Annual Report 2005

FARBERWARE®

Pfaltzgraff.

KitchenAid®

HOFFRITZ®

Cuisinart®

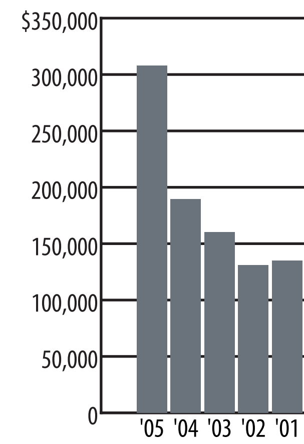
Calvin Klein
home

NAUTICA®

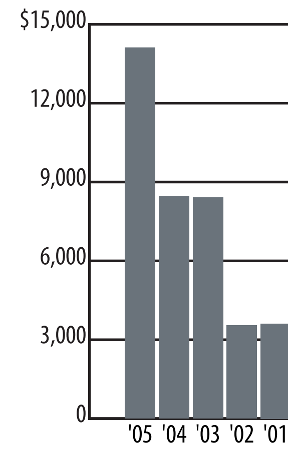
LIFETIME BRANDS, INC.

One Merrick Avenue, Westbury, New York 11590

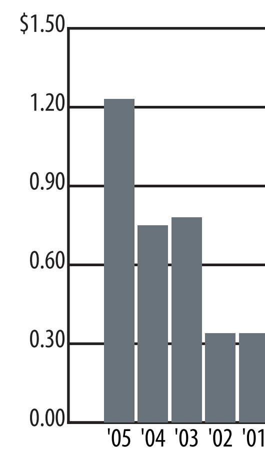
FINANCIAL HIGHLIGHTS



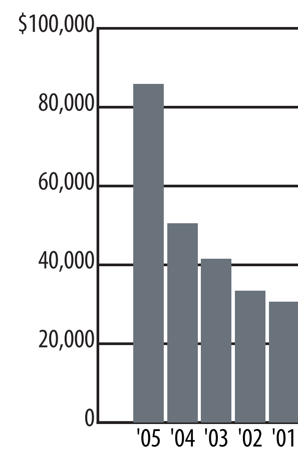
NET SALES
(in thousands)



INCOME FROM CONTINUING OPERATIONS
(in thousands)



DILUTED EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS



WORKING CAPITAL
(in thousands)

(in thousands, except per share data)
Year Ended December 31,

	2005	2004	2003	2002	2001
Net sales	**$307,897**	$189,458	$160,355	$131,219	$135,068
Income from continuing operations	**$14,109**	$8,472	$8,415	$3,551	$3,612
Diluted earnings per common share from continuing operations	**$1.23**	$0.75	$0.78	$0.34	$0.34
Working capital	**$85,843**	$50,512	$41,554	$33,380	$30,561

COMPANY PROFILE

Lifetime Brands, Inc. is a leading designer, developer and marketer of a broad range of branded consumer products used in the home, including Kitchenware, Cutlery and Cutting Boards, Bakeware and Cookware, Pantryware and Spices, Dinnerware, Flatware, Glassware and Bath Accessories.

DEAR FELLOW SHAREHOLDERS:

It is with great satisfaction that I share with you our results for 2005. We achieved record levels of net sales, net income and earnings per share, accomplished two significant acquisitions and enhanced our already strong financial position.

These accomplishments are largely due to initiatives we began to implement several years ago, which include an unwavering focus on having the best brands, the most innovative products and the strongest sourcing capability in our industry.

Sales and Earnings Reach Record Levels

Net sales increased 63% to $307.9 million from $189.5 million in 2004. Excluding the results attributable to the businesses we acquired in 2005, net sales grew by 24% to $235.7 million. For the year, net income rose 66% to $14.1 million from $8.5 million and net income per diluted share increased 64% to $1.23 from $0.75.

Sales of KitchenAid branded products continued to be a primary growth driver for Lifetime; and we broadened our partnership with Whirlpool Corporation by expanding the scope of our KitchenAid® license to include sinkware, pantryware and spices. The term of the license was extended through December 31, 2009.

In our Cutlery category, sales rose 71%, driven by increases of over 30% in each of our four major cutlery brands, KitchenAid®, Farberware®, Cuisinart® and Sabatier®. Cutlery is our most mature business, which supports our belief that Lifetime can achieve significant double-digit growth in each of our major categories.

Our Kitchenware division also turned in an excellent performance, achieving growth of more than 19%. We also developed and introduced an extensive assortment of sinkware under the KitchenAid® and Farberware® brands, with initial shipments having commenced late in the fourth quarter. These lines were very well received by retailers, and further rollouts are planned with several other major customers in 2006.

In our Bakeware and Cookware division, we continue to see strong growth especially in silicone bakeware, where Lifetime's products lead the market. Since cookware is one of the largest categories in the housewares industry, we renewed our efforts in this area and developed four exciting brands of cookware that we are now introducing to the trade. We expect to begin shipping cookware lines in mid-2006.

In our Pantryware and Spices division, we achieved substantial growth in our spice rack business, as well as a solid increase in sales of our patented Perfect Tear® towel holders. We are now introducing a full line of KitchenAid branded pantryware, which – as with the other categories in which we introduced product under this great brand – we expect to be very well received.

Acquisitions Expand Lifetime's Presence in Tabletop

Acquisitions are a key component of Lifetime's long-term growth strategy. Our acquisitions in 2005 of the business and certain assets of The Pfaltzgraff Co. and certain businesses and related assets of Salton, Inc. significantly bolstered our presence in the important tabletop category. Both businesses fit our strategy of acquiring premier national brands, and brought us such leading names as Pfaltzgraff®, Nautica®, Calvin Klein®, Block® and Sasaki®. The acquisition of Salton's tabletop assets also extended our distribution to fine china and crystal.

As with our previous acquisitions, our goal was to use Lifetime's product development and sourcing strengths to become a key resource within the tabletop category and to drive growth across all our brands and customer base. To that end, we integrated the Pfaltzgraff and Salton businesses with the Excel tabletop business we acquired in 2004 and put in place a first-class team of dinnerware and glassware experts who have been charged with the profitable growth of this division. We also began applying Lifetime's sourcing and product design expertise to improve the price-value relationship of the Pfaltzgraff and Salton tabletop lines and to accelerate the introduction of new patterns.

In addition, the acquisition of Pfaltzgraff provided us with many new opportunities in our retail business. Unlike our Farberware Outlet Stores, which we operated as true factory outlets and which did not have a material impact on Lifetime's financial results, the Pfaltzgraff Factory Stores were an important distribution channel for Pfaltzgraff dinnerware and accessories, offering extensions of their product lines that were not carried by traditional retailers. As part of their direct-to-consumer business, Pfaltzgraff also sold products through their own Internet website and mail order catalog operations.

To take advantage of these strengths, we consolidated the management of the Farberware stores under the leadership of the Pfaltzgraff retail team. We rationalized the store count, closing those that were less successful or would have duplicated our presence in the same or neighboring malls and re-merchandised both groups of stores, so that each carries the others' products. We now operate 88 stores, of which 44 are Farberware Outlets and 44 are Pfaltzgraff Factory Stores.

Increased our Financial Resources

To provide the Company with the financial flexibility to pursue our growth strategy, we increased the size of our secured credit facility to $100 million and extended its maturity by one year to July 2010. The amended facility also has a feature that allows it to be expanded by an additional $30 million.

Jeffrey Siegel, left and Ronald Shiftan, right.

We also raised $35 million of capital through the sale of 1.733 million shares of common stock in a public offering in November 2005.

Continued Expansion in 2006

In March 2006, we entered into an agreement to acquire the business and certain assets of Syratech Corporation, a major designer, importer and manufacturer of a diverse portfolio of tabletop, home decor and picture frame products. Syratech's brands, which include Wallace Silversmiths®, Towle Silversmiths®, International Silver Company®, Melannco International® and Elements®, are among the most distinctive and recognized in the industry. In addition to furthering our expansion into the better tabletop business, the acquisition positions us as a leader in the $500 million market for picture frames and photo albums and gives us an immediate presence in the home décor market.

Equally important, Syratech shares Lifetime's strong commitment to innovative design. The acquisition will enable us to augment our current team of 55 designers with another 20 highly qualified and experienced professionals. The combined design staff of 75 professionals will enable us to increase the number of new products Lifetime brings to market each year.

Exciting Prospects for the Future

Although I am very pleased with the profitable growth Lifetime's business showed in 2005, I am even more excited about our momentum going into 2006. We expect our impressive organic growth to continue this year and again be the driver of increased profits for the Company. Much of that growth will continue to be fueled by new product development – one of the pillars of our Company's strengths. In total, we expect to introduce approximately 1,400 new items in 2006, which is double the number Lifetime introduced last year.

Lifetime's great brands, our record of design excellence and our sourcing expertise are the foundation upon which our Company's success is built. At the same time, we should not forget that the talent and dedication of our people are an integral part of that success. In this year's report, we are therefore featuring Lifetime's Division Presidents and our Senior Vice President of Product Design and Development, whose commitment and wealth of industry experience have made our achievements possible.

For the many reasons I have discussed above, 2005 was a great year for Lifetime Brands. We expect even better things to come.

Sincerely,

Jeffrey Siegel

Chairman of the Board, President and Chief Executive Officer

GROWTH BY STRONG LEADERSHIP

This year, we would like to take the opportunity to introduce certain members of our leadership team, whose efforts have contributed to our recent success. With a combined 196 years in the housewares industry, these leaders of our primary product categories are all experts in their field.

Each has built a strong team of category specialists to innovate, nurture and grow their businesses.

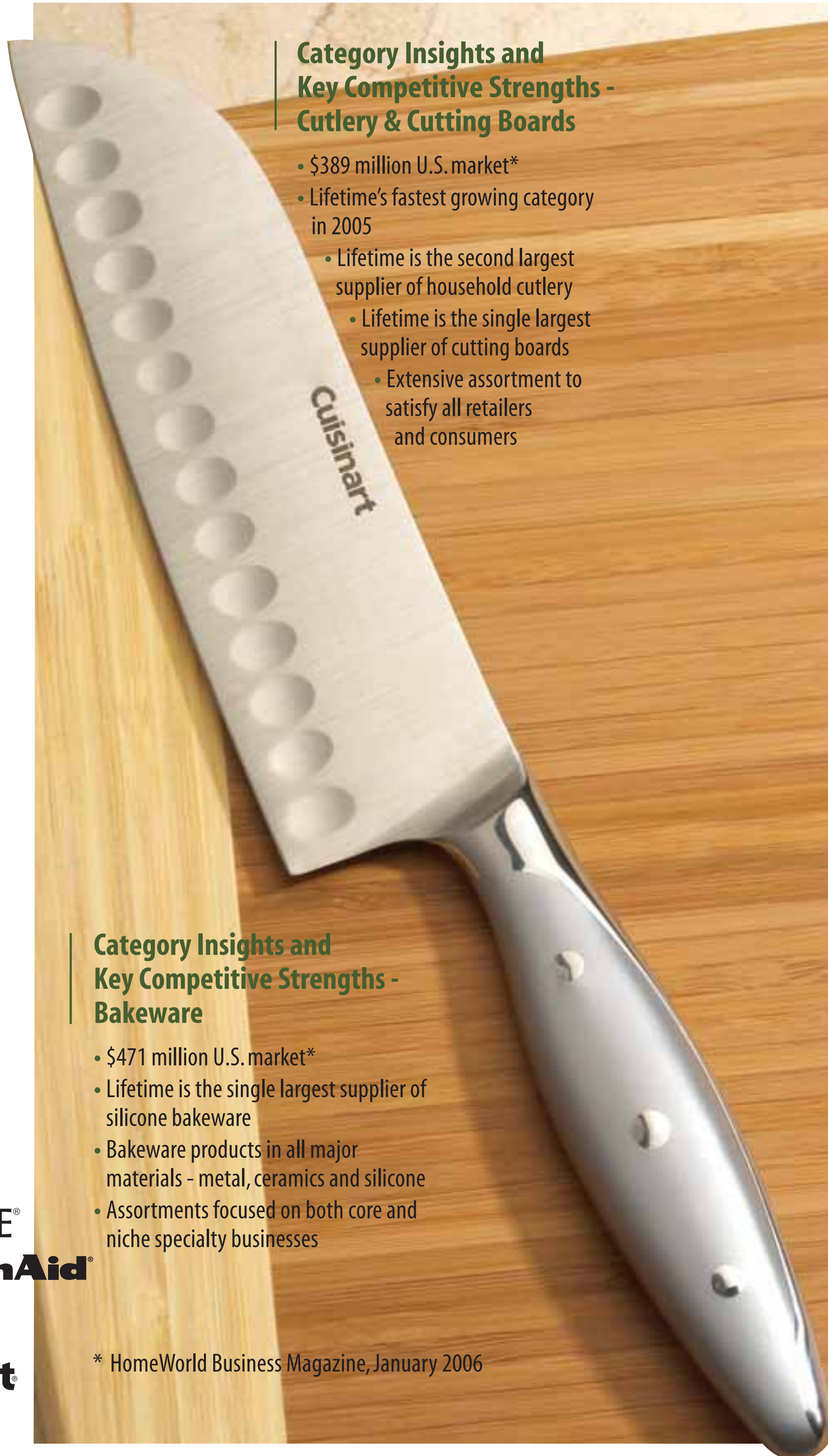
Each brings a wealth of product manufacturing, sourcing and retail knowledge to their team.

