputational risks than other industries. This has been compounded in recent years by the free flow of unverified information on the Internet and, in particular, on social media. Damage to the Company's brands or reputation or negative publicity or perceptions about the Company could adversely affect its business.

The Company depends on third-party manufacturers to produce the majority of its products which presents quality control risks to the Company.

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, which restricts the Company's ability to monitor and control their manufacture of the Company's goods.

Although the Company has agreements with its third party manufacturers regarding quality standards and regularly audits the facilities of its manufacturers, through its quality control program, there can be no assurance that the third party manufacturers will continue to meet the Company's quality standards, social standards regarding its workforce that is expected in the United States or legislation and regulations that apply to the products the Company contracts to manufacture. Failure by the Company's manufacturers to meet these standards could, in turn, increase order cancellations, returns, price concessions and decrease customer demand for our products. Non-compliance with the Company's product standards, regulatory requirements or product recall (or other regulatory actions) could have a material adverse effect on the Company's financial condition, results of operations or cash flows.

A failure in the Company's operating systems or infrastructure or those of third parties could disrupt the Company's business and cause losses.

The Company relies on many information technology systems for the operation of its principal business functions, including the Company's enterprise resource planning, 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. Additionally, the success of certain product categories in a competitive marketplace is dependent upon the creation and launch of new, innovative products. Accordingly, 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 failure of any of these systems or technologies could have a material adverse effect on the Company's business and results of operations.

The Company is subject to cyber security risks and may incur increasing costs in an effort to minimize those risks.

The Company employs information technology systems and Internet systems, including websites, which allow for the secure storage and transmission of proprietary or confidential information regarding the Company's customers, employees and others, including credit card information and personal identification information. The Company has made significant efforts to secure its computer network to mitigate the risk of possible cyber-attacks. However, the

regulatory environment governing information, security and privacy laws, as well as the requirements imposed on the Company by the credit card industry, is increasingly demanding and continues to evolve. The security of the Company's computer networks could be compromised which could impact operations and confidential information could be misappropriated, which could lead to negative 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. Furthermore, maintaining compliance with applicable security and privacy regulations and standards may increase the Company's operating costs and/or adversely impact the Company's ability to market its products or process payment information.