LENOX GROUP INC
Form 10-Q
November 28, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: **September 27, 2008**

Commission File Number: 1-11908

Lenox Group Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-3684956**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Village Place, 6436 City West Parkway, Eden Prairie, MN 55344
(Address of principal executive offices)
(Zip Code)

(952) 944-5600
(Registrant s telephone number, including area code)

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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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 o Accelerated filer x Smaller reporting company x

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

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

As of November 5 2008, 14,425,282 shares of the registrant s common stock, par value $.01 per share, were outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

LENOX GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands)

ASSETS

	September 27, 2008	December 29, 2007	September 29, 2007
Current Assets:			
Cash and cash equivalents	$ 748	$ 3,081	$ 370
Accounts receivable, net	84,531	43,273	106,599
Inventories	96,101	84,415	101,249
Deferred taxes	1,839	17,347	18,363
Income tax receivable	793	10,114	10,488
Other current assets	9,031	8,405	8,104
Total current assets	193,043	166,635	245,173
Property and equipment, net	36,054	41,987	41,445
Trademarks, net	24,913	119,941	119,092
Other intangibles, net	10,524	11,984	12,501
Marketable securities		71	75
Other assets	9,363	11,488	11,811
Total Assets	$ 273,897	$ 352,106	$ 430,097

LIABILITIES AND STOCKHOLDERS EQUITY

	September 27, 2008	December 29, 2007	September 29, 2007
Current liabilities:			
Current portion of long-term debt	$ 99,000	$ 1,250	$ 1,000

Borrowings on revolving credit facility	87,958	8,938	89,851
Accounts payable	22,095	31,836	29,962
Accrued compensation and benefits payable	6,975	8,727	7,240
Severance and restructuring reserves	1,738	2,756	5,655
Other current liabilities	6,410	8,826	8,881
Total current liabilities	224,176	62,333	142,589
Deferred compensation obligation		54	55
Pension obligations	10,306	15,788	22,709
Postretirement obligations	1,416	1,585	15,392
Deferred taxes	1,958	25,531	17,108
Long-term debt		98,500	98,750
Deferred gain on sale-leaseback	3,364	3,570	3,639
Other noncurrent liabilities	7,878	8,603	9,715
Total stockholder s equity	24,799	136,142	120,140
	$ 273,897	$ 352,106	$ 430,097

See notes to condensed consolidated financial statements.

LENOX GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share amounts)

	13 Weeks Ended September 27, 2008	13 Weeks Ended September 29, 2007
NET SALES	$ 110,491	$ 137,783
COST OF SALES	61,836	71,948
GROSS PROFIT	48,655	65,835
OPERATING EXPENSES		
Selling, general and administrative	42,299	53,166
Asset impairment	81,479	
Restructuring charges	1,523	2,015
OPERATING (LOSS) INCOME	(76,646)	10,654
OTHER EXPENSE (INCOME)		
Interest expense	3,812	4,746
Other, net	70	(163)
(LOSS) INCOME BEFORE INCOME TAXES	(80,528)	6,071
INCOME TAX (BENEFIT) EXPENSE	(30,691)	1,949
NET (LOSS) INCOME	$ (49,837)	$ 4,122
NET (LOSS) INCOME PER SHARE BASIC	$ (3.57)	$ 0.30
NET (LOSS) INCOME PER SHARE ASSUMING DILUTION	$ (3.57)	$ 0.29
WEIGHTED AVERAGE SHARES OUTSTANDING		
BASIC	13,979	13,826
ASSUMING DILUTION	13,979	14,019

See notes to condensed consolidated financial statements.