Each is focused on continuing to build Lifetime's brands and bringing to market innovative and exciting products that offer appreciable benefits to the consumer.

CUTLERY & CUTTING BOARDS AND BAKEWARE

"I believe our potential for exponential growth in cutlery and bakeware is enormous. We have everything in place."

Bob Reichenbach has been President of Lifetime's Cutlery & Cutting Boards and Bakeware products groups since 2001 and an Executive Vice President of the Company since 2002. He has amassed thirty years of experience in the housewares and retail industries. Before joining Lifetime, Bob has held senior positions at Linens 'n Things and A&S/Jordan Marsh Department Stores.



Category Insights and Key Competitive Strengths - Cutlery & Cutting Boards

- $389 million U.S. market*
- Lifetime's fastest growing category in 2005
- Lifetime is the second largest supplier of household cutlery
- Lifetime is the single largest supplier of cutting boards
- Extensive assortment to satisfy all retailers and consumers

Category Insights and Key Competitive Strengths - Bakeware

- $471 million U.S. market*
- Lifetime is the single largest supplier of silicone bakeware
- Bakeware products in all major materials - metal, ceramics and silicone
- Assortments focused on both core and niche specialty businesses

* HomeWorld Business Magazine, January 2006

Housewares veteran Bob Reichenbach plays an important role in Lifetime's overall business as President of Lifetime's Cutlery & Cutting Boards and Bakeware products groups. Key accomplishments in 2005 included the substantial market share gains of KitchenAid® and Cuisinart® cutlery and continued strong retail performance of Farberware® cutlery. Sabatier® cutlery also continued to garner additional placement with high-profile retailers, becoming one of the Company's cornerstone brands in 2005.

Across our brands, high piece-count "mega sets" climbed to the top of our best seller list, offering consumers great value while maintaining excellent quality. The Japanese style Santoku knife emerged as our most popular open stock cutlery item, and we quickly capitalized on this growing trend by incorporating it into many of our cutlery assortments.

The cutting board category enjoyed healthy growth in 2005 highlighted by Lifetime's launch of many innovative designs utilizing new materials. We introduced alternative material cutting boards in bamboo and acacia, both prized for their ecological benefits as well as their beauty. In addition, we updated traditional polypropylene cutting boards with stainless steel handles, giving a modern twist to a traditional item.

Silicone bakeware has emerged as the most dynamic segment of the bakeware business, and our KitchenAid® silicone bakeware line has performed extremely well in 2005. Silicone baking mats and specialty shape molds, in particular, experienced exceptional sell-through. Additionally, we introduced our KitchenAid® ceramic bakeware collection featuring removable silicone grips, with great success.

KITCHENWARE

"You can no longer 'sell' the consumer; you have to understand their needs and give them what they want."

Larry Sklute has been President of Lifetime's Kitchenware products group since 2001 and is also a Vice President of the Company. Before joining Lifetime, he worked for more than 25 years in the tool & gadget category, including being principal owner of a successful kitchenware company.

FARBERWARE®
KitchenAid®
SABATIER®
HOFFRITZ®

Category Insights and Key Competitive Strengths - Kitchenware

- $940 million U.S. market*
- Lifetime is the single largest supplier of kitchenware
- A vast assortment of over 4,000 SKU's
- Our KitchenAid® and Farberware® kitchenware products are the top two most recognized brands in the "Kitchen Tool, Cutlery and Gadgets" product category in the U.S.**

Led by division president Larry Sklute, our kitchenware business continued to thrive in 2005. Under Larry's keen tutelage, the category expanded to include not only traditional core kitchenware products, but also specialty categories, such as sinkware and storage & organization.

The Company launched our KitchenAid® sinkware collection in late 2005, the first full line of nationally branded sinkware available to consumers. The initial reception to the product line has been outstanding and we expect this new category to be a key contributor to Lifetime's continued success in 2006.

Tools and gadgets, which constitute the foundation of our KitchenAid® program, experienced very strong growth through expanded assortments and distribution at key retailers. The KitchenAid® kitchenware program continues to be one of the Company's most successful.

Our Farberware® branded kitchenware business also experienced healthy increases for the year, due in part to the launch of Farberware® Innovations, an ingenious line of high performance kitchenware. Additionally, Farberware® tools and gadgets enjoyed expansion at several of our key retailer accounts, bolstering sales and profits for the category and solidly maintaining Farberware's position as a dominant brand within the market segment.

In 2005 we designed a dramatic new line of Hoffritz® products utilizing a combination of soft comfortable handles and a distinctive satin nickel finish. We expect the introduction to be an important component of our growth for 2006.

* HomeWorld Business Magazine, January, 2006
**Home Furnishings News ("HFN") Brand Survey, October, 2005

DIRECT-TO-CONSUMER

Our multi-channel business model allows us to sell our products wherever consumers choose to shop.

Marsha Everton is President of Lifetime's Direct-to-Consumer division and was Chief Executive Officer and President of The Pfaltzgraff Company, which we acquired in 2005. Prior to joining Pfaltzgraff in 1983, she held a series of marketing, manufacturing and finance positions with Corning Glass Works.

Marsha Everton brings twenty-four years of consumer-focused experience in the housewares and tabletop industries to her role as President of Lifetime's Direct-to-Consumer (DTC) division. Lifetime's DTC initiatives serve as enhancements to our wholesale efforts, and include a direct mail catalog program, e-commerce web site, as well as Pfaltzgraff and Farberware retail outlet stores.

The Company utilizes the newly formed DTC group to build on our earlier successes and support Lifetime's other business categories. For example, in our stores we are able to offer extended collections within a particular dinnerware pattern that traditional retailers do not have the floor space to carry.

We also deploy our DTC resources to test new product introductions and marketing programs. By quickly analyzing performance, we can swiftly adjust our programs to meet the needs of the ever-changing retail landscape.

Our state-of-the-art customer service call center employs approximately 100 associates, who field consumer communications for product orders and questions. In addition, our sophisticated DTC fulfillment center enables us to be a viable direct-to-consumer drop shipping resource for our wholesale accounts, which is especially important to our e-commerce retailers.

In the latter half of 2005, the DTC division was charged with quickly integrating Lifetime's extensive array of food prep items into the Pfaltzgraff retail stores and, conversely, adding our tabletop assortments to the Farberware stores. Similarly, both the direct mail catalog and web site assortments are being updated to represent all of Lifetime's product categories and brands. The marriage of the Pfaltzgraff and Lifetime assortments has been a resounding success and positions our DTC operations for future growth and increased profitability.

PFALTZGRAFF

Pfaltzgraff
JOSEPH ABBOUD
NAUTICA
FARBERWARE
Calvin Klein home

TABLETOP

"Today's Pfaltzgraff is on target to meet the needs and choices of the modern consumer."

Steve Lizak has been President of Lifetime's Tabletop products group since 2004. He was previously employed by Mikasa Inc. for 29 years working in almost every division of the company, and serving most recently as the Senior Vice President of Sales and Marketing. While at Mikasa, Mr. Lizak founded the housewares division and the casual dinnerware brand, Studio Nova.

Category Insights and Key Competitive Strengths - Tabletop

- $2.6 billion U.S. market*
- Pfaltzgraff® accounts for 7 out of 10 top bridal registry housewares (casual) patterns**
- Increased emphasis on modern design and fresh new looks
- Combination of Pfaltzgraff® and designer brands position Lifetime for growth

* HomeWorld Business Magazine, January 2006
**Tableware Today and Bridal Guide Magazine, 2005

Since Steve Lizak joined Lifetime Brands in 2004, one of the Company's strategic goals has been to develop into a major tabletop resource. Our 2005 acquisitions of certain assets and businesses of both The Pfaltzgraff Company and Salton, Inc. are evidence of that focus, and have given Lifetime a firm presence in the casual dinnerware, fine china and crystal categories.

The Company immediately faced two major challenges related to its new Pfaltzgraff business - bringing a fresh, younger identity to the brand and pricing the product appropriately within the marketplace. By October 2005, we had introduced over 60 new dinnerware patterns under the Pfaltzgraff® brand, many of them designed for the youthful bridal consumer. We simultaneously dispatched teams of our sourcing specialists to make the necessary adjustments in the brands' price-value relationship. For 2006, we believe we are poised for success, offering the right product at the right price under one of the country's most recognized casual dinnerware brands.

In late 2005, we received equally enthusiastic reactions to introductions in our Joseph Abboud, Nautica® and Farberware® brands.

Additionally, in spring 2006 we will introduce over 200 new products in fine china, crystal and decorative glass under the Sasaki®, Block®, Calvin Klein® and Atlantis brands. Here our emphasis will be capitalizing on the enormous potential of the bridal segment of the tabletop business.

PANTRYWARE & SPICES

"Inventive products have been our core competency since 1893."

Peter Kamenstein has been President of Lifetime's Pantryware and Spices products group since the year 2000. Before joining the Company, he was with the well-known housewares company, M. Kamenstein, Inc. for 40 years, most recently serving as its President. M. Kamenstein was acquired by Lifetime in 2000.

Category Insights and Key Competitive Strengths - Pantryware

- $150 million U.S. market*
- Largest supplier of filled spice racks in U.S.
- Largest supplier of pantryware in U.S.
- Only supplier to bottle spices in the U.S. in a company-owned, FDA-approved facility

* Industry estimate

KAMENSTEIN®
FARBERWARE®
KitchenAid®
HOFFRITZ

Lifetime's Kamenstein division originated over a hundred years ago and has been managed by four generations of the Kamenstein family. Kamenstein's focus has always been on innovation. For example, the founder of the company invented the step-on garbage can and the locking handle mechanism utilized on many modern trash cans.

This tradition of product innovation continues today. In late 2005, we introduced Kamenstein® Solutions, an ingenious line of contemporary stainless steel pantryware, which features added benefits and improved function for the consumer. The line has been an enormous success and we will look to add items in this collection in 2006.

The Perfect Tear® paper towel holder continues to be a key item for Lifetime and in 2005 became the best selling paper towel holder at several high-profile retailers. Additionally, we have continued to update our Perfect Tear® assortment with new material finishes and colors.

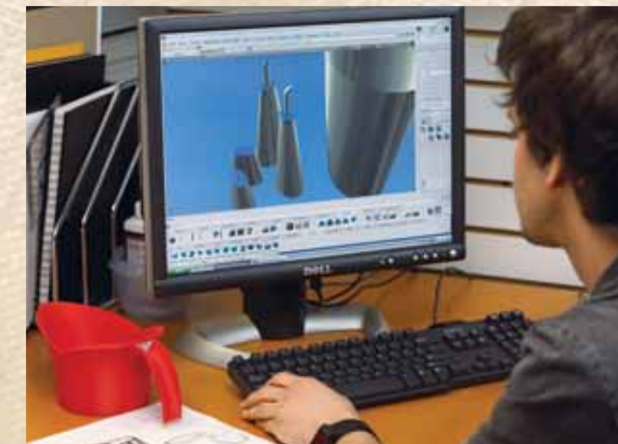
PRODUCT DEVELOPMENT

"Excellence in design comes not only from recruiting talented people, but also from fostering an atmosphere of creativity and innovation."

Bill Lazaroff has been Senior Vice President of Product Development for Lifetime since 1998 and was previously Director of Merchandising for Peter Andrews Corporation. He has over 20 years of experience in the housewares and tabletop industries in a variety of leadership and entrepreneurial roles.

Key Competitive Strengths - Product Development

- Proven track record of innovation
- Lifetime's state-of-the-art technology decreases time to market
- Continual training in advanced design software programs



As Senior Vice President of Product Development, Bill Lazaroff plays an integral part in the growth of the Company. We continue to innovate and introduce hundreds of new products across all categories and brands each year. Our unmatched internal design and development team, comprised of 55 professionals at year-end 2005, utilizes the latest design tools, technology and materials available.

Lifetime's strong in-house product design and development capabilities allow us to continuously expand and refresh our product offerings according to our customers' preferences. In addition to restyling and designing and updating existing products, our development team invents products with entirely new uses and functions. The Company has applied for fifty-four design and utility patents in the last five years alone

MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock has been traded under the symbol "LCUT" on The Nasdaq National Market ("Nasdaq") since its initial public offering in June 1991. The Board of Directors of the Company has authorized a repurchase of up to 3,000,000 of its outstanding shares of common stock in the open market. Through December 31, 2005, a cumulative total of 2,128,000 shares of common stock had been repurchased and retired at a cost of approximately $15,235,000. There were no repurchases in 2005 or 2004.

The following table sets forth the high and low sales prices for the Common Stock of the Company for the fiscal periods indicated as reported by Nasdaq.

	2005		2004	
	High	**Low**	High	Low
First Quarter	**$17.34**	**$14.75**	$17.65	$13.41
Second Quarter	**19.74**	**14.55**	22.79	17.78
Third Quarter	**27.00**	**19.98**	22.98	14.85
Fourth Quarter	**26.61**	**19.75**	15.90	11.74

At December 31, 2005, the Company estimates that there were approximately 3,000 beneficial holders of the Common Stock of the Company.

