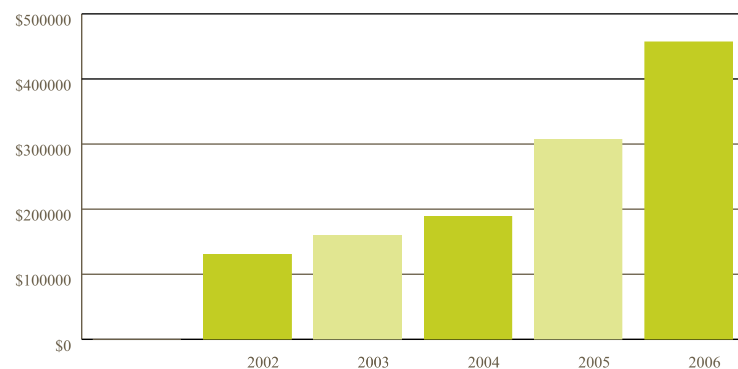
Lifetime Brands, Inc.
1000 Stewart Avenue, Garden City, New York 11530

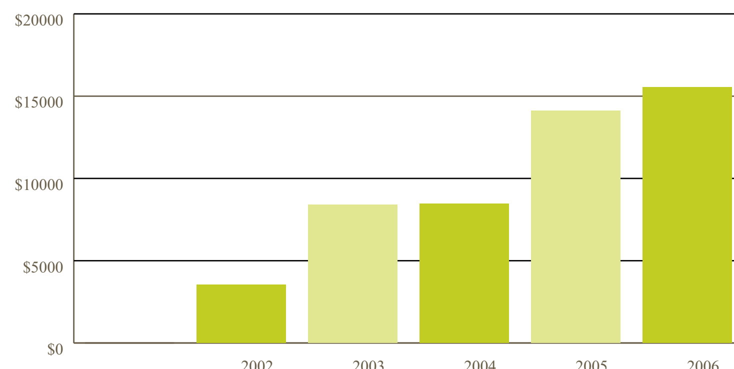
Lifetime Brands 2006 ANNUAL REPORT

Brands | Innovation | Sourcing

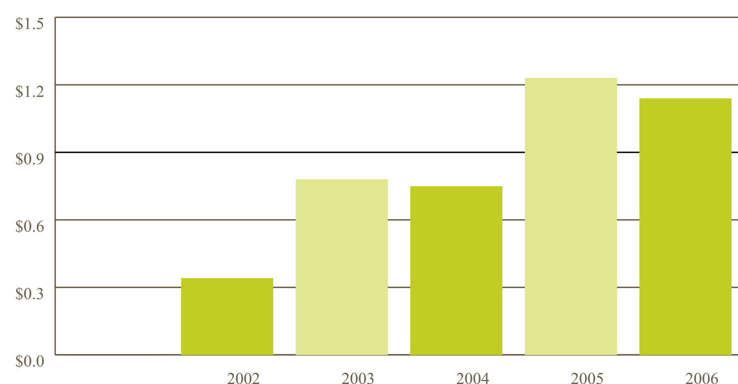
Financial Highlights



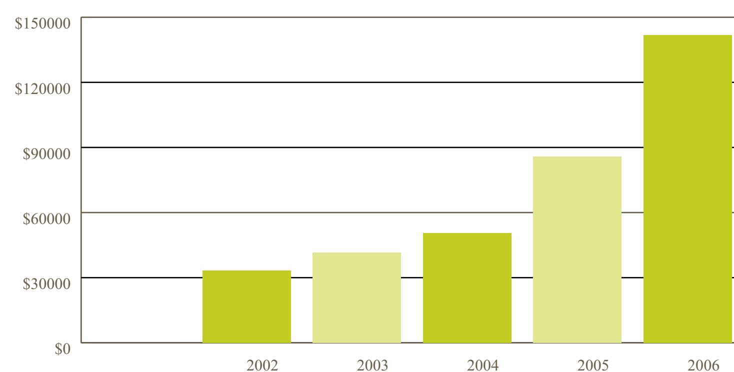
Net Sales
(in thousands)



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,	2006	2005	2004	2003	2002
Net Sales	$457,400	$307,897	$189,458	$160,355	$131,219
Income from continuing share from continuing operations	$15,532	$14,109	$8,472	$8,415	$3,551
Diluted earnings per common share from continuing operations	$1.14	$1.23	$0.75	$0.78	$0.34
Working capital	$141,906	$85,843	$50,512	$41,554	$33,380

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

Michael Jeary
Director

Sheldon Misher
Director

Cherrie Nanninga
Director

William Westerfield
Director

Fiona Dias
Director

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Offices

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Garden City, NY 11530
(516) 683-6000

Corporate Information

Corporate Counsel
Samuel B. Fortenbaugh III
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, 2006 as filed with the Securities and Exchange Commission.
Request should be sent to:

Investor Relations
Lifetime Brands, Inc.
1000 Stewart Avenue
Garden City, NY 11530

Annual Meeting
The Annual Meeting of Shareholders will be held at 10:30 am on Thursday, June 7, 2007
at the Corporate Headquarters.

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 & Cutting Boards, Bakeware & Cookware, Pantryware & Spices, Dinnerware, Flatware, Glassware and Bath Accessories.

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

Dear Fellow Shareholders:

For Lifetime Brands, the year 2006 was marked by robust growth, continuing integration of our acquired businesses and significant transformation. The Company also took important steps to strengthen its direct-to-consumer business, increase total financial resources and enhance its prospects for long-term growth. Lifetime Brands achieved record annual levels of net revenue and net income in 2006; however, earnings per diluted share did not keep pace due to the greater number of shares and share equivalents outstanding in 2006, as compared to 2005. This was attributable principally to the common stock offering we undertook in late 2005 and to the convertible notes we issued in 2006. The additional capital raised by these two transactions provided the Company with resources that are essential to its long-term growth.

Robust Growth

Lifetime's net sales grew by 49% to $457.4 million for the year. This increase was powered by both organic growth in our traditional wholesale food preparation businesses and by our acquisition, in April 2006, of Syratech Corporation's tabletop and home décor businesses.

The continued successful expansion of our wholesale food preparation businesses illustrates the fundamental strength of our highly differentiated operating model, which is founded on powerful brands, a strong culture of innovation and advanced sourcing expertise. It is interesting to note that, in 2006 – as in the past – our kitchenware, cutlery, bakeware and pantryware categories, which are often regarded as mature and slow-growing, in fact continued to be our fastest-growing and most profitable lines.

The impressive 14% organic growth in our wholesale food preparation categories was driven by both new products and expanded retail placement. Our Farberware®, KitchenAid® and Cuisinart® branded products grew at an excellent pace, and we were very pleased with the initial rollout of new products under the Pedrini® brand, a highly regarded name known for its cutting-edge Italian design, which we added to Lifetime's portfolio in 2006.

Continuing Integration

During the past year, Lifetime Brands continued to make progress in the important task of integrating the people, facilities, operations and strategies of the Pfaltzgraff and Syratech businesses we acquired in 2005 and 2006, respectively. We will implement additional measures directed at enabling us to fully achieve the benefits of integration in 2007 and 2008, including the further combination of back-office functions and the consolidation of multiple warehouse and distribution centers on both coasts.

In 2006, we also initiated a number of important projects to improve our business and warehouse systems. These included adopting Syratech's SAP platform as the standard business system for the entire company and installing a modern warehouse management system in our York, Pennsylvania, distribution facility. The York project was completed at year-end, and we expect the entire company to be operating on SAP in May 2007. These initiatives will enable us to accelerate the pace of integration by reducing duplicate staffs and enhancing access to critical information on a timely basis from a single source.

Significant Transformation

The acquisition of Syratech's key Cuisinart®, Wallace®, International Silver®, Towle® Silversmiths, Tuttle® and Spode® flatware brands represented an important milestone in the execution of our tabletop strategy. By adding these brands to the crystal and the upscale dinnerware brands we had acquired from Salton and the broad range of casual dinnerware brands we had acquired from Pfaltzgraff, we achieved our goal of becoming one of the largest companies in our industry to offer a full line of tabletop products. Tabletop is now our second-largest wholesale business. By applying many of the same strategies and disciplines that we have honed for many years in our food preparation categories, we expect to be able to accelerate the growth and improve the profitability of this important category.

The Syratech acquisition also propelled Lifetime Brands into a new and rapidly growing product category, home décor, which comprises home accessories, decorative wall décor, seasonal items and picture frames. In 2006, we focused on enhancing our category management and product development capabilities in this area and on using our integrated sales organization to increase placement at major retailers. Because home décor is a design-driven business, and design has always been of one of Lifetime's key competitive advantages, the opportunities for growth in this area are very compelling. In addition, the Syratech acquisition significantly augmented Lifetime's experienced team of design professionals, enabling us to greatly increase the number of new products we bring to market each year in all of the categories in which we participate.

Strengthening Our Direct-to-Consumer Business

Our direct-to-consumer business consists of two components: the Pfaltzgraff Internet and catalog business and the chain of 83 Pfaltzgraff and Farberware outlet retail stores. The Internet and catalog portion is an important but still underdeveloped part of our multichannel selling strategy, and we are

Cuisinart®

Elements®

developing plans to add all of our product categories to this business. The new management team we brought to the direct-to-consumer business in August 2006 has reinforced the operations of our retail stores and bolstered the division's merchandising staff. In addition, we have strengthened our financial oversight. Our goal is to substantially improve operating results in 2007 by increasing sales per door, obtaining higher margins and improving our control of SG&A expenses. We believe we are making good progress with this objective. While an important part of our overall business, net revenues of the direct-to-consumer business account for less than 20% of Lifetime's overall net revenues.

Increasing Our Financial Resources

In June 2006 Lifetime completed the sale of $75 million principal amount of 4.75% Convertible Senior Notes. We used the net proceeds from the private placement to repay indebtedness outstanding under our existing credit facility. During the year, we also expanded our bank credit facility from $100 million to $150 million, added an accordion feature that enables it to be increased by another $50 million, extended the facility's maturity to 2011 and improved its terms. These actions provide Lifetime with the capital structure to finance future acquisitions, an important capability in a fragmented industry such as ours, where there are many promising acquisition opportunities.