LENOX GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share amounts)

	39 Weeks Ended September 27, 2008	39 Weeks Ended September 29, 2007
NET SALES	$ 258,098	$ 317,149
COST OF SALES	133,786	171,387
GROSS PROFIT	124,312	145,762
OPERATING EXPENSES		
Selling, general and administrative	130,493	156,273
Asset impairment	98,293	
Restructuring charges	3,041	8,882
OPERATING LOSS	(107,515)	(19,393)
OTHER EXPENSE (INCOME)		
Interest expense	10,545	11,646
Loss on refinancing of debt		5,940
Other, net	87	(268)
LOSS BEFORE INCOME TAXES	(118,147)	(36,711)
INCOME TAX BENEFIT	(8,585)	(16,527)
NET LOSS	$ (109,562)	$ (20,184)
NET LOSS PER SHARE BASIC	$ (7.86)	$ (1.46)
NET LOSS PER SHARE ASSUMING DILUTION	$ (7.86)	$ (1.46)
WEIGHTED AVERAGE SHARES OUTSTANDING		
BASIC	13,932	13,808
ASSUMING DILUTION	13,932	13,808

See notes to condensed consolidated financial statements.

LENOX GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	39 Weeks Ended September 27, 2008	39 Weeks Ended September 29, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net cash used in operating activities	$ (75,336)	$ (89,224)
Net cash used in operating activities	(75,336)	(89,224)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,639)	(2,871)
Proceeds from sale of assets	393	8,677
Acquisitions		(385)
Net cash (used) provided by investing activities	(5,246)	5,421
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of debt amendment and refinancing costs		(9,685)
Excess tax benefits from stock-based compensation		(7)
Net borrowings on revolving credit facility	79,021	42,341
Purchases of treasury stock	(12)	(30)
Principal payments on capital leases	(10)	(15)
Borrowings on long term debt		100,000
Payments on long-term debt	(750)	(49,306)
Net cash provided by financing activities	78,249	83,298
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,333)	(505)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,081	875
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 748	$ 370
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Depreciation expense	$ 7,229	$ 9,220
Asset impairment	98,293	
Intangible amortization expense	3,073	1,634
Accrued capital expenditure purchases	79	294
Cash paid (received) for:		
Interest	9,034	8,302
Income taxes	(9,276)	(55)

See notes to condensed consolidated financial statements

LENOX GROUP INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(In thousands, except per share amounts)

1. Basis of Presentation

The Condensed Consolidated Balance Sheets as of September 27, 2008 and September 29, 2007, the Condensed Consolidated Statements of Operations for the 13 weeks and 39 weeks ended September 27, 2008 and September 29, 2007 and the Condensed Consolidated Statements of Cash Flows for the 39 weeks ended September 27, 2008 and September 29, 2007 are unaudited. The Consolidated Balance Sheet as of December 29, 2007 was derived from audited consolidated financial statements, but does not include all disclosures required by Generally Accepted Accounting Principles in the United States of America.

In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial statements are included. Adjustments consist only of normal recurring items, except for any discussed in the notes below. Interim results are not necessarily indicative of results for a full year. The condensed consolidated financial statements and notes are presented in accordance with instructions for Form 10-Q, and therefore, do not contain certain information included in our consolidated annual financial statements and notes. The condensed consolidated financial statements and notes appearing in this report should be read in conjunction with the consolidated audited financial statements and related notes included in the Annual Report on Form 10-K for the year ended December 29, 2007 (2007 Form 10-K) filed by Lenox Group Inc. (the Company) with the Securities and Exchange Commission (SEC).

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. Due in part to the continued and significant negative impact of current economic and retail market conditions, the Company was in noncompliance of certain financial covenants under its amended and restated term loan agreement as of September 27, 2008. The term lenders that are party to the Company s amended and restated term credit facility agreement (the Term Loan Lenders) provided a limited waiver and consent agreeing to waive any events of default through the end of November 24, 2008 (the Waiver Period). Upon expiration of the Waiver Period, the waiver and consent shall be immediately and automatically terminated and be of no further force or effect. The Company s non-compliance with the aforementioned financial covenants, decreasing revenues, and recurring losses from operations raise substantial doubt about its ability to continue as a going concern under its current structure. Management s subsequent actions and related plans concerning these matters are described below in Note 2 to the Condensed Consolidated Financial Statements. The Condensed Consolidated Financial Statements do not include any adjustments that might result from the outcome of this uncertainty. As a result, and as discussed further in Note 2 below, the reported balances of assets and liabilities do not necessarily represent the value that would be received or paid, respectively, upon a liquidation of the Company under a forced sale or other similar proceeding.