The Company is authorized to issue 100 shares of Series A Preferred Stock and 2,000,000 shares of Series B Preferred Stock, none of which is issued or outstanding.

The Company paid quarterly cash dividends of $0.0625 per share, or a total annual cash dividend of $0.25 per share, on its Common Stock during 2005 and 2004. The Board of Directors currently intends to continue to pay quarterly cash dividends of $0.0625 per share of Common Stock for the foreseeable future, although the Board of Directors may in its discretion determine to modify or eliminate such dividends at any time.

The following table summarizes the Company's equity compensation plans as of December 31, 2005:

Plan category	**Number of shares of Common Stock to be issued upon exercise of outstanding options**	**Weighted average exercise price of outstanding options**	**Number of shares of Common Stock remaining available for future issuance**
Equity compensation plans approved by security holders	875,157	$14.51	615,550
Equity compensation plans not approved by security holders	—	—	—
Total	875,157	$14.51	615,550

SELECTED FINANCIAL DATA

The following selected financial data should be read together with the discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and notes to those statements.

	(in thousands, except per share data) Year Ended December 31,				
	2005	2004	2003	2002	2001
INCOME STATEMENT DATA:					
Net sales	**$307,897**	$189,458	$160,355	$131,219	$135,068
Cost of sales	**177,493**	111,497	92,918	73,145	75,626
Distribution expenses	**32,966**	22,830	21,030	22,255	22,037
Selling, general and administrative expenses	**72,266**	40,282	31,762	28,923	30,427
Income from operations	**25,172**	14,849	14,645	6,896	6,978
Interest expense	**2,489**	835	724	1,004	1,015
Other income, net	**(73)**	(60)	(68)	(66)	(98)
Income before income taxes	**22,756**	14,074	13,989	5,958	6,061
Income taxes	**8,647**	5,602	5,574	2,407	2,449
Income from continuing operations	**$14,109**	$8,472	$8,415	$3,551	$3,612
Basic earnings per common share from continuing operations	**$1.25**	$0.77	$0.79	$0.34	$0.34
Weighted average shares – basic	**11,283**	10,982	10,628	10,516	10,492
Diluted earnings per common share from continuing operations	**$1.23**	$0.75	$0.78	$0.34	$0.34
Weighted average shares and common share equivalents – diluted	**11,506**	11,226	10,754	10,541	10,537
Cash dividends paid per common share	**$0.25**	$0.25	$0.25	$0.25	$0.25

	(in thousands) December 31,				
	2005	2004	2003	2002	2001
BALANCE SHEET DATA:					
Current assets	**$155,750**	$103,425	$88,528	$66,189	$75,486
Current liabilities	**69,907**	52,913	46,974	32,809	44,925
Working capital	**85,843**	50,512	41,554	33,380	30,561
Total assets	**222,648**	157,217	136,980	113,369	124,856
Short-term borrowings	**14,500**	19,400	16,800	14,200	22,847
Long-term debt	**5,000**	5,000	—	—	—
Stockholders' equity	**140,487**	92,938	86,081	78,309	78,061

Effective September 2002, the Company sold its 51% controlling interest in Prestige Italia, Spa and, together with its minority interest shareholder, caused Prestige Haushaltwaren GmbH (combined, the "Prestige Companies") to sell all of its receivables and inventory to a European housewares distributor. The results of operations of the Prestige Companies through the date of disposal are reflected as discontinued operations and are therefore excluded from the selected consolidated income statement data presented above.

General

The following discussion should be read in conjunction with the consolidated financial statements for the Company and notes thereto. This discussion contains forward-looking statements relating to future events and the future performance of the Company based on the Company's current expectations, assumptions, estimates and projections about it and the Company's industry. These forward-looking statements involve risks and uncertainties. The Company's actual results and timing of various events could differ materially from those anticipated in such forward-looking statements as a result of a variety of factors, as more fully described in this section and elsewhere in this report. The Company undertakes no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Overview

The Company is a leading designer, developer and marketer of a broad range of nationally branded consumer products including Kitchenware, Tabletop, Cutlery and Cutting Boards, Bakeware and Pantryware and Spices. The Company markets its products under some of the most well-respected and widely-recognized brand names in the U.S. housewares industry including three of the four most recognized brands in the "Kitchen Tool, Cutlery and Gadgets" product category according to the Home Furnishing News Brand Survey for 2005. The Company sells and markets its products under the following brands and trademarks which are either owned or licensed: Atlantis, Baker's Advantage®, Block®, Calvin Klein®, CasaMōda™, Cuisinart®, Cuisine de France®, DBK™ Daniel Boulud Kitchen, Farberware®, Gemco®, Hershey®'s, Hoan®, Hoffritz®, Joseph Abboud Environments®, Kamenstein®, Kathy Ireland Home®, KitchenAid®, NapaStyle™, Nautica®, Pfaltzgraff®, Retroneu®, Roshco®, Sabatier®, Sasaki®, Stiffel®, :USE® and Weir in Your Kitchen™. The Company uses the Farberware® brand name for kitchenware, cutlery and cutting boards and bakeware pursuant to a 200 year royalty-free license and the Company licenses the KitchenAid®, Cuisinart®, Farberware® (for flatware and dinnerware), Sabatier®, DBK™ Daniel Boulud Kitchen and Joseph Abboud Environments® trade names pursuant to licenses granted by owners of those brands. In addition, at December 31, 2005 the Company operated 64 outlet stores under the Farberware® brand name and 57 outlet stores using the Pfaltzgraff® brand name. The Company markets several product lines within each of the Company's product categories and under each of the Company's brands primarily targeting moderate to premium price points, through every major level of trade. At the heart of the Company is a strong culture of innovation and new product development. The Company developed or redesigned over 700 products in 2005 and expects to develop or redesign approximately 1,400 products in 2006. The Company has been sourcing its products in Asia for over 40 years and currently sources its products from approximately 137 suppliers located primarily in China. In June 2005, the Company changed its name to Lifetime Brands, Inc. from Lifetime Hoan Corporation to better reflect its business.

Over the last several years, the Company's sales growth has come from: (i) expanding product offerings within the Company's current categories, (ii) developing and acquiring new product categories and (iii) entering new channels of distribution, primarily in the United States. Key factors in the Company's growth strategy have been and will continue to be, the selective use and management of the Company's strong brands and the Company's ability to provide a steady stream of new products and designs. A significant element of this strategy is the Company's in-house design and development team that currently consists of 55 professional designers, artists and engineers. This team creates new products, packaging and merchandising concepts. Utilizing the latest available design tools, technology and materials, the Company works closely with its suppliers to enable efficient and timely manufacturing of its products.

On November 23, 2005, the Company and certain selling stockholders completed a public offering pursuant to which they sold 1,733,000 and 1,142,000 shares of the Company's stock, respectively, at an offering price of $21.50. The net proceeds to the Company from the sale of its 1,733,000 shares were $34.4 million and these funds were used to repay outstanding borrowings under the Company's Credit Facility.

The Company acquired the business and certain assets of The Pfaltzgraff Co. ("Pfaltzgraff") in July 2005 and the tabletop assets and related business of Salton, Inc. ("Salton") in September 2005. Both of these acquisitions expanded the Company's tabletop product category and the Pfaltzgraff acquisition also expanded the Company's retail operations. The Pfaltzgraff product lines include ceramic dinnerware and tabletop accessories for the home that are distributed to retailers and directly to the consumer through company-operated outlet stores, catalog and Internet operations. The Salton business includes the Block® and Sasaki® brands and licenses to market Calvin Klein® and NapaStyle™ tabletop products, as well as distribution rights for crystal products under the Atlantis® brand. The Company also entered into a license agreement with Salton to market tabletop products under the Stiffel® brand.

With the addition of the Pfaltzgraff retail businesses, the Company determined that it currently operates in two reportable business segments — wholesale and direct-to-consumer. The wholesale segment is comprised of the Company's business that designs, markets and distributes household products to retailers and distributors. The direct-to-consumer segment is comprised of the Company's business that sells household products directly to the consumer through Company-operated retail outlet stores, catalog and Internet operations. The Company has segmented its operations in a manner that reflects how management reviews and evaluates the results of its operations. While both segments distribute similar products, the segments are distinct due to their different types of customers and the different methods used to sell, market and distribute the products in each segment.

For the year ended December 31, 2005, net sales were $307.9 million, representing 62.5% growth over the previous year. Excluding net sales of Pfaltzgraff and Salton products of approximately $72.2 million combined, net sales increased 24.4% over prior year net sales of $189.5 million. This growth was primarily attributable to significantly higher sales of cutlery products, particularly sales of the Company's newly introduced lines of KitchenAid® branded cutlery along with higher sales of Farberware® cutlery, and strong growth in sales of KitchenAid® and Farberware® branded kitchen tools and gadgets and Roshco® and KitchenAid® bakeware.

The Company's gross profit margin is subject to fluctuation due primarily to product mix and, in some instances, customer mix. In 2005, the Company's gross profit margin increased for both its wholesale and direct-to-consumer segments. The increase in gross profit margin of the wholesale segment was attributable to product mix while the improvement in gross profit margin of the direct-to-consumer segment was attributable to the July 2005 acquisition of Pfaltzgraff, which included catalog and Internet operations that generate higher margins than the Company's outlet store operations.

The Company's operating profit increased significantly in 2005 due primarily to the significant growth in sales.

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 2005, 2004 and 2003, net sales for the third and fourth quarters accounted for 71%, 63% and 66% of total annual net sales, respectively. Moreover, operating profits earned in the third and fourth quarters accounted for 83%, 92% and 97% of total annual operating profits, respectively. Inventory levels increase primarily in the June through October time period in anticipation of the pre-holiday shipping season. Net sales and operating profit for the third and fourth quarters of 2005 include net sales and operating profit from the Pfaltzgraff and Salton businesses from their respective acquisition dates.

The acquisition of the Pfaltzgraff business will significantly increase the portion of the Company's sales and operating profits that are generated during the second half of the year, and will result in the Company reporting lower earnings in the first and second quarters of 2006, as compared to the first and second quarters of 2005.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments based on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company evaluates these estimates including those related to revenue recognition, allowances for doubtful accounts, reserve for sales returns and allowances returns, inventory mark-down provisions, impairment of intangible assets including goodwill and share-based compensation. Actual results may differ from these estimates using different assumptions and under different conditions. The Company's significant accounting policies are more fully described in Note A to the consolidated financial statements. The Company believes that the following discussion addresses its most critical accounting policies, which are those that are most important to the portrayal of the Company's consolidated financial condition and results of operations and require management's most difficult, subjective and complex judgments.

Merchandise inventories consist principally of finished goods and are priced by the Company using the lower-of-cost (first-in, first-out basis) or market. Management periodically analyzes inventory for excess and obsolescence based on a number of factors including, but not limited to, future product demand and estimated profitability of the merchandise. The Company records a markdown provision based on that assessment. If revenues grow, the investment in inventory will likely increase. It is possible that the Company would need to further increase its inventory provisions in the future.

The Company sells products wholesale to retailers and distributors and retail direct to the consumer through Company-operated outlet stores, catalog and Internet operations. Wholesale sales are recognized when title passes to and the risks and rewards of ownership have transferred to the customer. Outlet store sales are recognized at the time of sale while catalog and Internet sales are recognized upon receipt by the customer. Shipping and handling fees that are billed to customers in sales transactions are recorded in net sales.

The Company is required to estimate the collectibility of its accounts receivable and establish allowances for estimated losses that could result from the inability of its customers to make required payments. A considerable amount of judgment is required to assess the ultimate realization of these receivables including assessing the credit-worthiness of each customer. The Company also maintains an allowance for sales returns. To evaluate the adequacy of the sales returns allowance the Company analyzes historical trends and current information. If the financial conditions of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, or the Company's estimate of returns is determined to be inadequate, additional allowances may be required.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment. In the Company's most recent assessment of impairment of goodwill, the Company made estimates of fair value using several approaches. In the Company's ongoing assessment of impairment of goodwill and other intangible assets, the Company considers whether events or changes in circumstances such as significant declines in revenues, earnings or material adverse changes in the business climate, indicate that the carrying value of assets may be impaired. As of December 31, 2005, no impairment indicators were noted. Future adverse changes in market conditions or poor operating results of strategic investments could result in losses or an inability to recover the carrying value of the investments, thereby possibly requiring impairment charges in the future.

Effective January 1, 2002, the Company adopted SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets". SFAS No. 144 requires that a long-lived asset shall be tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Based upon such review, no impairment to the carrying value of any long-lived asset has been identified at December 31, 2005.

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), "Share Based Payment". This statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. In April 2005, the Securities and Exchange Commission deferred the implementation of SFAS No. 123(R). SFAS 123(R) will become effective for the Company on January 1, 2006 and the Company plans to use the modified-prospective transition method.

On December 22, 2005 the Board of Directors of the Company approved the acceleration of the vesting of all unvested outstanding employee stock options. As a result, options to purchase 386,920 common shares, which otherwise would have vested and become exercisable from time to time over the next five years, became fully vested and immediately exercisable as of December 22, 2005. The number of shares and the exercise prices of the accelerated options were not changed. The accelerated options have exercise prices ranging from $7.72 to $24.23 and include 323,670 options held by directors and executive officers. The compensation expense related to the modification of the terms of these options was not material to the Company's consolidated financial statements.