Recent Developments Enhance Lifetime's Growth Prospects

Acquisitions have always been a key component of Lifetime's long-term growth strategy. In March 2007, we entered into a letter of intent to acquire up to a 29.9% interest in Ekco, S.A.B., Mexico's largest manufacturer and distributor of cookware, bakeware, kitchenware, cutlery, dinnerware and flatware. Ekco owns the worldwide rights to the Vasconia® trademark, the oldest kitchenware brand in Mexico, as well as the rights in Mexico to the Ekco® trademark. When completed, the alliance will enable Lifetime to make Ekco's products available to the growing number of Latino consumers in the U.S. It will also help us meet the needs of Lifetime's multinational customers who want to partner with their key suppliers on a global basis.

Further, in April 2007, we announced our intent to acquire the Pomerantz® and Design for Living® brands. Pomerantz has long been highly regarded in the trade as an accomplished innovator and marketer of pantryware products. Design for Living is a relatively new company with several advanced-design housewares products that feature exciting new technologies. Both proposed acquisitions will help us expand Lifetime's presence in pantryware by bringing more innovative products to market under brands that consumers know and value.

Lifetime has many other exciting plans for 2007, and we believe the Company is uniquely positioned for significant growth. We plan to leverage our portfolio of powerful brands, outstanding innovation capabilities, advanced product sourcing and strong retail placement to continue driving our Company's growth. A number of our major retailers have confirmed that our products will receive considerably more square footage in their stores, in part due to private label lines we are rolling out at two major customers. We are also expanding our presence at strong regional chains, and we recently secured another Cuisinart® license, this time for pantryware. Through our 90-person internal design staff, which is unmatched in our industry, we will increase the total number of products we introduce in 2007 by almost 25% to approximately 3,600 items.

In 2006, Lifetime took many actions that set the stage for a prosperous and successful 2007. We thank our employees for all their contributions during the year and our shareholders for their support. We look forward to fulfilling the great promise we see in Lifetime Brands.

Sincerely,

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

Lifetime Brands Expo Center
Garden City, New York

A New Home

In January 2007, Lifetime Brands moved its corporate headquarters to Garden City, New York, where we now occupy 133,000 square feet of office, showroom and design space. Our need for new space was driven primarily by our rapid growth and development.

The showpiece of our new facility is a 40,000-square-foot Expo Center, which allows us to present the unparalleled range of items that comprises our product lines, and to provide a highly productive environment for working with our retail partners.

We have also created a unique 18,000-square-foot Innovation Design Center that provides a start-of-the-art home for our diverse team of professional engineers, designers and artists in an environment that fosters a climate of creativity.

Our new space is an imaginative adaptive reuse of a building designed in 1964 by the noted American architect Paul Rudolph, and it provides us with much-needed additional room to support our ambitious plans for additional growth.

Brands

Powerful Brands

Lifetime has assembled an imposing stable of more than 30 nationally recognized brands, including three of the top four names in kitchenware. By offering multiple brands and innovative products, we can offer differentiated programs featuring aspirational brands for each of our product lines at every level of retainer. Our growing branded business traverses three home product categories –food preparation, tabletop and home décor–allowing us to increase our overall penetration at our key retailers, which strengthens our importance as a supplier.

Food Prep

Our winning approach of pairing marquee brands with superior design has given Lifetime the leading position within the $9.1 billion food preparation market, which includes kitchenware, cutlery & cutting boards, bakeware, cookware, and pantryware & spices. Food preparation, the foundation of our company for more than 50 years, continues to evolve as Lifetime Brands continually re-energizes the category with thousands of innovative items that improve everyday living.

Consumers have expressed a strong preference for nationally branded products in the food prep category. Our KitchenAid®, Farberware®, Cuisinart®, Pedrini®, and Sabatier® product lines resonate with consumers and continue to hold dominant positions in the kitchenware, cutlery, bakeware and pantryware classifications. The KitchenAid®, Farberware® and Cuisinart® brands are three of the top 40 home product brands, according to HFN's Brand Survey. (2005)

KitchenAid® is a premium brand with universal awareness and appeal. The third most-recognized brand among all home product brands, KitchenAid® is number one in kitchen tools & gadgets.

Farberware® provides American style, quality and reliability at affordable prices. The 14th most-recognized brand among all home products brands, Farberware® is number two in kitchen tools & gadgets and cutlery.

Cuisinart® is an upscale brand with top-of-the-line performance that is preferred by chefs and favored by consumers. Superior quality and craftsmanship have made Cuisinart® one of America's favorite and fastest growing brands.

Tabletop

Through a series of key acquisitions, Lifetime has emerged as an important supplier in the tabletop category, a $4.5 billion market in the United States. We have more than 20 of the most recognized and respected brands in dinnerware, glassware and flatware, ensuring that Lifetime can customize a compelling and distinctive tableware program for every retailer. With many of our brands crossing categories, we are able to offer consumers coordinating tableware in the patterns and brands they love.

Lifetime's recent acquisitions have given our company such premium brands as Calvin Klein Home®, Atlantis®, Sasaki®, Tuttle®, Wallace® and Towle®, and expedited our entrée to the "upstairs trade." In particular, the retail placement of our Sasaki® tableware program was expanded greatly in 2006 and has quickly become an important statement at upscale department and specialty stores. Joseph Abboud™, Nautica® and Pfaltzgraff® collections, favorites among young bridal consumers, are housewares department staples that enjoy wide retail distribution. The launch of Cuisinart® tableware was a resounding success with immediate placement in national retailers. Targeted to the value-conscious consumer, our Farberware® dinnerware and flatware programs appeal to modern tastes and are firmly on the path to continued growth.

Farberware®

Cuisinart®

FARBERWARE Cuisinart kamenstein KitchenAid PEDRINI SASAKI Pfaltzgraff

In 2006, through the Syratech acquisition, we augmented our growing tabletop business with some of the most respected flatware brands in the industry. Our flatware and metal giftware portfolio includes designs that range from modern to traditional, in both stainless steel and sterling silver. Meeting the needs of the college grad, the newly married, the empty nester or those seeking to upgrade the look of their tabletop, we offer a myriad of styles to complement any table décor.

Sasaki®'s Japanese heritage is steeped in the centuries-old traditions of ceramic arts, and its tableware is synonymous with the finest, most artistic design schools of modern Asia. By offering sophisticated simplicity in porcelain, stoneware, glassware, stainless steel and wood, Sasaki® defines contemporary living.

Brands

Sabatier®

Pedrini®

Pfaltzgraff®

Towle®

WALLACE JOSEPH ABBOUD NAUTICA

Calvin Klein home elements ROSHCO CASAMODA RETRONEU DESIGN STUDIO BLOCK China & Crystal MELANNCO ATLANTIS crystal

Pfaltzgraff® is one of America's leading brands for casual dinnerware and tabletop accessories for the home. The brand's long-standing tradition of excellence in craftsmanship, quality and service extends to a wide variety of home products, including dinnerware, glassware and flatware for the table.

Wallace® has been known for its exquisite sterling silver and fine stainless steel flatware, hollow ware and giftware since 1835. Consumers have long recognized the Wallace name, pre-eminent in the flatware industry, as indicative of superior quality of craftsmanship.

Towle® Silversmiths, one of America's oldest and most respected brands, dates back to a small colonial silversmith in 1690 Massachusetts. Since then, Towle sterling silver, silver-plated and stainless steel products have been appreciated for their beauty and extraordinary quality.

Home Décor

Through the Syratech acquisition, Lifetime also gained the Melannco® and Elements® brands, which are firmly entrenched in the $6.5 billion home décor business. Elements® offers trend-right seasonal and everyday décor products, while Melannco® is a leading supplier of transitional to contemporary upscale picture frames, photo albums and photo storage. Lifetime's ability to react quickly to design trends allows us to offer an extensive product line that is refreshed every 90 days.

Our designers don't just follow current interior trends – they anticipate and even create those trends with products of the right styling, colors and materials.

Leveraging the strength of its powerful brands, Lifetime now offers retailers and consumers home décor items that complement our tabletop collections. Today, consumers can enjoy accessories for their favorite dinnerware brands – such as Calvin Klein®, Sasaki®, Joseph Abboud™, Pfaltzgraff®, Wallace® and Towle® – in all areas of their homes.

Innovation

Using Design to Create Newer and Better Products

Innovation is defined as "a new idea, method or device" [1] that creates a new dimension of performance. At Lifetime Brands, we recognize and embrace the continual need for the creation of innovative ideas that can be successfully incorporated into products, provide improved quality, utilize revolutionary materials, create new markets, and offer a replacement to outdated goods and technologies. It has been said that "innovation is the key element in providing aggressive top-line growth and for increasing bottom-line results. Companies cannot grow through cost reduction and reengineering alone." [2] Company-wide, we demonstrate a systemic, organizational commitment to innovation that takes the generation of new ideas to fruition. Lifetime clearly understands that innovation flourishes in an environment of collaboration. Each member of our team is committed to the goal of bringing innovative ideas to reality as they evolve within the product development process.

Excellence Through Experience & Technology

Our five design centers – located in Garden City, New York; New York City; Boston; York, Pennsylvania, and Shanghai, China – focus their expertise on distinctive product classifications while they embody Lifetime's core values. Lifetime Brands boasts over 90 in-house designers; of these, 50 are located in Garden City, home of our largest Innovation Design Center. Our industrial design team is composed of an international mix of individuals with experience ranging from 25 years in the field to recent college graduates, all from some of the finest industrial design schools in the United States and abroad. This mix of educational background, cultural influences and experience fosters a stimulating environment that is essential to the creation of new ideas. The designers receive constant training in new programs as well as advanced training in existing programs. There is a true team philosophy at work, where everyone shares knowledge in an effort to bring ideas to life in the form of high-quality innovative products.

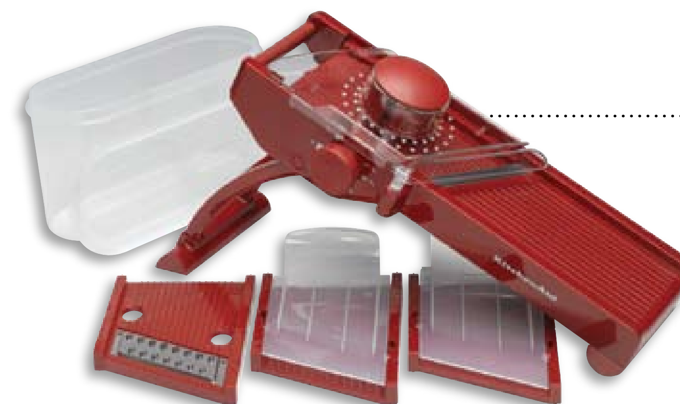
Essential to innovation is a thorough understanding of category and product history, brands and brand strategy, intellectual property, competitive landscape, trends, materials, manufacturing, speed to market needs, and human factors. We utilize the latest versions of advanced programs – such as Pro/ENGINEER®, SolidWorks®, AliasSTUDIO™, and 3D Studio MAX® – and provide rapid turnaround of concepts, line drawings and photo-realistic renderings of products. Our designers are also accomplished at freehand drawing and sculpturing, and highly developed in the latest state-of-the-art three-dimensional computer programs that drive modern product design.