2. Subsequent Events

Bankruptcy Filing

On November 23, 2008, the Company and its subsidiaries filed a voluntary petition for reorganization relief under Chapter 11 of the United States Bankruptcy Code in the Southern District of New York (the Court). The Court has granted a variety of first day motions that will allow the Company to continue to conduct business in the ordinary course without interruption.

In addition, the Company and its current revolving lender group have agreed to a new $85 million debtor-in-possession financing facility (DIP Facility). The Court has approved the use of $40 million in a first day motion and it is expected that the balance will be approved on or about December 15th. The DIP Facility will provide a continuing source of funds to the Company to enable it to satisfy customary obligations associated with ongoing operations of its business, including the timely payment of employee obligations, material purchases, normal operating expenses and other obligations. Any outstanding claims under the revolving credit facility will be rolled up into the DIP Facility. The DIP Facility matures on or before November 23, 2009.

While in Chapter 11, the Company will continue to pursue a sale of its business through a sale process to be approved by the Court in order to attain the highest and best offer from interested parties. As part of these efforts, the Company and its lenders under its existing term loan agreement have entered into a Plan Support Agreement including a Plan Term Sheet, pursuant to which the term lenders and the Company have agreed that substantially all of the Company s assets will be sold to a new entity formed by said term lenders in exchange for cancellation of a portion of their secured loans, subject to higher or better offers. This proposal will be considered as one of the offers in the bidding process which is set up to maximize value of the Company s assets for all creditors.

The Plan also provides that a plan administrator will be appointed to oversee the wind down of any remaining assets of the Company which are not transferred to a new owner pursuant to a sale. As a result of the Chapter 11 proceeding, holders of equity interests in the Company are not expected to receive or retain any property or interest on account of their interests and all such interests are expected to be cancelled and extinguished.

The accompanying financial statements do not purport to reflect or provide for the consequences of these bankruptcy proceedings. In particular, such financial statements do not purport to show (1) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (2) as to prepetition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (3) as to stockholder accounts, the effect of any changes that may be made in the capitalization of the Company; or (4) as to operations, the effect of any changes that may be made in its business.

Department 56 Scale-Down Plan

On October 31, 2008, the Board of Directors of the Company approved a scale-down plan (the Scale-Down Plan) for the Department 56 wholesale business which includes discontinuing its Everyday and Halloween product lines and most of its basic Christmas lines, as well as its Forchino collectible line. The Scale-Down Plan is designed to focus the Company s resources on lines that have potential to generate sustainable profits, such as Villages, Snowbabies, Classic Brands, Ebony Visions, Just the Right Shoe, Possible Dreams, Sandra Magsamen and a small assortment of Christmas products.

The implementation of the Scale-Down Plan requires the elimination of 53 jobs during the three month period commencing October 31, 2008, including 30 employees at Department 56 headquarters in Eden Prairie, Minnesota, 7 employees at Department 56 offices in Petaluma, California, and 16 field sales and showroom employees. Affected employees will be provided with severance benefits which are estimated to cost approximately $0.4 million in the aggregate. In addition, there will be certain additional costs associated with the potential closing of certain Department 56 showrooms which are not determinable at the date of this filing. The implementation of the Scale-Down Plan is expected to be substantially completed by the end of 2008 and most of the costs will be charged as a restructuring expense.