The purpose of accelerating the vesting of the options was to reduce the non-cash compensation expense that would be recorded in future periods following the Company's adoption of SFAS 123(R). The aggregate pre-tax compensation expense associated with the accelerated options that would have been recognized in future periods is estimated to be approximately $2.4 million.

In order to limit the personal benefit to the optionees of fully vesting their options, the Board of Directors of the Company imposed restrictions on the sale or transfer of the shares received by an optionee upon the exercise of an accelerated option until the earlier of (a) the date on which such options would have vested and become exercisable, without giving effect to such acceleration, or (b) the optionee's death.

The Company does not expect the adoption of SFAS 123(R) to have a material impact on the Company's consolidated financial statements.

Recent Development

On March 8, 2006 the Company entered into an agreement to acquire the business and certain assets of Syratech Corporation ("Syratech"), a designer, importer and manufacturer of a diverse portfolio of tabletop, home décor and picture frame products. Founded in 1986, Syratech owns many key brands in home fashion, including Wallace Silversmiths®, Towle Silversmiths®, International Silver Company®, Melannco International® and Elements®. In addition, Syratech licenses the Cuisinart® brand for tabletop products and recently secured the license for Kenneth Cole Reaction Home®. Syratech's products are broadly distributed through better department stores, specialty stores, big box retailers warehouse clubs, and catalogs. The total purchase price subject to working capital adjustments is approximately $49.5 million, payable $37.0 million in cash and $12.5 million in shares of the Company's common stock. The Company expects to fund the cash portion of the purchase price through its Credit Facility.

Results of Operations

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

	Year Ended December 31,		
	2005	2004	2003
Net sales	**100.0 %**	100.0 %	100.0 %
Cost of sales	**57.6**	58.9	57.9
Distribution expenses	**10.7**	12.0	13.1
Selling, general and administrative expenses	**23.5**	21.3	19.8
Income from operations	**8.2**	7.8	9.2
Interest expense	**0.8**	0.4	0.5
Income before income taxes	**7.4**	7.4	8.7
Income taxes	**2.8**	3.0	3.5
Net income	**4.6%**	4.4%	5.2%

Certain selling, general and administrative expenses have been reclassified to distribution expenses in 2003 to conform to the 2005 and 2004 presentation.

2005 COMPARED TO 2004

Net Sales

Net sales for 2005 were $307.9 million, representing 62.5% growth over the previous year. Excluding net sales of Pfaltzgraff and Salton products of approximately $72.2 million combined, net sales increased 24.4% over prior year net sales of $189.5 million.

Net sales for the Company's wholesale segment increased to $241.6 million in 2005 compared to net sales of $173.6 million for 2004. Excluding the combined wholesale net sales of Pfaltzgraff and Salton of $24.2 million, 2005 net sales were $217.4 million, an increase of 25.2% over 2004. This increase was primarily attributable to significantly higher sales of cutlery products, particularly the Company's newly introduced lines of KitchenAid® branded cutlery along with higher sales of Farberware® cutlery, and solid growth in sales of KitchenAid® and Farberware® branded kitchen tools and gadgets and Roshco® and KitchenAid® bakeware.

Net sales for the direct-to-consumer segment for 2005 increased to $66.3 million compared to net sales of $15.9 million for 2004. The increase was due primarily to the acquisition of the Pfaltzgraff outlet stores, catalog and Internet operations, which contributed $48.0 million in sales in 2005.

Cost of Sales

Cost of sales for 2005 was $177.5 million, an increase of 59.2% over 2004. Cost of sales as a percentage of net sales decreased to 57.6% for 2005 compared to 58.9% for 2004, the result of a higher proportion of sales in the 2005 period coming from the direct-to-consumer segment where gross profit margins are higher than the wholesale segment.

Cost of sales as a percentage of sales for the wholesale segment in 2005 remained consistent with 2004 at 59.8%.

Cost of sales as a percentage of net sales for the direct-to-consumer segment increased to 49.9% for 2005 compared to 48.6% for 2004. The decrease in gross profit margin was attributable to the addition of the Pfaltzgraff stores, the product mix of which had lower profit margins than the Farberware outlet stores, offset in part by the higher margins generated by the Pfaltzgraff catalog and Internet business.

Distribution Expenses

Distribution expenses for 2005 were $33.0 million, an increase of $10.1 million, or 44.4%, over expenses of $22.8 million for 2004. Distribution expenses as a percentage of net sales were 10.7% for 2005 compared to 12.1% for 2004. This improvement is primarily due to the benefit of labor savings and efficiencies generated by the Company's largest distribution center in Robbinsville, New Jersey and a higher proportion of the Company's sales in 2005 being generated by the direct-to-consumer segment which had lower distribution costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for 2005 were $72.3 million, an increase of $32.0 million, or 79.4%, over 2004 expenses. Excluding selling, general and administrative expenses for the Pfaltzgraff and Salton businesses of $24.0 million, selling, general and administrative expenses were $48.3 million, a 19.9% increase over selling, general and administrative expenses for 2004.

As a percentage of net sales, selling, general and administrative expenses for 2005 were 23.5%, as compared to 21.3% for 2004. The increase in the percentage relationship of selling, general and administrative expenses to net sales is due to a higher proportion of sales in 2005 coming from the direct-to-consumer segment where such expenses are considerably higher than the wholesale segment.

Income From Operations

Income from operations for 2005 was $25.2 million, an increase of $10.3 million, or 69.5%, over income from operations in 2004 and, as a percentage of sales, increased to 8.2% in 2005 from 7.8% in 2004. Excluding income from operations of $1.7 million for the Pfaltzgraff and Salton businesses acquired in 2005, income from operations was $23.5 million, a 58.0% increase over income from operations for 2004 and as a percentage of sales, income from operations improved to 10.0% in 2005 compared to 7.8% in 2004.

The Company measures operating income by business segment excluding certain unallocated corporate expenses. Unallocated corporate expenses were $7.5 million and $5.6 million for 2005 and 2004, respectively.

Income from operations for the wholesale segment for 2005 was $33.2 million, an increase of 52.9%, or $11.5 million, over 2004. Excluding income from operations for the Pfaltzgraff wholesale and Salton businesses of $0.3 million, income from operations for the wholesale segment was $32.9 million, a 51.6% increase over income from operations for 2004.

The loss from operations for the direct-to-consumer segment for 2005 was $0.4 million compared to a loss of $1.2 million in 2004. The Pfaltzgraff direct-to-consumer business generated $1.4 million of income from operations for 2005.

Interest Expense

Interest expense for 2005 was $2.5 million compared with $0.8 million for 2004. The increase in interest expense is due to an increase in average borrowings outstanding during 2005 under the Company's Credit Facility due primarily to the acquisitions of Pfaltzgraff and Salton and higher rates of interest.

Tax Provision

Income tax expense for 2005 was $8.6 million as compared to $5.6 million in 2004. The increase in income tax expense is primarily related to the growth in income before taxes from 2004 to 2005. The Company's marginal income tax rate decreased to approximately 38.0% in 2005 compared to 39.8% in 2004 due to lower state apportionment factors.

2004 COMPARED TO 2003

Net Sales

Net sales in 2004 were $189.5 million, an increase of approximately $29.1 million, or 18.1% higher than 2003. The combined net sales in 2004 for the Gemco and :USE businesses acquired in the fourth quarter of 2003 and the Excel business that was acquired in July 2004, totaled approximately $14.3 million compared to $0.6 million in 2003. Excluding the net sales attributable to the Gemco, :USE, and Excel businesses, net sales totaled approximately $175.2 million, a 9.6% increase over 2003's net sales of $159.8 million excluding Gemco and :USE.

Net sales of the wholesale segment were $173.6 million, an increase of approximately $24.2 million, or 16.2% higher than 2003. The combined net sales in 2004 for the Gemco and :USE businesses acquired in the fourth quarter of 2003 and the Excel business that was acquired in July 2004, totaled approximately $14.3 million compared to $0.6 million in 2003. Excluding the 2004 net sales attributable to the Gemco, :USE, and Excel businesses, net sales totaled approximately $159.3 million, a 7.1% increase over 2003 wholesale net sales of $148.7 million excluding Gemco and :USE. The increase in net sales of the wholesale segment was primarily attributable to increased sales of KitchenAid® branded products in the Company's kitchenware, bakeware and cutlery product lines and, to a lesser extent, higher sales of its pantryware products. These sales increases were offset primarily by lower sales in 2004 of the Company's S'mores Maker™. Sales of Farberware® and Cuisinart® branded cutlery and Roshco® bakeware also declined in 2004.

Net sales of the direct-to-consumer segment were $15.9 million in 2004 compared to $11.0 million in 2003. The sales growth in the direct-to-consumer segment was principally attributable to the Company assuming responsibility for 70% of the space in each outlet store, effective October 1, 2003, compared to 50% of the space in prior periods. The direct-to-consumer segment had an operating loss of $1.3 million in 2004, compared to an operating loss of $1.0 million in 2003.

Cost of Sales

Cost of sales for 2004 was $111.5 million, an increase of approximately $18.6 million, or 20.0% higher than 2003. Cost of sales as a percentage of net sales increased to 58.9% in 2004 from 57.9% in 2003, primarily as a result of higher sales of KitchenAid® branded products which generate lower margins due to the added costs of royalties and an increase in sales of other products that carry lower gross profit margins, including Gemco® functional glassware products and Excel products.

Distribution Expenses

Distribution expenses which primarily consist of warehousing expenses, handling costs of products sold and freight-out expenses were $22.8 million for 2004 as compared to $21.0 million for 2003. In 2003 these expenses included relocation charges, duplicate rent and other costs associated with the Company's move into its Robbinsville, New Jersey warehouse amounting to $0.7 million. No such expenses were incurred in 2004. Excluding these moving related costs, distribution expenses were 12.3% higher in 2004 as compared to 2003. As a percentage to net sales, distribution expenses, excluding the aforementioned relocation charges, were 12.0% in 2004 as compared to 12.7% in 2003. This improved relationship reflects primarily the benefits of labor savings and efficiencies generated by the Company's main distribution center in Robbinsville, New Jersey.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for 2004 were $40.2 million, an increase of $8.5 million, or 26.8%, from 2003. The increase in selling, general and administrative expenses is primarily attributable to the following: increased direct-to-consumer operating expenses, the result of

the Company being responsible for 70% of the space and expenses of each outlet store since October 1, 2003, including all of 2004 as compared to 50% of the space for the first nine months of 2003; additional operating expenses of the :USE and Gemco businesses acquired in the fourth quarter of 2003 and of the Excel business acquired in July 2004; the higher personnel costs associated with increases in personnel in the product design group, the overseas sourcing department and the sales and marketing departments and expenses related to Sarbanes-Oxley compliance work.

Interest Expense

Interest expense for 2004 was $0.8 million, an increase of $0.1 million, or 15.3%, from 2003.

Income Taxes

Income taxes for 2004 and 2003 were $5.6 million. Income taxes as a percentage of income before taxes remained consistent from year-to-year at approximately 40%.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of cash to fund liquidity needs are: (i) cash provided by operating activities and (ii) borrowings available under its Credit Facility. The Company's primary uses of funds consist of acquisitions, capital expenditures, working capital increases, payments of principal and interest for its debt and payment of cash dividends.

At December 31, 2005, the Company had cash and cash equivalents of $0.8 million, compared to $1.7 million at December 31, 2004, working capital was $85.8 million as compared to $50.5 million at December 31, 2004, the current ratio was 2.23 to 1 compared to 1.96 to 1 at December 31, 2004 and borrowings decreased to $19.5 million at December 31, 2005 compared to $24.4 million at December 31, 2004.

Cash provided by operating activities was approximately $28.7 million, primarily resulting from net income before depreciation and amortization, an increase in the provision for sales returns and allowances and increases in accounts payable, trade acceptances and accrued expenses, offset by an increase in accounts receivable. Cash used in investing activities was approximately $57.3 million, which consisted primarily of cash paid in connection with the Pfaltzgraff and Salton acquisitions and to a lesser extent purchases of property and equipment. Cash provided by financing activities was approximately $27.6 million, primarily due to the proceeds the Company received from its sale of stock in a public offering, offset by the net repayment of short-term borrowings and cash dividend payments.

Capital expenditures were $5.1 million in 2005 and $2.9 million in 2004. In 2006, the Company's planned capital expenditures are estimated at $12.0 million, including $4.0 million in expected costs related to the proposed expansion of the Company's corporate headquarters and showroom in Westbury, New York. These expenditures are expected to be funded from current operations, cash and cash equivalents and, if necessary, borrowings under the Company's Credit Facility.