Speed to Market

Our Garden City Innovation Center has two "rapid prototype" machines that allow our designers to create working models of their designs, sometimes in just a few hours. While a picture may be worth a thousand words, an actual model of an idea is worth a thousand pictures. Physically studying a concept using a working sample is priceless compared to being able to view a design only two-dimensionally. The rapid prototype machines use the complex files that our designers create and then three-dimensionally "print" the design in ABS, a type of plastic. These models are essential for studying form, aesthetics, human factors and function. Our ability to analyze potential issues, quickly make necessary design changes and then reproduce another model within a day enables us to maximize our speed to market. These models are also useful tools in our exchange with retailers, some of whom prefer to see and feel an actual item before they commit to putting it in their assortment.

[1] *Merriam-Webster Collegiate Dictionary, 11th Edition.* http://unabridged.merriam-webster.com.

[2] Davila, Tony, Marc J. Epstein, and Robert Shelton. *Making Innovation Work: How to Manage It, Measure It and Profit From It.* (Upper Saddle River, NJ: Pearson Education, Inc., 2005), 6.



1 KitchenAid® Mandoline Slicer

With safety features as key components of its design, our KitchenAid Mandoline Slicer Set has a revolutionary retractable blade guard that keeps the cutting blade covered at all times.

2 Sabatier® Prep Set

An industry first, our Sabatier prep set compactly stores essential kitchen prep knives and transports easily to any work surface.

3 Kamenstein® FLO Wine Rack

Made from a unique combination of Thermo Plastic Rubber (TPR) and other materials, this rack is just one of the versatile and user-friendly solutions FLO brings to the home.

Innovation

Beyond the Traditional

Our York, Pennsylvania development center, home to our Pfaltzgraff design studio, has focused on distinctive ceramic tabletop designs for decades. Here, our conceptual work in tabletop design is most often based on strong shape development, for which Pfaltzgraff patterns have become so well known. Yet it is the incorporation of inspired decorative treatment and, more recently, an eye toward both subtle and tactile textures that give these designs their unique place in the market. A successful Pfaltzgraff pattern is the product of a designer who has skillfully brought these elements together to create a look that is inspired by current trends and lifestyles but always tailored for the American consumer.

Our tabletop designers are artists in the sense of being hands-on craftsmen, yet they are also technicians of the highest skill. Shape development begins in plaster and ends as detailed specification drawings. Colorful floral motifs begin in watercolor, pencil and gouache before becoming electronic images transmitted across the globe. Firsthand knowledge of the ceramic industry leads to the insightful and creative use of glazes, the precise fit of handle to cup and just the right application of a line, a curve or an angle.

As a result, we have been able to produce a long line of perennial dinnerware favorites, many of which have been active patterns for more than 20 years. More recently, customer favorites have been influenced by form, texture and surface interest and demonstrate how our designers have taken the brand beyond the traditional and into the looks that best reflect the way people live in their homes and decorate their table today.

Design Right

In addition to continually building our owned brands, we specialize in developing licensed designer name brands, which strongly correlate to the designer but are also the appropriate interpretation for our products. Our Boston and New York City product development teams work with some of the most predominant designer names in the fashion and home industries: Calvin Klein, Joseph Abboud, Ty Pennington, Colin Cowie, Sharon Sachs, Chris Madden, and Lisa Jenks.

Innovation Center

As the retail landscape grows more competitive, many of our retail customers have increased the private label portion of their assortment. Due in part to our expertise in creating unique designs in food prep, tabletop and home decor, Lifetime has been awarded several major private label programs, two of which will appear on store shelves in 2007. We have become a valuable resource for our retail partners, and they increasingly rely on us to edit and interpret market and consumer trend data, and then translate it into trend forecasts.

Innovative product ideas alone do not guarantee a successful business. The ideas must be channeled within a company that embodies new ways of working and new strategies for business. We recognize that ideas can come from anywhere, and we support a culture to stimulate as many ideas as possible. Technology is embraced as a great tool but not as a replacement for real creative thought. Competition is a stimulant and not a restraint. Lifetime practices the "what if?" mentality, remains unafraid to experiment with ideas, and demonstrates a cultural passion about innovation. We strive to ensure that our product innovations are meaningful and that they solve real problems and enhance the consumer's experience. These are our goals throughout the entire innovation process at Lifetime as we bring ideas to reality.

4 Sasaki® Windows Flatware

Sasaki Windows die cut stainless steel flatware is a marvel of shapes and textures that pushes the envelope in bold design.

5 Joseph Abboud™ Honey Bark

This sophisticated stoneware collection, crafted in a striking palette of golden browns with rich gloss centers, is embossed to create the look and feel of handcarved wood.

6 KitchenAid® Crisper Flipper

This innovative pan eliminates the need for manually turning one fry at a time, by locking fries between two crisper pans that flip over halfway through baking time.

Global Sourcing

Global Supply Chain

Lifetime Brands' sourcing, manufacturing and distribution capabilities are second-to-none, making the company a formidable force in the industry. We have six well-developed company-operated sourcing offices in Europe and in Asia and more than 46 years of sourcing expertise in the Far East. Lifetime's long-term and direct relationships with over 450 suppliers worldwide, coupled with our advanced technologies, allow us to bring trend-right, innovative products to market frequently and efficiently at the most competitive prices.

Global Transport

Quality

Quality Assurance

Our 30-person quality assurance team in Asia has the critical task of guaranteeing that our factories are compliant with U.S. customer requirements – from basic social compliance needs to producing superior-quality products. These quality control professionals are based near our factories in some of our most strategic manufacturing areas, and often live on-site.

Distribution Center

Purchasing

Lifetime operates on a real-time response model: all of our offices are online with state-of-the-art systems applications and products technology, providing staff worldwide with real-time visibility into the wholesale business and furnishing timely information to the entire supply chain. This seamless flow of information allows the forecasting and replenishment areas to work with our other business areas using a common system. A production planning module lets us analyze historical sales data and sales forecasting information to determine appropriate order quantities, keeping our product inventory at optimal levels year-round.

Logistics

Our logistics department in Asia is staffed by 19 associates who work closely with their U.S. counterparts and our suppliers, shipping companies and forwarders to ensure that Lifetime's product shipments are delivered on time with the lowest freight and operation costs.

Warehousing and Distribution Network

Lifetime Brands does business with 24 of the top 25 housewares retailers in the United States. We supply product for all channels of distribution at every price point, including department and specialty stores, national chains, electronic retailers, direct-to-consumer, home centers, warehouses and clubs, supermarkets, off-price retailers and mass-market retailers. Lifetime Brands operates six warehouse distribution centers, strategically located near ports of entry on both the East and West Coasts. Our facilities — situated in New Jersey, Pennsylvania, Massachusetts and California — total more than 2,000,000 square feet. Our largest and most modern distribution center is located in central New Jersey. This 700,000-square-foot operational hub contains more than 2.1 miles of conveyor, with up to 100,000 pallets of product housed there and more than 9,000 SKUs on-hand.

Our warehouses receive and ship nearly 500,000 cases of merchandise each week. Lifetime's distribution centers have advanced electronic interfaces, including the latest radio frequency, computer and barcode technology for increased efficiency and accuracy. We are able to pick and pack by retailer, cross-dock our pre-ticketed goods and soon will be radio frequency identification (RFID) – capable. In 2006 Lifetime brought in upward of 10,200 container TEUs (twenty-foot equivalency units) from various overseas and domestic sources. Lifetime Brands ships and delivers product quickly, efficiently and on time.

Market for the Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's Common Stock is traded under the symbol "LCUT" on the NASDAQ Global Market ("NASDAQ").
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, 2006, 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 2006 or 2005.

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:

	2006		2005	
	High	Low	High	Low
First Quarter	$28.19	$20.97	$17.34	$14.75
Second Quarter	30.00	20.98	19.74	14.55
Third Quarter	22.11	18.52	27.00	19.98
Fourth Quarter	20.49	15.83	26.61	19.75

At December 31, 2006, the Company estimates that there were approximately 3,925 registered 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 2006 and 2005. 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.

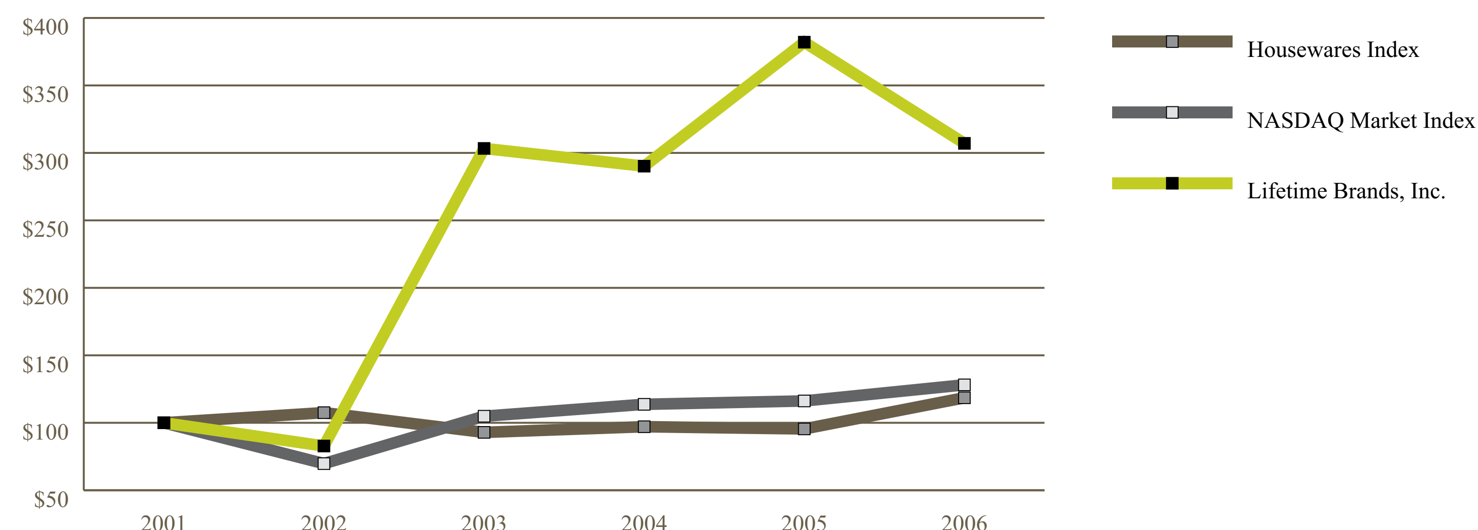
The following table summarizes the Company's equity compensation plans as of December 31, 2006:

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	1,410,900	$22.78	678,396
Equity compensation plans not approved by security holders	-	-	-
Total	1,410,900	$22.78	678,396

Performance Graph

The following graph compares the cumulative total return on the Company's Common Stock with the NASDAQ Market Index and the Housewares Index. The comparisons in this table are required by the SEC and are not intended to forecast or be indicative of the possible future performance of the Company's Common Stock.