The Company is implementing the Scale-Down Plan for a variety of reasons, including (i) declining economic conditions, (ii) a shrinkage in the Company s wholesale customer base in the gift and specialty channel, and (iii) the Company s strategy to leverage its financial resources to support more profitable product lines and businesses. The Scale-Down Plan does not involve any reductions on the Lenox, Dansk and Gorham side of the business.

3. New Accounting Standards

Recently Adopted Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 became effective for our financial assets and liabilities on January 1, 2008. The FASB has deferred the implementation of the provisions of SFAS No. 157 relating to certain nonfinancial assets and liabilities until January 1, 2009. SFAS No. 157 did not materially affect how we determine fair value.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 permits companies to measure many financial instruments and certain other items at fair value. SFAS No. 159 became effective for us on January 1, 2008. We have not elected the fair value option for any of our existing financial instruments on the effective date and have not determined whether or not we will elect this option for any eligible financial instruments we acquire in the future.

Recently Issued Accounting Standards

In June 2008, the FASB issued FASB Staff Position (FSP) No. Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. (FSP EITF 03-6-1) FSP EITF 03-6-1 is effective for the Company in the first quarter of fiscal 2009. The Company does not expect that the adoption of FSP EITF 03-6-1 will have a material impact on the Company s consolidated financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162 (SFAS 162), *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 is effective for the Company sixty days following the Securities and Exchange Commission (SEC) approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*, which is expected to occur during the fourth quarter of fiscal 2008. The Company does not expect that adoption of the standard will impact its consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No 161 (SFAS 161), *Disclosures about Derivative Instruments and Hedging Activities*. SFAS 161 requires companies with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 *Accounting for Derivative Instruments and Hedging Activities* and how derivative instruments and related hedged items affect a company s financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact, if any, that SFAS 161 will have on our disclosures included in the consolidated financial statements.

In December 2007, the FASB issued Statement No. 141(R), *Business Combinations* (SFAS 141R). SFAS 141R established the principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. SFAS 141R also establishes rules for recognition and measurement of the goodwill acquired in the business combination and the gains from bargain purchases. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first fiscal year beginning after December 15, 2008. SFAS 141(R) also applies to prospective changes in acquired tax assets and liabilities recognized as part of the Company s previous acquisitions, by requiring such changes to be recorded as a component of the income tax provision. The Company expects SFAS 141(R) will have an impact on accounting for future business combinations, once adopted, and on prospective changes, if any, of previously acquired tax assets and liabilities.

4. Stock-Based Compensation

The Company recognizes compensation for share-based awards over the requisite service period. This is the period of time between the grant date and the awards stated vesting term. The Company recognizes time-vesting compensation expense to operations over the applicable service periods and performance-vesting compensation expense over the applicable service period when it is probable the performance goals will be achieved.

Total share-based compensation expense (benefit) was $131 and $177 for the 13 weeks ended September 27, 2008, and September 29, 2007, respectively, and $497 and $(580) for the 39 weeks ended September 27, 2008 and September 29, 2007, respectively. During the 39 weeks ended September 29, 2007, forfeiture of restricted stock with performance conditions that were not met resulted in a reduction of the associated expense.

The Company did not grant restricted shares of common stock to employees or directors during the 13 weeks ended September 27, 2008 and did grant 261,000 restricted shares of common stock to executive officers, directors and employees during the 39 weeks ended September 27, 2008. Of these shares, 247,000 were performance-vesting and 14,000 shares were time-vesting. The weighted average price per share was $1.75. Exercise prices for these shares were priced at the market price of the Company s common stock on the date of the grant. No shares of restricted common stock were issued during the 13 weeks ended September 29, 2007. Directors received 15,500 restricted shares of common stock during the 39 weeks ended September 29, 2007. These shares were issued during the second quarter of 2007 and were valued at $7.11 per share, the market price on the date of the grant. These shares vest three years from the date of the grant. Total compensation expense for non-vested restricted stock during the 13 weeks ended September 27, 2008, and September 29, 2007, was $167 and $115, respectively. For the 39 weeks ended September 27, 2008 and September 29, 2007, compensation expense (benefit) for non-vested restricted stock was $434 and $(695), respectively.