As of December 31, 2005, the Company's contractual obligations were as follows:

(in thousands)

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Contractual Obligations					
Operating Leases	$70,693	$14,061	$23,383	$13,514	$19,735
Capitalized Leases	1,186	374	639	173	—
Short-term debt	14,500	14,500	—	—	—
Long-term debt	5,000	—	—	5,000	—
Interest on long-term debt	1,216	304	608	304	—
Royalty License Agreements	31,939	6,784	15,789	9,366	—
Employment Agreements	4,678	2,715	1,363	600	—
Total	$129,212	$38,738	$41,782	$28,957	$19,735

On July 28, 2004, the Company entered into a $50 million five-year, secured credit facility (the "Credit Facility") with a group of banks and, in conjunction therewith, canceled its $35 million secured, reducing revolving credit facility which was due to mature in November 2004. Borrowings under the Credit Facility are secured by all of the assets of the Company. Under the terms of the Credit Facility, the Company is required to satisfy certain financial covenants, including limitations on indebtedness and sale of assets, a minimum fixed charge ratio, a maximum leverage ratio and maintenance of a minimum net worth. Borrowings under the credit facility have different interest rate options that are based on an alternate base rate, the LIBOR rate or the lender's cost of funds rate, plus in each case a margin based on a leverage ratio.

In July 2005, the Company amended the Credit Facility to increase the size of the facility to $100 million and to extend its maturity to July 2010.

As of December 31, 2005, the Company had outstanding $0.4 million of letters of credit and trade acceptances, $14.5 million of short-term borrowings and a $5.0 million term loan under its Credit Facility and, as a result, the availability under the Credit Facility was $80.1 million. The $5.0 million long-term loan is non-amortizing, bears interest at 6.07% and matures in August 2009. Interest rates on short-term borrowings at December 31, 2005 ranged from 6.40% to 6.56%.

At December 31, 2005, the Company was in compliance with the financial covenants of the Credit Facility.

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

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

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact the consolidated financial position, results of operations or cash flows of the Company. The Company is exposed to market risk associated with changes in interest rates. The Company's revolving credit facility bears interest at variable rates and, therefore, the Company is subject to increases and decreases in interest expense on its variable rate debt resulting from fluctuations in interest rates. There have been no changes in interest rates that would have a material impact on the consolidated financial position, results of operations or cash flows of the Company for the year ended December 31, 2005.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following table sets forth certain unaudited consolidated quarterly statement of income data for the eight quarters ended December 31, 2005. The consolidated quarterly data should be read in conjunction with the Company's audited consolidated financial statements and the notes to such statements. The results of operations for any quarter are not necessarily indicative of the results of operations for any future period:

	(in thousands) Year Ended December 31, 2005			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Net sales	**$43,117**	**$46,154**	**$94,245**	**$124,381**
Gross profit	**18,217**	**19,195**	**41,136**	**51,856**
Income from operations	**1,802**	**2,448**	**8,216**	**12,706**
Net income	**1,001**	**1,345**	**4,537**	**7,226**
Basic earnings per common share	**$0.09**	**$0.12**	**$0.41**	**$0.63**
Diluted earnings per common share	**$0.09**	**$0.12**	**$0.40**	**$0.60**

	(in thousands) Year Ended December 31, 2004			
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Net sales	$37,129	$33,029	$51,241	$68,059
Gross profit	15,440	13,875	20,688	27,959
Income from operations	685	462	4,547	9,155
Net income	345	203	2,584	5,340
Basic earnings per common share	$0.03	$0.02	$0.23	$0.48
Diluted earnings per common share	$0.03	$0.02	$0.23	$0.47

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

CONTROLS AND PROCEDURES

Management's Evaluation of Disclosure Controls and Procedures

The term disclosure controls and procedures is defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act") or Rules 13a-15(e) and 15d-15(e) of the Exchange Act. This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. An evaluation was performed under the supervision and with the participation of the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2005. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2005. During the quarter ending on December 31, 2005, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report On Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2005. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management performed an assessment of the effectiveness of the Company's internal controls over financial reporting as of December 31, 2005 using the criteria set forth in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. In conducting such assessment, management of the Company has excluded from its assessment of and conclusion on the effectiveness of internal control over financial reporting, the internal controls of The Pfaltzgraff, Co. and Salton, Inc., which were acquired in 2005 and which are included in the Company's 2005 consolidated financial statements and constituted approximately 24% of total assets as of December 31, 2005 and approximately 24% and 7% of net sales and income from operations, respectively, for the year then ended. Refer to Note B to the consolidated financial statements for further discussion of these acquisitions and their impact on the Company's consolidated financial statements. Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2005 is effective.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Stockholders of Lifetime Brands, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Lifetime Brands, Inc. ("Lifetime") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Lifetime's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of The Pfaltzgraff, Co. and Salton, Inc., which were acquired in 2005 and which are included in the 2005 consolidated financial statements of Lifetime Brands, Inc. and constituted approximately 24% of total assets as of December 31, 2005 and approximately 24% and 7% of net sales and income from operations, respectively, for the year then ended. Our audit of internal control over financial reporting of Lifetime also did not include an evaluation of the internal control over financial reporting of Pfaltzgraff, Co. and Salton, Inc.

In our opinion, management's assessment that Lifetime Brands, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Lifetime Brands, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Lifetime Brands, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005 and our report dated March 8, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

Melville, New York

March 8, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Lifetime Brands, Inc.

We have audited the accompanying consolidated balance sheets of Lifetime Brands, Inc. (the "Company") as of December 31, 2005 and 2004 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lifetime Brands, Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U. S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Lifetime Brands, Inc.'s internal control over financial reporting as of December 31, 2005, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2006, expressed an unqualified opinion thereon.

Ernst & Young LLP

Melville, New York

March 8, 2006

CONSOLIDATED BALANCE SHEETS

	(in thousands, except share data) December 31, 2005	2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$786**	$1,741
Accounts receivable, less allowances of $7,913 in 2005 and $3,477 in 2004	**49,158**	34,083
Merchandise inventories	**91,953**	58,934
Prepaid expenses	**2,668**	1,998
Deferred income taxes	**7,703**	4,303
Other current assets	**3,482**	2,366
TOTAL CURRENT ASSETS	**155,750**	103,425
PROPERTY AND EQUIPMENT, net	**23,989**	20,003
GOODWILL	**16,200**	16,200
OTHER INTANGIBLES, net	**24,064**	15,284
OTHER ASSETS	**2,645**	2,305
TOTAL ASSETS	**$222,648**	$157,217
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	**$14,500**	$19,400
Accounts payable and trade acceptances	**17,397**	7,892
Accrued expenses	**28,694**	20,145
Income taxes payable	**9,316**	5,476
TOTAL CURRENT LIABILITIES	**69,907**	52,913
DEFERRED RENT & OTHER LONG-TERM LIABILITIES	**2,287**	2,072
DEFERRED INCOME TAX LIABILITIES	**4,967**	4,294
LONG-TERM DEBT	**5,000**	5,000
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value, shares authorized: 25,000,000; shares issued and outstanding: 12,921,795 in 2005 and 11,050,349 in 2004	**129**	111
Paid-in capital	**101,468**	65,229
Retained earnings	**38,890**	28,077
Notes receivable for shares issued to stockholders	**—**	(479)
TOTAL STOCKHOLDERS' EQUITY	**140,487**	92,938
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$222,648**	$157,217

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

	(in thousands, except per share data) Year Ended December 31, 2005	2004	2003
Net sales	**$307,897**	$189,458	$160,355
Cost of sales	**177,493**	111,497	92,918
Distribution expenses	**32,966**	22,830	21,030
Selling, general and administrative expenses	**72,266**	40,282	31,762
Income from operations	**25,172**	14,849	14,645
Interest expense	**2,489**	835	724
Other income, net	**(73)**	(60)	(68)
Income before income taxes	**22,756**	14,074	13,989
Income taxes	**8,647**	5,602	5,574
NET INCOME	**$14,109**	$8,472	$8,415
BASIC INCOME PER COMMON SHARE	**$1.25**	$0.77	$0.79
DILUTED INCOME PER COMMON SHARE	**$1.23**	$0.75	$0.78
WEIGHTER AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
BASIC	**11,283**	10,982	10,628
DILUTED	**11,506**	11,226	10,754

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Notes Receivable From Stockholders	Total
Balance at December 31, 2002	10,561	$106	$61,405	$17,277	$(479)	$78,309
Net income for 2003				8,415		8,415
Tax benefit on exercise of stock options			302			302
Exercise of stock options	282	3	1,702			1,705
Dividends				(2,650)		(2,650)
Balance at December 31, 2003	10,843	109	63,409	23,042	(479)	86,081
Net income for 2004				8,472		8,472
Tax benefit on exercise of stock options			449			449
Exercise of stock options	207	2	1,371			1,373
Dividends				(3,437)		(3,437)
Balance at December 31, 2004	11,050	111	65,229	28,077	(479)	92,938
Net income for 2005				**14,109**		**14,109**
Net proceeds from public offering	**1,733**	**17**	**34,402**			**34,419**
Tax benefit on exercise of stock options			**735**			**735**
Exercise of stock options	**139**	**1**	**1,052**	**(409)**		**644**
Shares issued to directors			**50**			**50**
Repayment of notes receivable from stockholders					**479**	**479**
Dividends				**(2,887)**		**(2,887)**
Balance at December 31, 2005	**12,922**	**$129**	**$101,468**	**$38,890**	**$—**	**$140,487**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands) Year Ended December 31,	2005	2004	2003
OPERATING ACTIVITIES			
Net income	**$14,109**	$8,472	$8,415
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**5,641**	4,074	3,673
Deferred income taxes	**(2,726)**	(100)	105
Deferred rent	**323**	479	539
Director compensation	**50**	—	—
Provision for losses on accounts receivable	**132**	(68)	8
Reserve for sales returns and allowances	**13,662**	9,942	9,297
Changes in operating assets and liabilities, excluding the effects of acquisitions of Salton, Pfaltzgraff, Excel, :USE and Gemco:			
Accounts receivable	**(26,245)**	(10,658)	(21,008)
Merchandise inventories	**4,942**	(4,944)	(6,960)
Prepaid expenses, other current assets and other assets	**(321)**	(595)	177
Accounts payable, trade acceptance, accrued expenses and other liabilities	**14,604**	(3,485)	8,987
Income taxes	**4,574**	1,312	2,452
NET CASH PROVIDED BY OPERATING ACTIVITIES	**28,745**	4,429	5,685
INVESTING ACTIVITIES			
Purchases of property and equipment, net	**(5,098)**	(2,911)	(2,213)
Acquisition of Salton	**(13,956)**	—	—
Acquisition of Pfaltzgraff	**(38,198)**	—	—
Acquisition of Excel	**—**	(7,000)	—
Acquisitions of :USE and Gemco	**—**	—	(3,964)
NET CASH USED IN INVESTING ACTIVITIES	**(57,252)**	(9,911)	(6,177)
FINANCING ACTIVITIES			
(Repayments) proceeds of short term borrowings, net	**(4,900)**	7,600	2,600
Net proceeds from public offering	**34,419**	—	—
Proceeds from the exercise of stock options	**644**	1,373	1,705
Repayment of note receivable	**479**	—	—
Payment of capital lease obligations	**(320)**	(179)	(50)
Cash dividends paid	**(2,770)**	(2,746)	(2,650)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**27,552**	6,048	1,605
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(955)**	566	1,113
Cash and cash equivalents at beginning of year	**1,741**	1,175	62
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$786**	$1,741	$1,175

See notes to consolidated financial statements.

DECEMBER 31, 2005

NOTE A — SIGNIFICANT ACCOUNTING POLICIES

Organization and Business: The accompanying consolidated financial statements include the accounts of Lifetime Brands, Inc. and its wholly owned subsidiaries: Outlet Retail Stores, Inc., Roshco, Inc., M. Kamenstein Corp., The Pfaltzgraff Co., Pfaltzgraff Factory Stores, Inc. and Luxury Tabletop, Inc., (collectively, the "Company"). Significant intercompany accounts and transactions have been eliminated in consolidation.

The Company designs, markets and distributes a broad range of consumer products used in the home, including kitchenware, tabletop, cutlery and cutting boards, bakeware and cookware, pantryware and spices, and decorative bath accessories and markets its products under a number of brand names and trademarks, some of which are licensed. The Company sells its products wholesale to retailers throughout the United States and directly to the consumer through Company-owned outlet stores, mail order catalogs, and the Internet.

At December 31, 2005, the Company operated approximately 64 retail outlet stores in 34 states under the Farberware® name. Under an agreement with the Meyer Corporation, Meyer Corporation assumed responsibility for merchandising and for stocking Farberware® cookware products in the stores, receives all revenue from sales of Farberware® cookware and, since October 31, 2003, occupies 30% of the space in each store and reimburses the Company for 30% of the operating expenses of the stores. For the periods prior to October 1, 2003, Meyer was responsible for 50% of the space in each store and 50% of the operating expenses of the stores.

As a result of the Pfaltzgraff acquisition in July 2005, at December 31, 2005 the Company also operated 57 Pfaltzgraff® retail outlet stores in 31 states and a catalog and Internet business. The Pfaltzgraff® outlet stores, mail order catalogs and Internet website all sell first-run Pfaltzgraff® brand products through a dedicated direct-to-consumer channel.

In January 2006, the Company closed 20 Farberware® stores and 13 Pfaltzgraff® stores in order to consolidate certain Farberware® and Pfaltzgraff® stores that coexisted within the same geographic area and to eliminate certain unprofitable stores. Certain costs associated with the closure of the Pfaltzgraff Stores will be reimbursed pursuant to the Pfaltzgraff acquisition agreement. The cost of the store closings was not material to the Company's consolidated financial statements.