Cumulative Total Stockholder Return for the Period December 31, 2001 through December 31, 2006 (1)



Date	Lifetime Brands, Inc.	Housewares Index	NASDAQ Market Index
12/31/2001	$100.00	$100.00	$100.00
12/31/2002	82.80	107.52	69.75
12/31/2003	303.32	92.90	104.88
12/31/2004	290.17	97.10	113.70
12/31/2005	382.07	95.47	116.19
12/31/2006	307.08	118.55	128.12

(1) Assumes $100 invested on December 31, 2001 and assumes dividends reinvested. Measurement points are at the last trading day of each of the fiscal years ended December 2006, 2005, 2004, 2003 and 2002. A list of the companies included in the Housewares index will be furnished by the Company to any stockholder upon written request to the Vice President- Finance of the Company.

Selected Financial Data

The selected consolidated income statement data for the years ended December 31, 2006, 2005 and 2004, and the selected consolidated balance sheet data as of December 31, 2006 and 2005, have been derived from the Company's audited consolidated financial statements included elsewhere in this Annual Report. The selected consolidated income statement data for the years ended December 31, 2003 and 2002, and the selected consolidated balance sheet data as of December 31, 2004, 2003 and 2002, have been derived from the Company's audited consolidated financial statements which are not included in this Annual Report. This information 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 included elsewhere in this Annual Report.

	December 31,				
	2006(1)	2005(1)	2004(1)	2003(1)	2002(2)
Income Statement Data	(in thousands except per share data)				
Net sales	$457,400	$307,897	$189,458	$160,355	$131,219
Cost of sales	265,749	178,295	111,497	92,918	73,145
Distribution expenses	49,729	34,539	22,830	21,030	22,255
Selling, general and administrative expenses	112,122	69,891	40,282	31,762	28,923
Income from operations	29,800	25,172	14,849	14,645	6,896
Interest expense	4,576	2,489	835	724	1,004
Other income, net	(31)	(73)	(60)	(68)	(66)
Income before income taxes	25,255	22,756	14,074	13,989	5,958
Income taxes	9,723	8,647	5,602	5,574	2,407
Income from continuing operations	$15,532	$14,109	$8,472	$8,415	$3,551
Basic earnings per common share from continuing operations	$1.18	$1.25	$0.77	$0.79	$0.34
Weighted average shares – basic	13,171	11,283	10,982	10,628	10,516
Diluted earnings per common share from continuing operations	$1.14	$1.23	$0.75	$0.78	$0.34
Weighted average shares and common share equivalents – diluted	14,716	11,506	11,226	10,754	10,541
Cash dividends paid per common share	$0.25	$0.25	$0.25	$0.25	$0.25

Selected Financial Data

	Year Ended December 31,				
	2006	2005	2004	2003	2002
Balance Sheet Data	(in thousands)				
Current assets	$231,633	$155,750	$103,425	$88,528	$66,189
Current liabilities	89,727	69,907	52,913	46,974	32,809
Working capital	141,906	85,843	50,512	41,554	33,380
Total assets	343,064	222,648	157,217	136,980	113,369
Short-term borrowings	21,500	14,500	19,400	16,800	14,200
Long-term debt	5,000	5,000	5,000	-	-
4.75% convertible notes	75,000	-	-	-	-
Stockholders' equity	161,611	140,487	92,938	86,081	78,309

(1) The Company acquired the business and certain assets of: :USE in October 2003, Gemco Ware, Inc. in November 2003, Excel Importing Corp. in July 2004, Pfaltzgraff Co. in July 2005, Salton, Inc. in September 2005 and Syratech Corporation in April 2006.

(2) 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. The Company's three major product categories and the products that are included in each of the categories are as follows:

Food Preparation	Tabletop	Home Décor
Kitchenware	Flatware	Wall Décor
Cutlery & Cutting Boards	Crystal	Picture Frames
Bakeware & Cookware	Dinnerware	Non-electric Lighting
Pantryware & Spices	Glassware	Lawn & Garden Décor
Fondues	Serveware	Seasonal Decorations
	Tabletop accessories	
	Barware	
	Giftware	

In addition the Company sells products in the Bath Hardware and Accessories product category.

The Company sells and markets its products under various brands which are either owned or licensed.

Brands owned by the Company and the products marketed under these brands include: Elements® (Wall Décor, Non-electric Lighting, Lawn & Garden Décor and Seasonal Decorations), Pfaltzgraff® (Dinnerware and Pantryware & Spices), Kamenstein® (Pantryware & Spices), Wallace Silversmiths® (Flatware, Serveware, Giftware and Tabletop accessories), Towle Silversmiths® (Flatware, Serveware, Giftware and Tabletop accessories), International Silver Company® (Flatware, Serveware, Giftware and Tabletop accessories), Tuttle® (Flatware, Serveware, Giftware and Tabletop accessories), Melannco International® (Picture Frames), Gemco® (Glassware, Serveware, Tabletop accessories and Bath Hardware and Accessories), Roshco® (Kitchenware and Bakeware & Cookware), Block® (Crystal, Dinnerware and Giftware), Hoan® (Kitchenware), USE® (Bath Hardware & Accessories), Hoffritz® (Cutlery & Cutting Boards, Kitchenware, Tabletop accessories and Bakeware & Cookware), Rochard® (Tabletop accessories), Retroneu® (Flatware), CasaModa® (Barware), Cuisine de France® (Cutlery & Cutting Boards and Bakeware & Cookware) and Baker's Advantage® (Bakeware).

Brands licensed by the Company and the products marketed under these brands include: KitchenAid® (Kitchenware, Cutlery & Cutting Boards and Bakeware & Cookware), Farberware® (Kitchenware and Cutlery & Cutting Boards, Flatware, Dinnerware and Serveware), Cuisinart® (Kitchenware, Cutlery & Cutting Boards, Dinnerware and Pantryware & Spices), Sabatier® (Cutlery & Cutting Boards, Bakeware & Cookware, Kitchenware and Serveware), Hershey®'s (Fondues), Calvin Klein® (Dinnerware), Pedrini® (Kitcheware and Barware), Sasaki® (Crystal, Glassware, Dinnerware, Serveware and Flatware), Joseph Abboud™ Environments® (Dinnerware), Nautica® (Dinnerware and Glassware), Jell-O® (Bakeware & Cookware), Weir in Your Kitchen™ (Bakeware & Cookware) and DBK™ Daniel Boulud Kitchen (Pantryware & Spices).

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 3000 products in 2006 and expects to develop or redesign approximately 3,600 products in 2007. The Company has been sourcing its products in Asia for over 46 years and currently sources its products from approximately 450 suppliers located primarily in China. The Company produces its sterling silver flatware at its manufacturing facility in San German, Puerto Rico, where it fabricates and manufactures sterling silver into finished products under the Wallace Silversmiths®, Towle Silversmiths®, International Silver Company® and Tuttle® Brands.

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 approximately 90 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.

In April 2006, the Company acquired the business and certain assets of Syratech Corporation ("Syratech"), a designer, importer, manufacturer and distributor of a diverse portfolio of tabletop, home décor and picture frame products. The assets acquired included Syratech's registered trademarks including Wallace Silversmiths®, Towle Silversmiths®, International Silver Company®, Melannco International® and Elements® and a license to market Cuisinart® branded tabletop products.

Business Segments
The Company operates in two reportable business segments — wholesale and direct-to-consumer. The wholesale segment is the Company's primary 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. At December 31, 2006, the Company operated 43 stores under the Farberware® brand name and 40 outlet stores under the Pfaltzgraff® brand name. 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.

Net sales for 2006 were $457.4 million, an increase of 48.6% over net sales of $307.9 million recorded for 2005.

Net sales for the Company's wholesale segment were $374.1 million, an increase of $132.5 million or 54.8% over net sales of $241.6 million for 2005. Year-over-year sales comparisons for the wholesale segment were impacted by acquisitions in 2005 and 2006. Net sales for the Pfaltzgraff and Salton businesses that were acquired in the third quarter of 2005 were $33.2 million in 2006 compared to

$24.2 million in 2005. Net sales for the Syratech business acquired in April 2006 were $93.3 million. Excluding net sales for these acquired businesses, wholesale net sales were $247.6 million in 2006, 13.9% higher than net sales of $217.4 in 2005. The 13.9% increase in net sales was primarily attributable to sales growth in the Company's food preparation product category, particularly Farberware® and KitchenAid® branded kitchen tools and gadgets and Cusinart® and KitchenAid® branded cutlery.

Net sales for the direct-to-consumer segment for 2006 were $83.3 million compared to net sales of $66.3 million for 2005. The increase was attributable to a full year of net sales in 2006 from the Pfaltzgraff outlet stores, catalog and Internet operations that were acquired in the third quarter of 2005.

The Company's gross profit margin is subject to fluctuation due primarily to product mix and, in some instances, customer mix. In 2006, the Company's gross profit margin decreased slightly for the wholesale segment due to the impact of the Syratech business acquired in April 2006, as Syratech's products generally are sold at lower gross profit margins than the average margin of the Company's other major product categories. Gross profit margins for the direct-to-consumer segment increased due primarily to the impact of planned reductions of the aggressive sale promotions that occurred in 2005 and to the higher gross profit margins generated by the Pfaltzgraff catalog and Internet operations that were acquired in the third quarter of 2005.

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 2006, 2005 and 2004, net sales for the third and fourth quarters accounted for 65%, 71% and 63% of total annual net sales, respectively. Operating profits earned in the third and fourth quarters of 2006, 2005 and 2004 accounted for 99%, 83% and 92% 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.