During the 13 weeks ended September 27, 2008, no stock option awards were granted. During the 39 weeks ended September 27, 2008, 28,000 stock option awards were granted to directors. These stock option awards vest one year from the date of the grant and have an exercise price equal to the market price of the Company s common stock on the date of the grant. During the 13 weeks ended September 29, 2007, no option awards were granted to directors. However, during the 39 weeks ended September 29, 2007 31,000 stock option awards were granted to directors. Total compensation expense for stock option awards for the 13 weeks ended September 27, 2008 and September 29, 2007 was $15 and $62, respectively and $(23) and $115 for the 39 weeks ended September 27, 2008 and September 29, 2007 respectively. During the second quarter of 2008, forfeiture of stock options resulted in a reduction of the associated expense.

The Company estimates the fair value of each stock option using the Black-Scholes option pricing model. Assumptions used were:

	39 weeks ended September 27, 2008	39 weeks ended September 29, 2007
Risk-free interest rate	2.49%	4.60%
Expected dividend yield	0.0%	0.0%
Expected stock volatility	51.0%	39.0%
Expected life (in years)	6.0	5.0

The weighted average fair value of options granted during the 39 weeks ended September 27, 2008 and September 29, 2007 was $0.90 and $2.95, respectively.

Share-based expense for director s compensation during the 13 weeks ended September 27, 2008 and September 29, 2007 was $(51) and $69, respectively and $86 and $165 for the 39 weeks ended September 27, 2008 and September 29, 2007 respectively. Elective stock compensation accrued as stock in the second quarter of 2008 was subsequently settled in cash which resulted in a credit for director s stock compensation for the 13 weeks ended September 27, 2008.

5. Income (Loss) per Common Share

Net income (loss) per common share is calculated by dividing net income (loss) by the weighted average number of shares outstanding during the period. Net income (loss) per common share assuming dilution reflects per share amounts that would have resulted had the Company s dilutive outstanding stock options been converted to common stock. Restricted stock is considered outstanding on the date the stock becomes vested and is no longer subject to forfeiture when computing net income (loss) per common share basic. Restricted stock, to the extent it is probable that the stock will become vested, is considered outstanding on the grant date when computing net income (loss) per common share assuming dilution. Stock options and unvested restricted shares totaling 450 for the 13 weeks ended September 27, 2008 and 505 and 193 for the 39 weeks ended September 27, 2008 and September 29, 2007 respectively were considered anti-dilutive and excluded from the computation of common equivalent shares because the Company reported a net loss.

6. Severance and Restructuring Costs

Restructuring activities initiated during 2007 included the announcement of the planned closing of the Company s distribution center located in Rogers, MN in late 2007 (with distribution activities to be transferred to the Company s distribution center located in Hagerstown, MD), the sale of the Company s sterling silver product line and closure of the Company s sterling silver manufacturing facility located in Pomona, NJ and changes in and consolidation of our management and operations structure (described as general restructuring below). The Company incurred an aggregate of $12,580 related to these activities over a two year period; $9,540 during the year ended December 29, 2007 and an additional $3,041 during the 39 weeks ended September 27, 2008. These costs were included in the restructuring charges in the Condensed Consolidated Statement of Operations. These restructuring costs exclude the estimated costs related to the Department 56 Scale-Down Plan approved by the Board of Directors of the Company on October 31, 2008, as disclosed in Note 2.