The significant accounting policies used in the preparation of the consolidated financial statements of the Company are as follows:

Revenue Recognition: The Company sells products wholesale to retailers and distributors and retail direct to the consumer through Company-operated outlet stores, catalog and Internet operations. Wholesale sales are recognized when title passes to and the risks and rewards of ownership have transferred to the customer. Outlet store sales are recognized at the time of sale, while catalog and Internet sales are recognized upon receipt by the customer. Shipping and handling fees that are billed to customers in sales transactions are recorded in net sales. Included in net sales for the year ended December 31, 2005 is shipping and handling fee income of approximately $3.2 million. The Company did not recognize any shipping and handling fee income for the years ended December 31, 2004 and 2003.

Distribution Expenses: Distribution expenses primarily consist of warehousing expenses, handling costs of products sold and freight-out. Freight-out costs included in distribution expenses amounted to $4.3 million, $3.3 million and $2.7 million for 2005, 2004 and 2003, respectively. In 2003 these expenses included relocation charges, duplicate rent and other costs associated with the Company's move into its Robbinsville, New Jersey warehouse, amounting to $0.7 million. No such expenses were incurred in 2005 and 2004.

Inventories: Merchandise inventories consist principally of finished goods and are priced by the lower of cost (first-in, first-out basis) or market method. Management periodically analyzes inventory for excess and obsolescence based on a number of factors including, but not limited to, future product demand and estimated profitability of the merchandise.

Accounts Receivable: The Company is required to estimate the collectibility of its accounts receivable. A considerable amount of judgment is required in assessing the ultimate realization of these receivables including the current credit-worthiness of each customer. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company also maintains allowances for sales returns. To evaluate the adequacy of the sales return allowance, the Company analyzes historical trends and current information. If the financial conditions of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, or the Company's estimate of returns is determined to be inadequate, additional allowances may be required.

Property and Equipment: Property and equipment is stated at cost. Property and equipment, other than leasehold improvements, is depreciated under the straight-line method over the estimated useful lives of the assets. Building and improvements are being depreciated over 30 years and machinery, furniture, and equipment over 3 to 10 years. Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements whichever is shorter.

Cash Equivalents: The Company considers highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value of Financial Instruments: The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and trade acceptances approximate their fair values because of the short-term nature of these items. The carrying value of short-term borrowings outstanding under the Company's revolving credit facility approximate fair value as such borrowings bear interest at variable market rates.

Goodwill and Other Intangible Assets: Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 141," Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment. The Company completed its annual assessment of goodwill impairment in the fourth quarters of 2005, 2004 and 2003. Based upon such reviews, no impairment to the carrying value of goodwill was identified in either period.

Other intangibles consist of licenses, trademarks/trade names, customer relationships and product designs acquired pursuant to acquisitions and are being amortized by the straight-line method over periods ranging from 4 to 40 years. Accumulated amortization at December 31, 2005 and 2004 was $4.5 million and $3.7 million, respectively.

Estimated amortization expense for each of the five succeeding fiscal years is as follows (in thousands):

Year ending December 31:	
2006	$938
2007	938
2008	926
2009	876
2010	807

Amortization expense for the years ended December 31, 2005, 2004 and 2003 was $814,000, $602,000 and $410,000, respectively.

Long-Lived Assets: The Company periodically reviews the carrying value of intangibles and other long-lived assets for recoverability or whenever events or changes in circumstances indicate that such amounts have been impaired. Impairment indicators include among other conditions, cash flow deficits, historic or anticipated declines in revenue or operating profit and a material decrease in the fair value of some or all of the Company's long-lived assets. When indicators are present, the Company compares the carrying value of the asset to the estimated undiscounted future cash flows expected to be generated from the use of the asset. If these estimated future cash flows are less than the carrying value of the asset, the Company recognizes impairment to the extent the carrying value of the asset exceeds its fair value determined generally through an analysis of discounted cash flows. Such a review has been performed by management and does not indicate an impairment of such assets.

Income Taxes: The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

Earnings Per Share: Basic earnings per share has been computed by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share adjusts basic earnings per share for the effect of stock options. For the years ended December 31, 2005, 2004 and 2003 the weighted average number of shares used in calculating diluted earnings per share include the dilutive effect of stock options of 223,027; 243,269 and 126,170 shares, respectively.

Accounting for Stock Option Plan: At December 31, 2005, the Company has a stock option plan, which is more fully described in Note D. The Company accounts for the plan under the recognition and measurement principles of Accounting Principle Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations and the Company complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure". Accordingly, the Company only records compensation expense for any stock options granted with an exercise price that is less than the fair market value of the underlying stock at the date of grant. No stock-based employee compensation cost is reflected in net income, as each option granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123.

(in thousands, except per share data)	Year ended December 31, 2005	2004	2003
Net income, as reported	**$14,109**	$8,472	$8,415
Deduct: Total stock option employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(2,109)**	(172)	(215)
Pro forma net income	**$12,000**	$8,300	$8,200
Earnings per share:			
Basic – as reported	**$1.25**	$0.77	$0.79
Basic – pro forma	**$1.06**	$0.76	$0.77
Diluted – as reported	**$1.23**	$0.75	$0.78
Diluted – pro forma	**$1.04**	$0.74	$0.76

The weighted average fair values of options granted during the years ended December 31, 2005, 2004 and 2003 were $7.45, $5.90 and $2.57, respectively. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rates of 4.26%, 3.73% and 3.37% for 2005, 2004 and 2003, respectively; 1.04% dividend yield in 2005, 1.55% dividend yield in 2004 and 2.53% dividend yield in 2003; volatility factor of the expected market price of the Company's common stock of 42% in 2005, 37% in 2004 and 41% in 2003; and a weighted-average expected life of the options of 3.1, 6.0 and 6.0 years in 2005, 2004 and 2003, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

New Accounting Pronouncements: In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share Based Payment". This statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. In April 2005, the Securities and Exchange Commission deferred the implementation of SFAS No. 123(R). SFAS 123(R) will become effective for the Company on January 1, 2006 and the Company plans to use the modified-prospective transition method.

On December 22, 2005, the Board of Directors of the Company approved the acceleration of the vesting of all unvested outstanding employee stock options. As a result, options to purchase 386,920 common shares, which otherwise would have vested and become exercisable from time to time over the next five years, became fully vested and immediately exercisable as of December 22, 2005. The number of shares and the exercise prices of the accelerated options were not changed. The accelerated options have exercise prices ranging from $7.72 to $24.23 and include 323,670 options held by directors and executive officers. The compensation expense related to the modification of the terms of these options was not material to the Company's consolidated financial statements.

The purpose of accelerating the vesting of the options was to reduce the non-cash compensation expense that would be recorded in future periods following the Company's adoption of SFAS 123(R). The aggregate pre-tax compensation expense associated with the accelerated options that would have been recognized in future periods is estimated to be approximately $2.4 million.

In order to limit the personal benefit to the optionees of fully vesting their shares, the Board of Directors of the Company imposed restrictions on the sale or transfer of the shares received by an optionee upon the exercise of an accelerated option until the earlier of (a) the date on which such options would have vested and become exercisable, without giving effect to such acceleration, or (b) the optionee's death.

As a result of the acceleration of the unvested options, the Company does not expect the adoption of SFAS 123(R) to have a material impact on the Company's consolidated financial statements.

Reclassifications: Certain 2003 selling, general and administrative expenses have been reclassified to distribution expenses to conform to the 2004 and 2005 presentation.

NOTE B - ACQUISITIONS AND LICENSES

Gemco Ware, Inc. and :USE Acquisitions: In November 2003, the Company acquired the assets of Gemco Ware, Inc. ("Gemco"), a distributor of functional glassware products for storing and dispensing food and condiments. This acquisition enabled the Company to broaden its product lines to include glassware. In October 2003, the Company acquired the business and certain assets of the :USE – Tools for Civilization Division of DX Design Express, Inc. (":USE"), which was a company focused on creating contemporary lifestyle products for the home, including decorative hardware, mirrors and lighting for the bath, as well as decorative window accessories which enabled the Company to expand its product assortment from the kitchen into the bathroom.

In connection with the Gemco and :USE acquisitions, the aggregate purchase price paid in cash, including associated expenses, amounted to approximately $4.0 million. The Company is also required to pay minimum contingent consideration of $300,000 ($100,000 in each of the years 2004 – 2006) based upon a percentage of net sales of the :USE product line up to a maximum of $1,500,000 ($500,000 in each of the years 2004 – 2006). The acquisitions were accounted for under the purchase method in accordance with SFAS No. 141 "Business Combinations" (the "Purchase Method") and, accordingly, the acquired assets and liabilities were recorded at their fair values.

The purchase price allocation of the acquired businesses resulted in the following balance of assets acquired (in thousands):

	Purchase Price Allocation
Accounts receivable	$1,131
Merchandise Inventories	944
Intangibles	940
Goodwill	1,248
Total assets acquired	$4,263

The 2003 acquisitions of Gemco and :USE were not material to the Company. Accordingly, pro forma results of operations have not been presented.

Excel Importing Corp. Acquisition: On July 23, 2004, the Company acquired the business and certain assets of Excel Importing Corp., ("Excel"), a wholly-owned subsidiary of Mickelberry Communications Incorporated ("Mickelberry"). Excel marketed and distributed cutlery, tabletop, cookware and barware products under brand names, including Sabatier®, Farberware®, Retroneu®, Joseph Abboud Environments® and DBK™ Daniel Boulud Kitchen.

The purchase price, subject to post closing adjustments, was approximately $8.5 million, of which $7.0 million was paid in cash at the closing. The Company has not paid the balance of the purchase price of $1.5 million since it believes the total of certain estimated post closing inventory adjustments and certain indemnification claims are in excess of this amount. The Company has been unsuccessful in its attempts to obtain resolution of these matters with Excel and Mickelberry and commenced a lawsuit against these parties on June 8, 2005, claiming breach of contract, fraud and unjust enrichment. The lawsuit is in its preliminary stages and a settlement has not been reached nor has any been proposed. Due to the uncertainty regarding the ultimate outcome of the matter, the Company believes that the amount, if any, that the Company will ultimately be required to pay cannot be reasonably estimated at December 31, 2005. Accordingly, no amount has been included in the purchase price for this contingency. Upon final resolution of the matter, the Company will reflect any further amounts due as part of the purchase price and will re-allocate the purchase price to the net assets acquired.

The total purchase price has currently been determined as follows (in thousands):

Cash paid at closing	$7,000
Professional fees and other costs	83
Total purchase price	$7,083

The purchase price was funded by borrowings under the Company's Credit Facility. The Company has allocated the purchase price as follows (in thousands):

	Purchase Price Allocation
Assets acquired:	
Accounts receivable	$ 483
Merchandise inventories	4,769
Other assets	20
Intangibles	7,248
Liabilities assumed	(5,437)
Total assets acquired	$7,083

The 2004 Excel acquisition was not material to the Company. Accordingly, pro forma results of operations have not been presented.

Pfaltzgraff Acquisition: On July 11, 2005, the Company acquired the business and certain assets of The Pfaltzgraff Co. ("Pfaltzgraff"). Pfaltzgraff designed ceramic dinnerware and tabletop accessories for the home and distributed these products through retail chains, company-operated outlet stores and through their catalog and Internet operations. The acquisition was accounted for by the Company under the Purchase Method.

The total purchase price has been determined as follows (in thousands):

Cash paid at closing	$32,500
Post closing working capital adjustment	4,742
Professional fees and other costs	956
Total purchase price	$38,198

The purchase price was funded by borrowings under the Company's Credit Facility. On a preliminary basis the purchase price has been allocated based on management's estimate of the fair value of the assets acquired and liabilities assumed as follows (in thousands):

	Preliminary Purchase Price Allocation
Assets acquired:	
Accounts receivable	$ 2,623
Merchandise inventories	26,314
Other current assets	1,489
Property and equipment	3,328
Intangibles	6,779
Liabilities assumed	(2,335)
Total assets acquired	$38,198

The following unaudited pro forma financial information is for illustrative purposes only and presents the results of operations for the years ended December 31, 2005 and 2004, as though the acquisition of Pfaltzgraff occurred at the beginning of the respective periods.

The unaudited pro forma financial information is not intended to be indicative of the operating results that actually would have occurred if the transaction had been consummated on the dates indicated, nor is the information intended to be indicative of future operating results. The unaudited pro forma financial information does not reflect any synergies that may be achieved from the combination of the entities by i) lowering the cost of products sold by sourcing a significant majority of production overseas, ii) closing unprofitable Pfaltzgraff outlet stores, iii) consolidating the Pfaltzgraff outlet store operations with the Company's existing Farberware outlet store operations and iv) eliminating redundant staffing, operations and executive management. The unaudited pro forma financial information reflects adjustments for additional interest expense on acquisition-related borrowings, amortization expense related to the acquired intangibles and the income tax effect on the pro forma adjustments. The pro forma adjustments are based on preliminary purchase price allocations. Differences between the preliminary and final purchase price allocations could have a significant impact on the unaudited pro forma financial information presented.