The acquisition of the Pfaltzgraff outlet store, catalog and Internet operations in July 2005 increased the significance of the direct-to-consumer segment to the Company's earnings and significantly increased the seasonality of the Company's business. The increase in seasonality is due to the fact that the sales in the direct-to-consumer segment are heavily weighted to the holiday shopping season in the latter part of the year and operating expenses, such as salaries and rent, are largely fixed throughout the year. As a result, the direct-to-consumer segment recognizes losses in the first half of the year.

Sales of the Syratech business that the Company acquired in April 2006 are also heavily weighted toward the second half of the year due to the nature of the products that they sell and, therefore, this business generally incurs operating losses in the first half of the year.

As a result of the foregoing, the Company expects that it will report net losses in the first and second quarters of 2007.

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 and with the instructions to Form 10-K and Article 10 of Regulation S-X. 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, reserves for sales returns and allowances and customer chargebacks, inventory mark-down provisions, impairment of tangible and 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.

Inventory consists principally of finished goods and is priced by the lower of cost (first-in, first-out basis) or market method. Inventory cost includes the invoice cost, import duties, freight-in costs, warehouse receiving expenses and procurement expenses. The Company periodically reviews and analyzes inventory based on a number of factors including, but not limited to, future product demand for items and estimated profitability of merchandise.

The Company sells products wholesale to retailers and distributors and retail direct to the consumer through Company-operated outlet store, 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 periodically reviews the collectibility of its accounts receivable and establishes 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 wholesale customer. The Company also maintains an allowance for sales returns and customer chargebacks. To evaluate the adequacy of the sales return and customer chargeback allowances the Company analyzes currently available information and historical trends. 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 sales returns was determined to be inadequate, additional allowances may be required.

Goodwill is the excess of purchase price over the fair value of identified net assets of businesses acquired. Goodwill and intangible assets deemed to have indefinite lives are not amortized but instead are subject to annual impairment tests in accordance with the provisions of Statement of Financial Accounting Standard ("SFAS") No.142, Goodwill and Other Intangible Assets. Long-lived assets are reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-lived Assets. Other intangible assets are amortized over their respective useful lives and reviewed for impairment whenever events or changes in circumstances indicate that such amounts may have been impaired. Impairment indicators include among other conditions, cash flow deficits, historic or anticipated declines in revenue or operating profit or material adverse changes in the business climate that indicate that the carrying amount of an asset may be impaired. When impairment indicators are present, the Company compares the carrying value of the asset to the estimated undiscounted future cash flows expected to be generated by the assets. If the assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. As of December 31, 2006, no impairment has occurred.

Effective January 1, 2006, the Company adopted SFAS No. 123(R), Share Based Payment. SFAS 123(R) requires that the expense resulting from all share-based payment transactions be recognized in the financial statements. SFAS 123(R) also requires that excess tax benefits associated with share-based payments be classified as a financing activity in the statement of cash flows, rather than as operating cash flows as required by previous accounting standards. The Company adopted SFAS 123(R) using the modified-prospective transition method. Accordingly, the Company has not restated prior period amounts. In 2005, the Company accelerated the vesting of all unvested outstanding employee stock options in order to reduce the non-cash compensation expense that otherwise would have been required to be recorded under SFAS 123(R).

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,		
	2006	2005	2004
Net Sales	100.0 %	100.0 %	100.0 %
Cost of sales	58.1	57.9	58.9
Distribution expenses	10.9	11.2	12.0
Selling, general and administrative expenses	24.5	22.7	21.3
Income from operations	6.5	8.2	7.8
Interest expense	1.0	0.8	0.4
Income before income taxes	5.5	7.4	7.4
Income taxes	2.1	2.8	3.0
Net income	3.4 %	4.6 %	4.4 %

Management's Discussion and Analysis

2006 COMPARED TO 2005

Net Sales
Net sales for 2006 were $457.4 million, an increase of 48.6% over net sales of $307.9 million in 2005.

Net sales for the Company's wholesale segment were $374.1 million, an increase of $132.5 million or 54.8% over net sales of $241.6 million for 2005. Year-over-year sales comparisons for the wholesale segment were impacted by acquisitions in 2005 and 2006. Net sales for the Pfaltzgraff and Salton businesses that were acquired in the third quarter of 2005 were $33.2 million in 2006 compared to $24.2 million in 2005. Net sales in 2006 for the Syratech business acquired in April 2006 were $93.3 million. Excluding net sales for these acquired businesses, wholesale net sales were $247.6 million in 2006, 13.9% higher than net sales of $217.4 million in 2005. The 13.9% increase in net sales was primarily attributable to sales growth in the Company's food preparation product category, particularly Farberware® and KitchenAid® branded kitchenware and Cuisinart® and KitchenAid® branded cutlery & cutting boards.

Net sales for the direct-to-consumer segment for 2006 were $83.3 million compared to net sales of $66.3 million for 2005. The increase was attributable to a full year of net sales in 2006 from the Pfaltzgraff outlet store, catalog and Internet operations that were acquired in the third quarter of 2005. Net sales in the Company's Pfaltzgraff and Farberware outlet retail stores were lower in the second half of 2006 than in the comparable period in 2005 primarily because of shortages and misalignment of retail inventories and because promotional sales events that occurred in 2005 were not repeated in 2006.

Cost of Sales
Cost of sales for 2006 was $265.7 million, compared to $178.3 million for 2005. Cost of sales as a percentage of net sales was slightly higher at 58.1% for 2006 compared to 57.9% for 2005.

Cost of sales as a percentage of net sales in the wholesale segment was 61.4% for 2006 compared to 59.9% for 2005. The decrease in gross profit margin was primarily attributable to the impact of the Syratech business acquired in April 2006, as Syratech's products generally are sold at lower gross profit margins than the average margin of the Company's other major product categories. Excluding Syratech, cost of sales as a percentage of net sales for the wholesale business improved to 58.3% in 2006 compared to 59.9% in 2005. This improvement in gross margin was attributable to product mix.

Cost of sales as a percentage of net sales in the direct-to-consumer segment decreased to 43.7% for 2006 compared to 50.4% for 2005. The increase in gross profit margin was due primarily to the impact of planned reductions of the aggressive sale promotions that occurred in 2005 and to the higher gross profit margins generated by the Pfaltzgraff catalog and Internet operations that were acquired in the third quarter of 2005.

Distribution Expenses
Distribution expenses for 2006 were $49.7 million, an increase of $15.2 million, or 44.1%, over distribution expenses of $34.5 million in 2005. Distribution expenses as a percentage of net sales were 10.9% for 2006 compared to 11.2% for 2005.

Distribution expenses as a percentage of net sales in the Company's wholesale segment improved to 10.2% in 2006 compared to 12.1% in 2005. This improvement was due principally to the impact of the Syratech business acquired in April 2006, which has a much higher proportion of their sales shipped direct to retailers from overseas suppliers than the Company's other major product lines and to a lesser extent, the continued benefits of labor savings and efficiencies generated by the Company's main distribution center in Robbinsville, New Jersey.

The distribution expenses for operating the direct-to-consumer business were approximately $11.7 million for 2006 compared to $5.4 million for 2005. The increase was attributable to the acquisition of the Pfaltzgraff outlet stores and catalog and Internet operations in the third quarter of 2005 which significantly expanded the Company's direct-to-consumer operations.

Selling, General and Administrative Expenses
Selling, general and administrative expenses for 2006 were $112.1 million, an increase of $42.2 million, or 60.4%, over the $69.9 million of expenses in 2005.

The Company measures operating income by segment excluding certain unallocated corporate expenses that are included in selling, general and administrative expenses. Unallocated corporate expenses for 2006 and 2005 were $8.9 million and $7.5 million, respectively. Unallocated corporate expenses for 2006 include $1.2 million of stock option expense.

Selling, general and administrative expenses for 2006 in the Company's wholesale segment were $59.9 million, an increase of $25.4 million or 73.6% over the $34.5 million of expenses for 2005 and as a percentage of net sales was 16.0% in 2006 compared to 14.3% in 2005. The increase in selling, general and administrative expenses reflects the added personnel related costs in establishing the Company's internal infrastructure to support future growth, in particular for the Pfaltzgraff and Salton businesses that were acquired in 2005 and the Syratech business that was acquired in 2006, and to a lesser extent, the higher selling costs associated with increased sales volume.

Selling, general and administrative expenses in the Company's direct-to-consumer segment increased by $15.4 million in 2006 to $43.3 million and as a percentage of net sales was 52.0% in 2006 compared to 42.1% in 2005. The increase in expenses was due to the acquisition of the Pfaltzgraff outlet stores, catalog and Internet operations in July 2005, which has significantly expanded the Company's direct-to-consumer operations.

Income From Operations
Income from operations for 2006 was $29.8 million compared to $25.2 million for 2005.

The Company measures operating income by segment excluding certain unallocated corporate expenses.

Income from operations for the wholesale segment for 2006 was $46.8 million, compared to $33.2 million for 2005. As a percentage of net sales, income from operations was 12.5% for 2006 compared to 13.7% for 2005. The lower operating profit margin was attributable to the Syratech business that was acquired in April 2006 which generated a lower operating profit margin than the Company's food preparation business. Excluding Syratech, the wholesale segment's operating profit margin increased to 15.2% in 2006 compared to 13.7% in 2005 due primarily to an improved gross profit margin that was attributable to product mix.

The direct-to-consumer segment incurred an operating loss of $8.1 million for 2006, compared to a loss of $444,000 in 2005. The loss in the 2006 period was primarily the result of negative comparable store sales in the Pfaltzgraff and Farberware outlet stores.

Interest Expense
Interest expense for 2006 was $4.6 million compared with $2.5 million for 2005. The increase in interest expense is due primarily to an increase in debt levels in 2006.

Tax Provision
Income tax expense for 2006 was $9.7 million, compared to $8.6 million in 2005. The Company's marginal income tax rate was 38.5% for 2006 and 38.0% for 2005. The increase in the marginal tax rate is due to income taxes related to stock option expense and a change in the state tax allocations.