The table below shows a reconciliation of the severance and restructuring reserve activity through the third quarter of 2008:

	Plant and Distribution Center Closings		General Restructuring		
	Severance	Other	Severance	Other	Total Reserves
Balance, December 29, 2007	$ 704	$ 267	$ 1,745	$ 40	$ 2,756
Costs incurred	62	914	1,463	602	3,041
Payments and other	(619)	(1,181)	(2,266)	7	(4,059)
Balance, September 27, 2008	$ 147	$	$ 942	$ 649	$ 1,738

The total estimated costs expected to be incurred related to the plant and distribution center closings and the general restructuring that were initiated during 2007, including costs incurred during the 13 and 39 weeks ended September 27, 2008, were as follows:

		Costs Incurred		
	Total costs expected	13 weeks ended September 27, 2008	39 weeks ended September 27, 2008	Cumulative through September 27, 2008
Plant and Distribution Center Closings	$ 3,437	$ 37	$ 977	$ 3,437
General Restructuring	9,143	1,486	2,064	9,143
	$ 12,580	$ 1,523	$ 3,041	$ 12,580

The additional costs incurred during the 13 and 39 weeks ended September 27, 2008 with respect to Plant and Distribution Center closings were principally severance and exit costs associated with the closure of the Company s Rogers Distribution Center. The additional general restructuring costs related primarily to severance costs related to retail store closings and other cost reduction initiatives. These costs are allocable to reportable segments as follows:

		Costs Incurred		
	Total costs expected	13 weeks ended September 27, 2008	39 weeks ended September 27, 2008	Cumulative through September 27, 2008
Wholesale	$ 760	$ 141	$ 219	$ 760
Retail	1,896	673	698	1,896
Direct	235		22	235
Corporate	9,689	709	2,102	9,689
	$ 12,580	$ 1,523	$ 3,041	$ 12,580

7. Concentrations

At September 27, 2008, one customer accounted for approximately 14% of the Company s total accounts receivable. For the 13 and 39 weeks ended September 27, 2008, this same customer accounted for approximately 19% and 17% of the Company s total net sales respectively.

8. Inventories

Inventories were comprised of:

	September 27, 2008	December 29, 2007	September 29, 2007
Raw materials	$ 3,213	$ 2,655	$ 2,763
Work-in-process	2,755	3,925	4,602
Finished goods	90,133	77,835	93,884
Total inventories	$ 96,101	$ 84,415	$ 101,249

9. Comprehensive (Loss) Income

Comprehensive (loss) income and its components, net of tax, were as follows:

	13 weeks ended		39 weeks ended	
	September 27, 2008	September 29, 2007	September 27, 2008	September 29, 2007
Net (loss) income	$ (49,837)	$ 4,122	$ (109,562)	$ (20,184)
Changes in cumulative foreign currency translation adjustment	(1)	2	4	(12)
Adjustment to pension and postretirement plan liabilities	(662)	(319)	(2,320)	(957)
Comprehensive (loss) income	$ (50,500)	$ 3,805	$ (111,878)	$ (21,153)

10. Trademarks and Other Intangible Assets

Intangible assets, other than goodwill, are comprised of the following:

	September 27, 2008			December 29, 2007			September 29, 2007		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Finite-life intangible assets									
Customer relationships	$ 15,300	$ (5,093)	$ 10,207	$ 15,300	$ (3,854)	$ 11,446	$ 15,300	$ (3,441)	$ 11,859
Favorable lease interests	2,542	(2,355)	187	2,542	(2,238)	304	2,542	(2,170)	372
Non-compete agreements	2,705	(2,575)	130	2,705	(2,471)	234	2,705	(2,435)	270

		20,547		(10,023)	10,524	20,547		(8,563)	11,984	20,547		(8,046)	12,501
Indefinite-life intangible assets												
Trademarks		29,052		(4,139)	24,913	124,080		(4,139)	119,941	123,231		(4,139)	119,092
Total Intangibles	$	49,599	$	(14,162)	$ 35,437	$ 144,627	$	(12,702)	$ 131,925	$ 143,778	$	(12,185)	$ 131,593

Our intangible assets are tested for impairment annually unless events or circumstances would require an immediate review. During the second quarter of 2008, the Company s stock price dropped significantly. Due to deteriorating economic conditions that resulted in an extremely weak retail environment, the Company re-forecast its full year 2008 revenue and earnings projections. Upon completion of the impairment test, we concluded that the fair value of the Department 56 and Gorham trademarks were lower than their carrying values. Therefore, The Company recorded, in the Corporate segment, an impairment charge of $14,226 in the second quarter of 2008. This charge was comprised of $13,049 and $1,177 related to the Department 56 and Gorham trademarks, respectively.