	(In thousands, except per share amounts) Year Ended December 31,	
	2005	2004
Net sales	**$360,463**	$337,479
Net income (loss)	**4,811**	(4,555)
Diluted income (loss) per share	**$0.42**	$(0.41)

Salton, Inc. Acquisition: On September 19, 2005, the Company acquired certain components of the tabletop business and related assets from Salton, Inc. ("Salton"). The assets acquired include Salton's Block® and Sasaki® brands, licenses to market Calvin Klein® and NapaStyle™ tabletop products and distribution rights for upscale crystal products under the Atlantis® brand. In addition, the Company entered into a new license with Salton to market tabletop products under the Stiffel® brand. The acquisition was accounted for under the Purchase Method. The total purchase price has been determined as follows (in thousands):

Cash paid at closing	$ 13,442
Professional fees and other costs	514
Total purchase price	$ 13,956

The purchase price was funded by borrowings under the Company's Credit Facility. On a preliminary basis the purchase price has been allocated based on management's estimate of the fair value of the assets acquired and liabilities assumed as follows (in thousands):

	Preliminary Purchase Price Allocation
Merchandise inventories	$11,647
Other current assets	316
Property and equipment	70
Intangibles	1,923
Total assets acquired	$13,956

Pro forma information is not presented by the Company related to the acquisition of Salton because discrete financial information relating to the historical results of operations of the component of the Salton business acquired was not available and not determinable.

The results of operations of the aforementioned acquisitions are included in the Company's consolidated statements of income from the date of acquisition.

KitchenAid License Agreement: In October 2000, the Company entered into a licensing agreement with Whirlpool Corporation. This agreement allows the Company to design, manufacture and market an extensive range of kitchen utensils, barbecue items and pantryware products under the KitchenAid® brand name. On January 1, 2002, the licensing agreement between the Company and KitchenAid was amended, expanding the covered products to include bakeware and baking related products. A second amendment to the licensing agreement was signed effective

August 1, 2003, between the Company and KitchenAid. The second amendment extended the term of the agreement through December 31, 2007 and further expanded the covered products to include kitchen cutlery. A third amendment to the licensing agreement entered into effective August 1, 2005, extended the term of the agreement through December 31, 2009 and further expanded the covered products to include sinkware, pantryware and spices. Shipments of KitchenAid products began in the second quarter of 2001.

Cuisinart License Agreement: On March 19, 2002, the Company entered into a licensing agreement with Conair Corporation. This agreement allows the Company to design, manufacture and market a wide variety of cutlery products under the Cuisinart® brand name. Shipments of products under the Cuisinart® name began in the fourth quarter of 2002. On April 8, 2004, the licensing agreement between the Company and Conair Corporation was amended, expanding the covered products to include cutting boards. The license for kitchen cutlery products expires on June 30, 2006 and the license for cutting board products expires on June 30, 2007. Each license renews automatically for successive one year terms provided the agreement is not earlier terminated by either party and certain minimum royalty requirements are met. Shipments of products by the Company under the Cuisinart name began in the fourth quarter of 2002.

NOTE C - CREDIT FACILITY

On July 28, 2004, the Company entered into a $50 million five-year, secured credit facility (the "Credit Facility") with a group of banks and, in conjunction therewith, canceled its $35 million secured, reducing revolving credit facility which was due to mature in November 2004. Borrowings under the Credit Facility are secured by all of the assets of the Company. Under the terms of the Credit Facility, the Company is required to satisfy certain financial covenants, including limitations on indebtedness and sale of assets; a minimum fixed charge ratio, a maximum leverage ratio and maintenance of a minimum net worth. Borrowings under the Credit Facility have different interest rate options that are based on an alternate base rate, the LIBOR rate or the lender's cost of funds rate, plus in each case a margin based on a leverage ratio. In July 2005, the Company amended the Credit Facility, to increase the size of the facility to $100 million and to extend its maturity to July 2010. At December 31, 2005, the Company was in compliance with the financial covenants of the Credit Facility.

As of December 31, 2005, the Company had outstanding $0.4 million of letters of credit and trade acceptances, $14.5 million of short-term borrowings and a $5.0 million term loan under its Credit Facility and, as a result, the availability under the Credit Facility was $80.1 million. The $5.0 million long-term loan is non-amortizing, bears interest at 6.07% and matures in August 2009. Interest rates on short-term borrowings at December 31, 2005 ranged from 6.40% to 6.56%.

The Company paid interest of approximately $2.4 million, $0.8 million and $0.7 million during the years ended December 31, 2005, 2004 and 2003, respectively.

NOTE D - CAPITAL STOCK

Public Offering : On November 23, 2005, the Company and certain selling stockholders completed a public offering pursuant to which they sold 1,733,000 and 1,142,000 shares of the Company's stock, respectively, at an offering price of $21.50. The net proceeds to the Company from the sale of its 1,733,000 shares were $34.4 million and these funds were used to repay outstanding borrowings under the Company's Credit Facility.

Cash Dividends: The Company paid regular quarterly cash dividends of $0.0625 per share on its Common Stock, or a total annual cash dividend of $0.25 per share, in 2005, 2004 and 2003. The Board of Directors currently intends to maintain a quarterly cash dividend of $0.0625 per share of Common Stock for the foreseeable future, although the Board may in its discretion determine to modify or eliminate such dividend at any time.

Common Stock Repurchase and Retirement: During the years ended December 31, 1999 and 2000, the Board of Directors of the Company authorized the repurchase of up to 3,000,000 shares of the outstanding Common Stock in the open market. Through December 31, 2005, 2,128,000 shares were repurchased for approximately $15.2 million (none in 2005, 2004 and 2003).

Preferred Stock: The Company is authorized to issue 100 shares of Series A Preferred Stock and 2,000,000 shares of Series B Preferred Stock, none of which is outstanding.

Stock Option Plans: In June 2000, the stockholders of the Company approved the 2000 Long-Term Incentive Plan (the "Plan"), whereby up to 1,750,000 shares of common stock may be granted in the form of stock options or other equity-based awards to directors, officers, employees, consultants and service providers to the Company and its affiliates. The Plan authorizes the Board of Directors of the Company, or a duly appointed committee thereof, to issue incentive stock options as defined in Section 422 of the Internal Revenue Code, stock-based awards that do not conform to the requirements of Section 422 of the Code, and other stock-based awards. Options that have been granted under the 2000 Long-Term Incentive Plan expire over a range of ten years from the date of the grant and vest over a range of up to five years from the date of grant.

During 2005, the Company issued 2,950 shares to its directors for payment of directors fees. The total fair value of the shares issued was $50,000.

As of December 31, 2005, approximately 616,000 shares were available for grant under the Company's stock option plans and all options granted through December 31, 2005 under the plan have exercise prices equal to the market value of the Company's stock on the date of grant.

A summary of the Company's stock option activity and related information for the years ended December 31 is as follows:

	2005		2004		2003	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Balance – Jan 1,	**694,807**	**$7.59**	966,610	$7.27	919,291	$6.98
Grants	**362,000**	**$24.12**	49,000	$16.68	370,000	$7.37
Exercised	**(150,650)**	**$7.00**	(217,041)	$6.76	(298,232)	$6.50
Canceled	**(31,000)**	**$8.25**	(103,762)	$10.60	(24,449)	$7.44
Balance–Dec 31,	**875,157**	**$14.51**	694,807	$7.59	966,610	$7.27

The following table summarizes information about employees' stock options outstanding at December 31, 2005:

Exercise Price –	Options Outstanding	Options Exercisable	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price – Options Outstanding	Weighted- Average Exercise Price – Options Exercisable
$4.14 - $5.51	161,650	161,650	6.44 years	$5.31	$5.31
$6.00 - $8.55	280,757	280,757	6.04 years	$7.22	$7.22
$8.64 - $13.84	47,750	47,750	8.19 years	$13.16	$13.16
$15.60 -$24.23	385,000	385,000	5.41 years	$23.85	$23.85
	875,157	875,157	5.95 years	$14.51	$14.51

At December 31, 2004 and 2003, there were 461,932 and 699,610 options exercisable, respectively, at weighted-average exercise prices per share of $6.79 and $6.94, respectively.

In 1985, in connection with the exercise of options under a stock option plan that has since expired, the Company received cash of $255,968 and notes in the amount of $908,000 from certain stockholders of the Company. The notes bore interest at 9% and were due no later than December 31, 2005 (see Note H).

During 2001, one of the above notes in the amount of $422,000 that was issued by Milton L. Cohen, a former director of the Company, was canceled and a new note in the amount of $855,000 was received by the Company that consolidated all remaining amounts due from him. The new note bears interest at 4.85% and payments of $48,000 (inclusive of principal and interest) are due quarterly. The note matures on March 31, 2006. (see Note H)

NOTE E - INCOME TAXES

The provision for income taxes consists of (in thousands):

	Year Ended December 31,		
	2005	2004	2003
Current:			
Federal	**$9,755**	$4,861	$4,451
State and local	**1,618**	841	1,018
Deferred	**(2,726)**	(100)	105
Income tax provision	**$8,647**	$5,602	$5,574

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred tax asset (liability) are as follows (in thousands):

	December 31,	
	2005	2004
Deferred tax assets:		
Merchandise inventories	**$3,266**	$2,063
Accounts receivable allowances	**3,121**	964
Deferred rent expense	**552**	—
Accrued bonuses	**764**	395
Total deferred tax asset	**$7,703**	$3,422
Deferred tax liability:		
Depreciation and amortization	**$(4,967)**	$(3,413)

The provision for income taxes differs from the amounts computed by applying the applicable federal statutory rates as follows (in thousands):

	Year Ended December 31,		
	2005	2004	2003
Provision for Federal income taxes at the statutory rate	**$7,965**	$4,926	$4,896
Increases (decreases):			
State and local income taxes, net of Federal income tax benefit	**1,052**	547	662
Other	**(370)**	129	16
Provision for income taxes	**$8,647**	$5,602	$5,574

The Company paid income taxes of approximately $6.8 million, $4.2 million and $3.1 million during the years ended 2005, 2004 and 2003, respectively.

The Company and its subsidiaries' income tax returns are routinely examined by various tax authorities. In management's opinion, adequate provisions for income taxes have been made for all open years in accordance with SFAS No. 5, "Accounting for Contingencies".

NOTE F – BUSINESS SEGMENTS

As discussed in Note B, in July 2005 the Company acquired the wholesale, retail outlet store, catalog and Internet businesses of Pfaltzgraff. With the addition of the Pfaltzgraff retail businesses, the Company determined that it operates in two reportable business segments — wholesale and direct-to-consumer. The wholesale segment includes the Company's business that designs, markets and distributes household products to retailers and distributors. The direct-to-consumer segment includes the Company's business that sells household products directly to the consumer through Company-operated retail outlet stores, catalog and Internet operations. The Company has segmented its operations in a manner that reflects how management reviews and evaluates the results of its operations. The distinction between these segments is that, while the products distributed are similar, the type of customer for the products and the methods used to market, sell and distribute the products are very different.

Management evaluates the performance of the wholesale and direct-to-consumer segments based on "Net Sales" and "Income (Loss) From Operations". Such measures give recognition to specifically identifiable operating costs such as cost of sales, marketing, selling and distribution expenses and general and administrative expenses. Certain general and administrative expenses such as executive salaries and benefits, director fees and accounting, legal and consulting fees are not allocated to the specific segments and, accordingly, are reflected as unallocated corporate expenses. Assets in each segment consist of assets used in its operations, acquired intangible assets and goodwill. Assets in the unallocated corporate category consist of cash and tax related assets that are not allocated to the segments.

	(in thousands) Year Ended December 31,		
	2005	2004	2003
Net sales			
Wholesale	**$241,618**	$173,559	$149,368
Direct-to-Consumer	**66,279**	15,899	10,987
Total net sales	**$307,897**	$189,458	$160,355
Income (loss) from operations			
Wholesale	**$33,150**	$21,677	$19,827
Direct-to-Consumer	**(444)**	(1,224)	(990)
Unallocated corporate expenses	**(7,534)**	(5,604)	(4,192)
Total income from operations	**$25,172**	$14,849	$14,645
Depreciation and amortization			
Wholesale	**$4,558**	$3,694	$3,393
Direct-to-Consumer	**1,083**	380	280
Total depreciation and amortization	**$5,641**	$4,074	$3,673
Assets			
Wholesale	**$190,967**	$145,542	$128,402
Direct-to-Consumer	**23,191**	6,513	5,405
Unallocated corporate	**8,490**	5,162	3,173
Total assets	**$222,648**	$157,217	$136,980
Capital expenditures			
Wholesale	**$3,872**	$1,629	$1,468
Direct-to-Consumer	**1,226**	1,282	745
Total capital expenditures	**$5,098**	$2,911	$2,213

NOTE G - COMMITMENTS

Operating Leases: The Company has lease agreements for its warehouses, showroom facilities, sales offices and outlet stores that expire through 2016. These leases provide for, among other matters, annual base rent escalations and additional rent for real estate taxes and other costs. Leases for certain retail outlet stores provide for rent based upon a percentage of monthly gross sales.

Future minimum payments under non-cancelable operating leases are as follows (in thousands):

Year ending December 31:	
2006	$14,061
2007	12,894
2008	10,489
2009	7,742
2010	5,772
2011 and thereafter	19,735
	$70,693

Under an agreement with the Meyer Corporation ("Meyer"), Meyer assumed responsibility for merchandising and for stocking Farberware cookware products in the Farberware outlet stores and receives all revenue from store sales of Farberware® cookware. Since October 31, 2003, Meyer has occupied 30% of the space in each store and reimbursed the Company for 30% of the operating expenses of the stores. For that part of 2003 prior to October 1, 2003, Meyer occupied 50% of the space in each store and 50% of the operating expenses of the stores. In 2005, 2004 and 2003, Meyer reimbursed the Company approximately $1.4 million, $1.2 million and $1.5 million, respectively, for operating expenses.