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 in the Company's food preparation product category, specifically cutlery products, particularly as a result of increased net sales from the Company's newly introduced lines of KitchenAid® branded cutlery and higher net 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 $178.3 million, an increase of 59.9% over 2004. Cost of sales as a percentage of net sales decreased to 57.9% 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 was 60.0% compared to 59.8% in 2004. The decrease in gross profit margin was due primarily to product mix.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Cost of sales as a percentage of net sales for the direct-to-consumer segment increased to 50.4% 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 $34.5 million, an increase of $11.7 million, or 51.3%, over expenses of $22.8 million for 2004. Distribution expenses as a percentage of net sales were 11.2% 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 $69.9 million, an increase of $29.6 million, or 73.4%, over 2004 expenses of $40.3 million. Excluding selling, general and administrative expenses for the Pfaltzgraff and Salton businesses of $21.6 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 22.7%, as compared to 21.3% for 2004. The increase in the percentage relationship of selling, general and administrative expenses to net sales was 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 $356,000, 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 $444,000 compared to a loss of $1.2 million in 2004. The Pfaltzgraff direct-to-consumer businesses generated $1.4 million of income from operations for 2005.

Interest Expense
Interest expense for 2005 was $2.5 million compared with $835,000 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.

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, funding for working capital increases, payments of principal and interest on its debt and payment of cash dividends.

At December 31, 2006, the Company had cash and cash equivalents of $150,000, compared to $786,000 at December 31, 2005, working capital was $141.9 million at December 31, 2006 compared to $85.8 million at December 31, 2005, the current ratio was 2.58 to 1 at December 31, 2006 compared to 2.23 to 1 at December 31, 2005 and borrowings under the Company's Credit Facility increased to $26.5 million at December 31, 2006 compared to $19.5 million at December 31, 2005.

Cash used in operating activities was approximately $11.5 million, primarily resulting from increases in accounts receivable and inventory, offset by an increase in the reserve for sales returns and allowances. The increase in accounts receivable is commensurate with the increase in sales the Company recorded in the fourth quarter of 2006. The higher inventory levels included $30.4 million of added inventory from the recently acquired Syratech business and increases to support forecasted growth. Cash used in investing activities was approximately $64.9 million, which consisted of cash paid in connection with the acquisition of Syratech and purchases of property and equipment, consisting principally of leasehold improvements to the Company's new headquarters in Garden City, New York, expenditures related to the Company's new business enterprise system and capital expenditures related to expanded space in the Company's Robbinsville, NJ, distribution facility. Cash provided by financing activities was approximately $75.7 million, primarily due to the proceeds the Company received from its sale of 4.75% convertible notes.

Capital expenditures were $21.1 million in 2006 and $4.7 million in 2005. The Company's 2007 planned capital expenditures are estimated at $14.0 million. These expenditures are expected to be funded from current operations and, if necessary, borrowings under the Company's Credit Facility.

At December 31, 2006, the Company had a $150 million secured credit facility (the "Credit Facility") that expires in April 2011. 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 covenants providing limitations on indebtedness, sale of assets and capital expenditures; a maximum leverage ratio and a minimum interest coverage ratio. At December 31, 2006, the Company was in compliance with these covenants. Borrowings under the Credit Facility have different interest rate options that are based either 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. At December 31, 2006, the Company had $4.0 million of letters of credit, $21.5 million of short-term borrowings and a $5.0 million term loan outstanding under the Credit Facility, and as a result, the availability under the Credit Facility at December 31, 2006 was $119.5 million. The $5.0 million long-term loan is non-amortizing, bears interest at 5.07% and matures in August 2009. Interest rates on short-term borrowings at December 31, 2006 ranged from 5.81% to 5.87%.

Management's Discussion and Analysis of
Financial Condition and Results of Operations

In June 2006, the Company issued $75 million aggregate principal amount of 4.75% Convertible Senior Notes due 2011 (the "Notes"). The Company used the proceeds from the Notes to repay outstanding borrowings under the Company's Credit Facility. The Notes are convertible into shares of the Company's Common Stock at a conversion price of $28.00 per share, subject to adjustment in certain events. The Notes bear interest at 4.75% per annum, payable semiannually in arrears on January 15 and July 15 of each year and are unsubordinated except with respect to the Company's debt to the extent secured by the Company's assets. The Notes mature on July 15, 2011.

As of December 31, 2006, the Company's contractual obligations were as follows (in thousands):

		Payment Due by Period			
Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating leases	$112,226	$20,233	$28,725	$16,198	$47,070
4.75% convertible notes	75,000	-	-	75,000	-
Royalty license agreements	26,601	8,189	18,387	25	-
Short-term debt	21,500	21,500	-	-	-
Interest on 4.75% convertible notes	16,182	3,563	7,126	5,493	-
Employment agreements	12,572	5,178	4,749	2,645	-
Long-term debt	5,000	-	5,000	-	-
Capitalized leases	1,334	425	664	245	-
Interest on long-term debt	670	254	416	-	-
Total	$271,085	$59,342	$65,067	$99,606	$47,070

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, 2006.

Supplementary Financial Information

The following table sets forth certain unaudited consolidated quarterly statement of income data for the eight quarters ended December 31, 2006. This information is unaudited, but in the opinion of management, it has been prepared substantially on the same basis as the audited consolidated financial statements appearing elsewhere in this report and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited consolidated quarterly results of operations. The consolidated quarterly data should be read in conjunction with the Company's audited consolidated financial statements and the notes to such statements appearing elsewhere in this report. The results of operations for any quarter are not necessarily indicative of the results of operations for any future period.

	Year Ended December 31, 2006			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands)			
Net sales	$74,421	$84,051	$141,654	$157,274
Gross profit	32,551	35,850	57,393	65,857
Income (loss) from operations	1,752	(1,591)	12,392	17,247
Net income (loss)	896	(1,507)	6,684	9,459
Basic earnings (loss) per common share	$0.07	$(0.11)	$0.50	$0.71
Diluted earnings (loss) per common share	$0.07	$(0.11)	$0.45	$0.63

	Year Ended December 31, 2005			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands)			
Net sales	$43,117	$46,154	$94,245	$124,381
Gross profit	18,163	19,140	40,781	51,518
Income from operations	1,802	2,448	8,217	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

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, 2006. 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, 2006. During the quarter ending on December 31, 2006, there was no changes in the Company's internal control over financial reporting that materially affected, or are likely to materially affect, the Company's internal control over financial reporting. The Company is presently implementing a new business enterprise system and expects it to be functional sometime in the second quarter of 2007. As a result, changes to the Company's processes and internal control over financial reporting will occur as the system becomes operational.

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, 2006. 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 principle 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.

Controls and Procedures

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 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 Syratech Corporation which was acquired in 2006 and is included in the Company's 2006 consolidated financial statements and constituted approximately 5.6% of total assets at December 31, 2006 and approximately 20.4% and 14.1% 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 the acquisition and the 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, 2006 is effective.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 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
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, 2006, 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 Syratech Corporation, which was acquired in 2006 and which is included in the 2006 consolidated financial statements of Lifetime Brands, Inc. and constituted approximately 5.6% of total assets as of December 31, 2006 and approximately 20.4% and 14.1% 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 Syratech Corporation.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

In our opinion, management's assessment that Lifetime Brands, Inc. maintained effective internal control over financial reporting as of December 31, 2006, 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, 2006, 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, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006 and our report dated March 6, 2007 expressed an unqualified opinion thereon.

/s/ **Ernst & Young LLP**

Melville, New York
March 6, 2007

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, 2006 and 2005 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U. S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note A to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R) (Revised 2004), Share-Based Payment, effective January 1, 2006.

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, 2006, 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 6, 2007, expressed an unqualified opinion thereon.

/s/ **Ernst & Young LLP**

Melville, New York
March 6, 2007

Lifetime Brands, Inc.
Consolidated Balance Sheets
(in thousands, except share data)

ASSETS	December 31, 2006	2005
CURRENT ASSETS		
Cash and cash equivalents	$ 150	$ 786
Accounts receivable, less allowances of $12,097 at 2006 and $7,913 at 2005	60,516	49,158
Inventory	155,350	91,953
Deferred income taxes	8,519	7,703
Prepaid expenses and other current assets	7,098	6,150
TOTAL CURRENT ASSETS	231,633	155,750
PROPERTY AND EQUIPMENT, net	42,722	23,989
GOODWILL	20,951	16,200
OTHER INTANGIBLES, net	42,391	24,064
OTHER ASSETS	5,367	2,645
TOTAL ASSETS	$343,064	$222,648
LIABILITIES AND STOCKHOLDERS' EQUITY CURRENT LIABILITIES		
Short-term borrowings	$21,500	$14,500
Accounts payable	15,585	17,397
Accrued expenses	45,743	28,694
Income taxes payable	6,899	9,316
TOTAL CURRENT LIABILITIES	89,727	69,907
DEFERRED RENT & OTHER LONG-TERM LIABILITIES	5,522	2,287
DEFERRED INCOME TAX LIABILITIES	6,204	4,967
LONG-TERM DEBT	5,000	5,000
CONVERTIBLE NOTES	75,000	-
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value, shares authorized: 25,000,000; shares issued and outstanding: 13,283,313 in 2006 and 12,921,795 in 2005	133	129
Paid-in capital	111,165	101,468
Retained earnings	50,235	38,890
Accumulated other comprehensive income	78	-
TOTAL STOCKHOLDERS' EQUITY	161,611	140,487
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$343,064	$222,648

See notes to consolidated financial statements.

Lifetime Brands, Inc.
Consolidated Statements of Income
(in thousands, except share data)

	Year Ended December 31, 2006	2005	2004
Net sales	$457,400	$307,897	$189,458
Cost of sales	265,749	178,295	111,497
Distribution expenses	49,729	34,539	22,830
Selling, general and administrative expenses	112,122	69,891	40,282
Income from operations	29,800	25,172	14,849
Interest expense	4,576	2,489	835
Other income, net	(31)	(73)	(60)
Income before income taxes	25,255	22,756	14,074
Income taxes	9,723	8,647	5,602
NET INCOME	$15,532	$14,109	$8,472
BASIC INCOME PER COMMON SHARE.	$1.18	$1.25	$0.77
DILUTED INCOME PER COMMON SHARE	$1.14	$1.23	$0.75

See notes to consolidated financial statements.

Lifetime Brands, Inc.
Consolidated Statements of Stockholders' Equity
(in thousands)

	Common Shares	Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Notes Receivable from Stockholders	Total
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
Comprehensive income:							
Net income for 2006				15,532			15,532
Foreign currency translation adjustment					78		78
Total comprehensive income							15,610
Tax benefit on exercise of stock options			725				725
Stock option expense			1,155				1,155
Costs of public offering			(131)				(131)
Exercise of stock options	116	2	1,014	(820)			196
Stock issued for acquisition	240	2	6,819				6,821
Shares issued to directors	5		115				115
Dividends				(3,367)			(3,367)
Balance at December 31, 2006	13,283	$133	$111,165	$50,235	$ 78	$ -	$161,611

See notes to consolidated financial statements.