During the third quarter of 2008 the economy continued to worsen which negatively impacted the Company and its operations. As a result, management further revised certain assumptions, including revenue and earnings projections, used to value the Company s trademarks to reflect the worsening conditions experienced in the third quarter. Due to these severe economic conditions and worsening outlook, the Company performed a fair-value based impairment test as of September 27, 2008. In determining the fair value of its trademarks, the Company applied both the income approach, using the relief from royalty method and an enterprise value approach adjusted for assumed fair values of other assets and liabilities. Upon completion of the impairment test, the Company concluded that the fair value of the Lenox, Gorham, Dansk and Department 56 trademarks were lower than their carrying values as of September 27, 2008. Therefore The Company recorded, in the Corporate segment, an impairment charge of $80,802 for the 13 weeks ended September 27, 2008, by trademark as follows:

Trade name	Impairment charge 13 weeks ending September 27, 2008	
Lenox	$	(73,353)
Gorham		(2,209)
Dansk		(2,168)
D56		(3,072)
	$	(80,802)

The total trademark impairment charges recorded in the Corporate segment for the 39 weeks ended September 27, 2008 and the remaining carrying values of the trademarks as of September 27, 2008, were as follows:

Trade name	Carrying value December 29, 2007		Impairment charge 39 weeks ending September 27, 2008		Carrying amount September 27, 2008	
Lenox	$	96,000	$	(73,353)	$	22,647
Gorham		4,138		(3,386)		752
Dansk		3,682		(2,168)		1,514
D56		16,121		(16,121)		
	$	119,941	$	(95,028)	$	24,913

During 2007, finalization of the purchase price allocation related to the Willitts acquisition resulted in an increase of $127 to the indefinite-lived Department 56 trademark and a decrease of $127 to tangible assets. During 2007, the Company also paid or accrued additional earnout payments to Willitts for achieving certain performance thresholds. These earnout payments resulted in an increase in the Department 56 indefinite-lived trademarks of $1,022.

During the second quarter of 2007, as part of the sale of certain of the Gorham sterling silver assets, the Company evaluated the Gorham trademark. Based on the results of this evaluation, the Company determined that $647 of indefinite-life trademarks were to be included as part of the sale transaction that took place in the third quarter.

Intangible asset amortization expense for the 13 weeks and 39 weeks ended September 27, 2008 was $479 and $1,461 respectively, compared to $516 and $1,634 for the 13 weeks and 39 weeks ended September 29, 2007, respectively.

Expected future amortization expense for finite-lived intangible assets is as follows:

2008 (full year)	$	1,938
2009		1,846
2010		1,560
2011		1,242
2012		1,232
Thereafter		4,166
	$	11,984

The above amortization expense forecast is an estimate. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, impairment of intangible assets, accelerated amortization of intangible assets and other events.

11. Debt

Debt and the average interest rate on debt outstanding are summarized as follows:

	September 27, 2008			December 29, 2007			September 29, 2007		
	Total	Current	Non current	Total	Current	Non current	Total	Current	Non current
Revolving credit facility 4.93%	$ 87,958	$ 87,958	$	$ 8,938	$ 8,938	$	$ 89,851	$ 89,851	
Note payable to Maryland Department of Business and Economic Development 3%	150	150		150		150	150		150
Note payable to the County Commissioners of Washington County, Maryland 0%	100	100		100		100	100		100