Rental and related expenses under operating leases were approximately $13.0 million, $7.0 million and $6.9 million for the years ended December 31, 2005, 2004 and 2003, respectively. Such amounts are prior to the Meyer reimbursements described above.

Capital Leases: The Company has entered into various capital lease arrangements for the leasing of equipment that is utilized in its Robbinsville, New Jersey warehouse. These leases expire in 2010 and the future minimum lease payments due under the leases as of December 31, 2005 are as follows (in thousands):

Year ending December 31:	
2006	$ 374
2007	347
2008	292
2009	132
2010	41
Total minimum lease payments	1,186
Less: amounts representing interest	118
Present value of minimum lease payments	$ 1,068

The current and non-current portions of the Company's capital lease obligations at December 31, 2005 of approximately $310,000 and $758,000 and at December 31, 2004 of approximately $262,000 and $819,000, respectively, are included in the accompanying consolidated balance sheets within accrued expenses and deferred rent and other long-term liabilities, respectively.

Royalties: The Company has royalty licensing agreements that require payments of royalties on sales of licensed products which expire through December 31, 2009. Future minimum royalties payable under these agreements are as follows (in thousands):

Year ending December 31:	
2006	$6,784
2007	7,487
2008	8,302
2009	9,366
	$31,939

Legal Proceedings: The Company has, from time to time, been involved in various legal proceedings. The Company believes that all current litigation is routine in nature and incidental to the conduct of its business, and that none of this litigation, if determined adversely to it, would have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Employment Agreements: Effective as of April 6, 2001, Mr. Jeffrey Siegel entered into a new employment agreement with the Company that provides that the Company will employ him as its President, Chief Executive Officer and Chairman of the Board for a term commencing on April 6, 2001, and continuing until April 6, 2006 and thereafter for additional consecutive one year periods unless terminated by either the Company or Mr. Siegel as provided in the agreement. The agreement provides for an annual salary of $700,000 with annual increments based on changes in the Consumer Price Index and for the payment to him of bonuses pursuant to the Company's Incentive Bonus Compensation Plan. The agreement also provides for, among other things, certain standard fringe benefit arrangements, such as disability benefits, medical insurance, life insurance and an accountable expense allowance. The agreement further provides that if the Company is merged or otherwise consolidated with any other organization or substantially all of the assets of the Company are sold or control of the Company has changed (the transfer of 50% or more of the outstanding stock of the Company) which is followed by: (i) the termination of his employment agreement, other than for cause; (ii) the diminution of his duties or change in executive position; (iii) the diminution of his compensation (other than a general reduction in the compensation of all employees); or (iv) the relocation of his principal place of employment to other than the New York Metropolitan Area, the Company would be obligated to pay to Mr. Siegel or his estate the base salary required pursuant to the employment agreement for the balance of the term. The employment agreement also contains restrictive covenants preventing Mr. Siegel from competing with us during the term of his employment and for a period of five years thereafter.

On October 17, 2005 the Company entered into an employment agreement with Ronald Shiftan that provides that the Company will employ Mr. Shiftan as Vice Chairman and Chief Operating Officer for a term that commenced on July 1, 2005 and continues until June 30, 2010, and thereafter for additional one year periods unless terminated by either the Company or Mr. Shiftan as provided in the agreement. The agreement provides for an initial annual salary of $400,000 with annual increases based on changes in the Bureau of Labor Statistics Consumer Price Index for All Urban Consumers. Commencing with the year ending December 31, 2005, Mr. Shiftan will receive an annual cash bonus equal to six percent of the annual increase in the Company's income before taxes (excluding items that appear on the audited financial statements as extraordinary items and items that the Board of Directors, in its sole discretion, determines are outside of the ordinary course of business) over the prior year. In accordance with the terms of the agreement, the Board of Directors granted to Mr. Shiftan an option to purchase 350,000 shares of the Company's common stock pursuant to its 2000 Long-Term Incentive Plan at an exercise price of $24.23 per share.

The agreement also provides for certain fringe benefits and a severance benefit equal to the lesser of (x) his base salary or (y) his salary remaining to the end of the term plus his pro-rated bonus if (i) Mr. Shiftan resigns for Good Reason (as defined in the agreement) or (ii) the Company terminates Mr. Shiftan's employment for any reason other than Disability (as defined in the agreement) or Cause (as defined in the agreement) (such a resignation or termination is referred to in the agreement as an "Involuntary Termination") after July 1, 2006. In the event of Mr. Shiftan's Involuntary Termination before July 1, 2006, he will receive as severance his salary remaining to the end of the term plus his pro-rated bonus. The agreement further provides that if the Company undergoes a Change of Control (as defined in the agreement) and (i) Mr. Shiftan's employment is thereafter terminated under circumstances that would constitute an Involuntary Termination or (ii) Mr. Shiftan undergoes an Involuntary Termination and within 90 days the Company executes a definitive agreement to enter into a transaction the consummation of which would constitute a Change of Control and such transaction is actually consummated, the Company would be obligated to pay to him or his estate the lesser of (x) 2.99 times the average of his base salary and bonus for the three years immediately preceding the change of control or (y) 1% of the Company's market capitalization in excess of $220,000,000, up to a maximum payment of $2,500,000. The employment agreement also contains restrictive covenants preventing Mr. Shiftan from competing with the Company during the term of his employment and for a period of five years thereafter.

During 2005 and 2004, several members of senior management entered into employment agreements with the Company. The employment agreements termination dates range from June 30, 2006 through June 30, 2007. The agreements provide for annual salaries and bonuses, certain standard fringe benefit arrangements, such as disability benefits, medical insurance, life insurance and auto allowances.

NOTE H - RELATED PARTY TRANSACTIONS

Effective April 6, 2001, Milton L. Cohen, then a director of the Company, and the Company entered into a 5-year consulting agreement with an annual fee of $440,800.

As of December 31, 2005 and December 31, 2004, Milton L. Cohen a former director of the Company owed the Company approximately $48,000 and $278,000, respectively (see Note D). The loan due is included within other current assets in the accompanying December 31, 2005 consolidated balance sheet and in other current and non-current assets in the accompanying December 31, 2004 consolidated balance sheet.

As of December 31, 2004, Jeffrey Siegel, Chairman of the Board, President and Chief Executive Officer of the Company, owed the Company approximately $344,000 with respect to an outstanding loan related to the exercise of stock options under a stock option plan which has since been terminated. The loan was repaid as of December 31, 2005.

As of December 31, 2004, Craig Phillips, a vice president of the Company, owed the Company approximately $135,000 with respect to an outstanding loan related to the exercise of stock options under a stock option plan which has since been terminated. The loan was repaid as of December 31, 2005.

The loans receivable from Jeffrey Siegel and Craig Phillips are included in stockholders' equity in the accompanying December 31, 2004 balance sheet.

NOTE I — RETIREMENT PLAN

The Company maintains a defined contribution retirement plan ("the Plan") for eligible employees under Section 401(k) of the Internal Revenue Code. Participants can make voluntary contributions up to a maximum of 15% of their respective salaries. The Company matches 50% of the first 4% of employee contributions. The Company made matching contributions to the Plan of approximately $372,000, $257,000 and $206,000 in 2005, 2004 and 2003, respectively.

NOTE J — CONCENTRATION OF CREDIT RISK

The Company maintains cash equivalents with various financial institutions.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of entities comprising the Company's customer base and their dispersion across the United States. The Company periodically reviews the status of its accounts receivable and, where considered necessary, establishes an allowance for doubtful accounts.

During the years ended December 31, 2005, 2004 and 2003, Wal-Mart Stores, Inc. (including Sam's Clubs) accounted for approximately 20%, 24% and 29% of net sales, respectively. No other customer accounted for 10% or more of the Company's net sales during 2005, 2004 or 2003. For the years ended December 31, 2005, 2004 and 2003, the Company's ten largest customers accounted for approximately 51%, 59% and 62% of net sales, respectively.

NOTE K - OTHER

Property and Equipment:

Property and equipment consist of (in thousands):

	December 31, 2005	2004
Land	**$932**	$932
Building and improvements	**7,378**	6,379
Machinery, furniture and equipment	**37,550**	29,681
Leasehold improvements	**2,076**	1,810
	47,936	38,802
Less: accumulated depreciation	**23,947**	18,799
	$23,989	$20,003

Depreciation and amortization expense on property and equipment for the years ended December 31, 2005, 2004 and 2003 was $4.8 million, $3.5 million and $3.3 million, respectively. Included in machinery, furniture and equipment and related accumulated depreciation as of December 31, 2005 are approximately $1,649,000 and $569,000, respectively, and as of December 31, 2004 are approximately $1,332,000 and $281,000, respectively, related to assets recorded under capital leases.

Accrued Expenses:

Accrued expenses consist of (in thousands):

	December 31, 2005	2004
Commissions	**$ 1,381**	$ 887
Accrued customer allowances and rebates	**3,755**	5,407
Amounts due to Meyer Corporation	**981**	1,621
Officer and employee bonuses	**3,714**	1,203
Accrued royalties	**2,186**	2,249
Accrued salaries, vacation and temporary labor billings	**3,139**	2,075
Accrued foreign purchases	**3,923**	1,035
Accrued freight-out	**1,275**	495
Dividends payable	**808**	691
Other	**7,532**	4,482
	$28,694	$20,145

Sources of Supply: The Company sources its products from approximately 137 suppliers located primarily in the People's Republic of China, and to a lesser extent in the United States, Taiwan, Thailand, Malaysia, Indonesia, Germany, France, Korea, Czech Republic, Italy, India and Hong Kong. The Company has been sourcing products in Asia for over 40 years. The Company does not own or operate any manufacturing facilities (other than its spice packing line within its Winchendon, Massachusetts facility), but instead relies on established long-term relationships with its major suppliers. The Company collaborates with its major suppliers during the product development process and on manufacturing technology to achieve efficient and timely production. The Company's three largest suppliers provided it with approximately 54% of the products the Company distributed in 2005 and 2004.

NOTE L - SUBSEQUENT EVENT

On March 8, 2006 the Company entered into an agreement to acquire the business and certain assets of Syratech Corporation ("Syratech"), a designer, importer and manufacturer of a diverse portfolio of tabletop, home décor and picture frame products. Founded in 1986, Syratech owns many key brands in home fashion, including Wallace Silversmiths®, Towle Silversmiths®, International Silver Company®, Melannco International® and Elements®. In addition, Syratech licenses the Cuisinart® brand for tabletop products and recently secured the license for Kenneth Cole Reaction Home®. Syratech's products are broadly distributed through better department stores, specialty stores, big box retailers warehouse clubs, and catalogs. The total purchase price subject to working capital adjustments is approximately $49.5 million, payable $37.0 million in cash and $12.5 million in shares of the Company's common stock. The Company expects to fund the cash portion of the purchase price through its Credit Facility.

OFFICERS AND DIRECTORS

Jeffrey Siegel
Chairman of the Board,
Chief Executive Officer and President

Ronald Shiftan
Vice Chairman, Chief Operating Officer
and a Director

Evan Miller
President of Sales and
Executive Vice President

Robert Reichenbach
President- Cutlery, Cutting Boards, and Bakeware
Products Groups and Executive Vice President

Larry Sklute
President- Kitchenware Products Group and
Vice President

Craig Phillips
Senior Vice President- Distribution,
Secretary and a Director

Robert McNally
Chief Financial Officer, Vice President- Finance
and Treasurer

Sara Shindel
Associate General Counsel and Assistant Secretary

Howard Bernstein
Director

Michael Jeary
Director

Sheldon Misher
Director

Cherrie Nanninga
Director

William Westerfield
Director

Joseph Abboud is a trademark of JA Apparel Corp.
Cuisinart® is a registered trademark of Conair Corporation
Farberware® is a registered trademark of Farberware Inc.
KitchenAid® is a registered trademark of Whirlpool Corporation
Sabatier® is a registered trademark of Rousselon Frères et Cie.
Atlantis is a trademark of Crisal-Cristais de Alcobaca, S.A.R.L.
Nautica® is a registered trademark of Nautica Apparel, Inc.
Calvin Klein home is a trademark of Calvin Klein, Inc.

OFFICES

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CORPORATE INFORMATION

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New York, NY

Independent Auditors
Ernst & Young LLP
Melville, NY

Transfer Agent & Registrar
The Bank of New York
101 Barclay Street
New York, NY 10286

Form 10-K
Shareholders may obtain, without charge, a copy of the Company's annual report on Form 10-K for the year ended December 31, 2005 as filed with the Securities and Exchange Commission.
Request should be sent to:

Investor Relations
Lifetime Brands, Inc.
One Merrick Avenue
Westbury, NY 11590

Annual Meeting
The Annual Meeting of Shareholders
will be held at 10:30AM, Thursday,
June 8, 2006 at the Corporate Headquarters.

This annual report was designed and prepared by our Marketing and Graphics Departments.