Lifetime Brands, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31, 2006	2005	2004
OPERATING ACTIVITIES			
Net income	$ 15,532	$ 14,109	$ 8,472
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	8,380	5,641	4,074
Amortization of debt issuance costs	402	64	212
Reserve for sales returns and allowances	18,996	13,662	9,942
Deferred income taxes	421	(2,726)	(100)
Deferred rent	440	323	479
Provision for losses on accounts receivable	(81)	132	(68)
Stock option expense	1,155	-	-
Director stock compensation	115	50	-
Changes in operating assets and liabilities (excluding the effects of acquisitions of Syratech, Salton, Pfaltzgraff and Excel)			
Accounts receivable	(13,498)	(26,245)	(10,658)
Inventory	(36,410)	4,942	(4,944)
Prepaid expenses, other current assets and other assets	(151)	(150)	(583)
Accounts payable, accrued expenses and other liabilities	(4,422)	14,287	(4,054)
Income taxes payable	(2,330)	4,574	1,312
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(11,451)	28,663	4,084
INVESTING ACTIVITIES			
Purchases of property and equipment, net	(21,144)	(4,781)	(2,342)
Acquisition of Syratech, net of cash acquired	(43,658)	-	-
Acquisition of Salton	-	(13,956)	-
Acquisition of Pfaltzgraff	(105)	(38,198)	-
Acquisition of Excel	-	-	(7,000)
NET CASH USED IN INVESTING ACTIVITIES	(64,907)	(56,935)	(9,342)
FINANCING ACTIVITIES			
Proceeds (repayments) of short-term borrowings, net	7,000	(4,900)	7,600
Bank financing costs	(200)	(235)	(224)
Net proceeds from public offering	(131)	34,419	-
Proceeds from issuance of convertible notes	75,000	-	-
Convertible notes issuance costs	(3,062)	-	-
Proceeds from the exercise of stock options	196	644	1,373
Repayment of note receivable	-	479	-
Payment of capital lease obligations	(387)	(320)	(179)
Excess tax benefits from stock option expense	638	-	-
Cash dividends paid	(3,332)	(2,770)	(2,746)
NET CASH PROVIDED BY FINANCING ACTIVITIES	75,722	27,317	5,824
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(636)	(955)	566
Cash and cash equivalents at beginning of year	786	1,741	1,175
CASH AND CASH EQUIVALENTS AT END OF YEAR	$150	$786	$1,741

See notes to consolidated financial statements.

NOTE A — SIGNIFICANT ACCOUNTING POLICIES

Organization and business
Lifetime Brands, Inc. (the "Company") designs, markets and distributes a broad range of consumer products used in the home, including food preparation, tabletop and home décor products and markets its products under a number of brand names and trademarks, that are either owned or 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.

The Company operates in two reportable business segments — wholesale and direct-to-consumer. The wholesale segment is the Company's primary 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. At December 31, 2006, the Company operated 43 retail outlet stores in 24 states under the Farberware® name and 40 retail outlet stores in 25 states under the Pfaltzgraff® name.

Principles of consolidation
The accompanying consolidated financial statements include the accounts of Lifetime Brands, Inc. and its wholly-owned subsidiaries (collectively, the "Company"). All intercompany accounts and transactions have been eliminated in consolidation.

Revenue recognition
The Company sells products wholesale to retailers and distributors and retail direct to the consumer through Company-operated outlet store, 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 included in net sales and amounted to $4.8 million and $3.2 million for the years ended December 31, 2006 and 2005, respectively. The Company did not have any shipping and handling fee income for the year ended December 31, 2004. Taxes that are billed to customers are excluded from net sales and are included in selling, general and administrative expenses. Taxes billed to customers amounted to $1.2 million and $781,000 for the years ended December 31, 2006 and 2005, respectively. The Company did not bill any customers for taxes during the year ended December 31, 2004.

Distribution expenses
Distribution expenses consist primarily of warehousing expenses, handling costs of products sold and freight-out expenses. Freight-out costs included in distribution expenses amounted to $8.9 million, $6.6 million and $3.3 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Advertising expenses
Advertising expenses are expensed as incurred and are included in selling, general and administrative expenses. Advertising expenses aggregated $2.0 million, $1.0 million and $509,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

NOTE A — SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory
Inventory consists principally of finished goods and is priced by the lower of cost (first-in, first-out basis) or market method. Inventory cost includes invoice cost, import duties, freight-in costs, warehouse receiving expenses and procurement expenses. The Company periodically reviews and analyzes inventory based on a number of factors including, but not limited to, future product demand for items and estimated profitability of merchandise.

Accounts receivable
The Company periodically reviews the collectibility of its accounts receivable and establishes 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 wholesale customer. The Company also establishes allowances for sales returns and customer chargebacks. To evaluate the adequacy of the sales returns and customer chargeback allowances the Company analyzes currently available information and historical trends. If the financial conditions of the 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. Advances paid towards the acquisition of property and equipment and the cost of property and equipment not ready for use before the end of the period are classified as construction in progress.

Cash equivalents
The Company considers all 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.

NOTE A — SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2006, 2005 and 2004, Wal-Mart Stores, Inc. (including Sam's Clubs) accounted for approximately 17%, 20% and 24% of net sales, respectively. No other customer accounted for 10% or more of the Company's net sales during the years ended December 31, 2006, 2005 or 2004. For the years ended December 31, 2006, 2005 and 2004, the Company's ten largest customers accounted for approximately 49%, 51% and 59% of net sales, respectively.

Fair value of financial instruments
The Company estimated that the carrying amounts of cash and cash equivalents, accounts receivable and accounts payable are a reasonable estimate of their fair value because of the short-term nature of these items.

The Company estimated that the carrying amounts of short-term borrowings outstanding under the Company's revolving credit facility approximate fair value as such borrowings bear interest at variable market rates.

The Company estimated the fair value of its 4.75% Convertible Senior Notes based on the quoted price of the notes on December 31, 2006.

Year Ended December 31, 2006	
Carrying amount	Fair value
(in thousands)	
$75,000	$72,750

Goodwill, other intangible assets and long-lived assets
Goodwill is the excess of purchase price over the fair value of identified net assets of businesses acquired. Goodwill and intangible assets deemed to have indefinite lives are not amortized but instead are subject to annual impairment tests in accordance with the provisions of Statement of Financial Accounting Standard ("SFAS") No.142, Goodwill and Other Intangible Assets. Long-lived assets are reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-lived Assets. Other intangible assets are amortized over their respective useful lives and reviewed for impairment whenever events or changes in circumstances indicate that such amounts may have been impaired. Impairment indicators include among other conditions, cash flow deficits, historic or anticipated declines in revenue or operating profit or material adverse changes in the business climate that indicate that the carrying amount of an asset may be impaired. When impairment indicators are present, the Company compares the carrying value of the asset to the estimated undiscounted future cash flows expected to be generated by the assets. If the assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. As of December 31, 2006, no impairment has occurred.

NOTE A — SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Computation of income per common share
Basic income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted income per common share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares result from the assumed exercise of outstanding stock options, using the treasury stock method, that have a dilutive effect on earnings per share, and from the assumed conversion of outstanding convertible notes if the conversion has a dilutive effect on earnings per share.

Stock options
Prior to January 1, 2006, the Company accounted for stock-based compensation using the intrinsic value based method in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, and the Company complied with the disclosure requirements of SFAS No. 123, Accounting of Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation, Transition and Disclosure. Accordingly, the Company was only required to record compensation expense if stock options were granted with an exercise price that was less than the fair market value of the underlying stock at the date of grant. In 2005, the Company accelerated the vesting of all unvested outstanding stock options in order to reduce the non-cash compensation expense that otherwise would have been required to be recorded under SFAS 123(R) Share Based Payment.

Effective January 1, 2006, the Company adopted SFAS No. 123(R). SFAS 123(R) requires the measurement of compensation expense for all share based compensation granted to employees and non-employee directors at fair value on the date of grant and recognition of compensation expense over the related service period for awards expected to vest. SFAS 123(R) also requires that excess tax benefits associated with share-based payments be classified as a financing activity in the statement of cash flows, rather than as operating cash flows as required by previous accounting pronouncements. The Company adopted SFAS 123(R) using the modified-prospective transition method. Accordingly, the Company has not restated prior period amounts. The fair value of stock options granted under SFAS 123(R) is determined by the Company using the Black-Scholes valuation model, which is consistent with the Company's valuation techniques previously utilized for options in the disclosures required by SFAS No. 123 and SFAS No. 148.

NOTE A — SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 48 Accounting for Uncertainty in Income Taxes. FIN No. 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. Tax positions must meet a more-likely-than- not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken upon the adoption of FIN No. 48 or in subsequent periods. FIN No. 48 will be effective for fiscal years beginning after December 15, 2006, and the provisions of FIN No. 48 will be applied to all tax positions upon its initial adoption with the cumulative effect of the change in accounting principle recognized as an adjustment to opening retained earnings. The Company is currently evaluating the impact of the application of FIN No. 48 to its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 establishes a common definition of fair value, provides a framework for measuring fair value under U.S. GAAP and expands disclosure requirements about fair value measurements. SFAS No. 157 is effective for financial statements issued in fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of SFAS No. 157 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). Among other items, SFAS No. 158 requires recognition of the overfunded or underfunded status of an entity's defined benefit postretirement plan as an asset or liability in the financial statements, requires the measurement of defined benefit postretirement plan assets and obligations as of the end of the employer's fiscal year, and requires recognition of the funded status of defined benefit postretirement plans in other comprehensive income. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. The adoption of SFAS No.158 did not have a material impact on the Company's results from operations or financial position.

Reclassifications

Certain 2005 selling, general and administrative expenses and distribution expenses have been reclassified to cost of goods to conform to the 2006 presentation. A reclassification from selling, general and administrative expenses was necessary to properly reflect freight out costs as a component of distribution expenses. The reclassifications from selling , general and administrative expenses were necessary due to a change in 2006 of the allocations of sourcing and receiving payroll to cost of sales. The reclassifications were not material to the Company consolidated income statement for the year ended December 31, 2005.

NOTE B — ACQUISITIONS

The following acquisitions were accounted for by the Company under the purchase method of accounting in accordance with SFAS No. 141, Business Combinations. Accordingly, the results of operations of the acquisitions have been included in the Company's consolidated statements of income from the dates of acquisition. The fair value of identifiable intangible assets has been determined based on standard valuation techniques.

2006

In April 2006, the Company acquired the business and certain assets of Syratech Corporation ("Syratech"), a designer, importer, manufacturer and distributor of a diverse portfolio of tabletop, home décor and picture frame products. The assets acquired included Syratech's registered trademarks including Wallace Silversmiths®, Towle Silversmiths , International Silver Company®, Melannco International® and Elements® and licenses to market Cuisinart® and Kenneth Cole Reaction Home® branded tabletop products. At closing, the Company paid $42.1 million in cash and issued 439,676 shares of the Company's Common Stock, valued at $12.5 million, subject to change based on the finalization of post-closing working capital adjustments. Of the 439,676 shares issued, 246,218 shares were held in escrow at December 31, 2006 pending finalization of the purchase price and the lapse of the indemnity provisions of the asset purchase agreement.

Determination of the final post-closing working capital adjustments were the subject of formal arbitration proceedings. On March 5, 2007, a final report was issued by the arbitrator which resulted in a reduction of the total purchase price of approximately $5.7 million. As a result of this reduction, the Company will receive back 199,771 of the shares that were held in escrow at December 31, 2006. The Company has reflected this reduction to the purchase price in accompanying consolidated financial statements.

On a preliminary basis the purchase price has been determined as follows (in thousands):

Cash paid at closing	$42,141
Common stock issued	6,821
Professional fees and other costs	2,026
Total purchase price	$50,988

The cash portion of the purchase price was funded by borrowings under the Company's Credit Facility.

NOTE B — ACQUISITIONS (continued)

2006 (continued)

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:	
Cash	$509
Accounts receivable	16,698
Inventory	30,411
Prepaid and other current assets	566
Property and equipment	4,524
Other assets	126
Other intangibles	20,357
Liabilities assumed	(22,203)
Total net assets acquired	$50,988

Included in liabilities assumed are accruals totaling $4.9 million representing the present value of payments due under a loss contract assumed by the Company and the cost of leased space which exceeds the Company's current and projected needs. At December 31, 2006 the balance that remained unpaid was $3.9 million.

2005

On September 19, 2005, the Company acquired certain components of the tabletop business and related assets of Salton, Inc. ("Salton"). The assets acquired include Salton's Block® brand and licenses to market Calvin Klein® and Sasaki® tabletop products. In addition, the Company entered into a new license with Salton to market tabletop products under the Stiffel® brand.

The 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.

Lifetime Brands, Inc.
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NOTE B — ACQUISITIONS (continued)

2005 (continued)

The purchase price has been allocated based on management's estimate of the fair value of the assets acquired as follows (in thousands):

	Purchase Price Allocation
Inventory	$ 8,227
Other current assets	315
Property and equipment	70
Other intangibles	1,199
Goodwill	4,145
Total net assets acquired	$13,956

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 Internet and catalog operations.

The 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	1,061
Total purchase price	$38,303

The purchase price was funded by borrowings under the Company's Credit Facility.

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):

	Purchase Price Allocation
Assets acquired:	
Accounts receivable	$2,623
Inventory	26,314
Other current assets	1,489
Property and equipment	3,394
Other intangibles	6,292
Goodwill	606
Liabilities assumed	(2,415)
Total net assets acquired	$38,303

NOTE B — ACQUISITIONS (continued)

2004

In July 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 its Retroneu® brand and under licensed brand names, including Sabatier®, Farberware®, 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 closing. The Company has not paid the balance of the purchase price of $1.5 million, as 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 ongoing and, as of December 31, 2006, no settlement had been reached.

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, 2006. 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 excess of the purchase price over the net assets acquired of $7.2 million has been allocated to intangible assets and goodwill.

Pro forma financial information

The following unaudited pro forma financial information is presented for illustrative purposes only and presents the operating results for the Company for the years ended December 31, 2006 and 2005 as though the acquisitions of Syratech and Pfaltzgraff occurred at the beginning of the respective years.

The unaudited pro forma financial information is not intended to be indicative of the operating results that actually would have occurred if the transactions had been consummated on the dates indicated, nor is the information intended to be indicative of future operating results. The unaudited pro forma condensed combined financial information does not reflect any synergies that may be achieved from the combination of the entities. The unaudited pro forma financial information reflects adjustments for additional interest expense on acquisition-related borrowings and the income tax effect on the pro forma adjustments.

In February 2005, Syratech filed a voluntary Chapter 11 petition with the United States Bankruptcy Court for the District of Massachusetts, Eastern Division. Syratech subsequently emerged from bankruptcy in June 2005. Upon emergence from bankruptcy, Syratech adopted the provisions of American Institute of Certified Public Accountants Statement of Position 90-7 Financial Reporting by Entities in Reorganization under the Bankruptcy Code ("Fresh Start Accounting").

NOTE B — ACQUISITIONS (continued)

Pro forma financial information (continued)

The adoption of Fresh Start Accounting by Syratech resulted in: i) a significant pre-tax gain from the adjustment of the carrying value of its assets and liabilities to fair value of $44.5 million and, ii) a significant pre-tax gain from the extinguishment of its debt of $72.6 million. In addition, during the bankruptcy period Syratech incurred pre-tax costs as a result of its reorganization activities of $5.8 million. Such amounts are included within the historical statement of operations of Syratech for the year ended December 31, 2005 and the pro forma financial information has not been adjusted for these amounts.

	Year Ended December 31,	
	2006	2005
	(in thousands)	
Sales	$493,783	$491,390
Net income	2,033	97,960
Diluted earnings per share	$0.14	$8.20

NOTE C — GOODWILL AND INTANGIBLE ASSETS

Goodwill

As of December 31, 2006, changes in the carrying amount of goodwill, all of which is included as an asset in the wholesale segment, is as follows (in thousands):

Balance December 31, 2005	$16,200
Salton acquisition	4,145
Pfaltzgraff acquisition	606
Balance December 31, 2006	$20,951

The Company completed its most recent goodwill impairment test as of December 31, 2006. The test primarily involved the assessment of the fair market value of the Company as the single reporting unit. No impairment of goodwill was indicated at that time. All existing and future goodwill is subject to a goodwill impairment test on at least an annual basis or more frequently if indicators of impairment exist. There can be no assurance that future goodwill impairment tests will not result in a charge to income.

All goodwill is expected to be deductible for tax purposes since the acquisitions were asset purchases.

NOTE C — GOODWILL AND INTANGIBLE ASSETS (continued)

Intangible assets
Intangible assets consist of licenses, trade names, customer relationships and product designs acquired pursuant to acquisitions. Intangible assets, all of which are included in the wholesale segment, consist of the following (in thousands):

	Year Ended December 31,					
	2006			2005		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Indefinite-lived intangible assets:						
Trade names	$27,979	$ -	$27,979	$8,207	$ -	$8,207
Finite-lived intangible assets:						
Licenses	15,885	3,872	12,013	17,123	3,266	13,857
Trade names	2,477	937	1,540	2,477	942	1,535
Designs	460	261	199	460	178	282
Customer relationships	949	289	660	300	117	183
Total	$47,750	$5,359	$42,391	$28,567	$4,503	$24,064

The weighted average amortization periods for the Company's finite-lived intangible assets as of December 31, 2006 are as follows (in years):

Trade names	30.0
Licenses	32.6
Designs	6.7
Customer relationships	3.3
Total finite-lived intangible assets	30.5

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

Years Ending December 31,	
2007	$924
2008	908
2009	774
2010	682
2011	604

Amortization expense for the years ended December 31, 2006, 2005 and 2004 was $855,000, $814,000 and $602,000 respectively.

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NOTE D — CREDIT FACILITY

In October 2006, the Company amended its $100 million secured credit facility (the "Credit Facility") to increase the size of the facility to $150 million and to extend its maturity to April 2011. 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 covenants providing limitations on indebtedness, sale of assets and capital expenditures; a maximum leverage ratio and a minimum interest coverage ratio. At December 31, 2006, the Company was in compliance with these covenants. Borrowings under the Credit Facility have different interest rate options that are based either on an alternate base rate, the LIBOR rate or the lender's cost of funds rate, plus in each case a margin based on the leverage ratio.

As of December 31, 2006, the Company had $4.0 million of open letters of credit, $21.5 million of short-term borrowings and a $5.0 million term loan outstanding under its Credit Facility, and as a result, the availability under the Credit Facility at December 31, 2006 was $119.5 million. The $5.0 million long-term loan is non-amortizing, bears interest at 5.07% and matures in August 2009. Interest rates on short-term borrowings at December 31, 2006 ranged from 5.81% to 5.87%.

NOTE E — CONVERTIBLE NOTES

In June 2006, the Company issued $75 million aggregate principal amount of 4.75% Convertible Senior Notes due 2011 (the "Notes"). The Company used the proceeds from the Notes to repay outstanding borrowings under the Company's Credit Facility. The Notes are convertible into shares of the Company's Common Stock at a conversion price of $28.00 per share, subject to adjustment in certain events. The Notes bear interest at 4.75% per annum, payable semiannually in arrears on January 15 and July 15 of each year and are unsubordinated except with respect to the Company's debt to the extent secured by the Company's assets. The Notes mature on July 15, 2011. The Company may not redeem the Notes at any time prior to maturity.

The Notes are convertible at the option of the holder anytime prior to the close of business on the business day prior to the maturity date. Upon conversion, the Company may elect to deliver either shares of the Company's Common Stock, cash or a combination of cash and shares of the Company's Common Stock in satisfaction of the Company's obligations upon conversion of the Notes. At any time prior to the 26th trading day preceding the maturity date, the Company may irrevocably elect to satisfy in cash the Company's conversion obligation with respect to the principal amount of the Notes to be converted after the date of such election, with any remaining amount to be satisfied in shares of the Company's Common Stock. The election would be in the Company's sole discretion without the consent of the holders of the Notes. The conversion rate of the Notes may be adjusted upon the occurrence of certain events that would dilute the Company's Common Stock. In addition, holders that convert their Notes in connection with certain fundamental changes, such as a change in control, may be entitled to a make whole premium in the form of an increase in the conversion rate.

The Company has reserved 2,678,571 shares of common stock for issuance upon conversion of the Notes. Such shares have been registered and the Notes include a registration rights agreement that would require the Company to pay liquidating damages to the holders of the Notes if the Company fails to keep the registration statement effective.

As part of the sale of the Notes, the Company incurred $3.1 million in underwriter's discounts and other offering expenses. The offering costs are being amortized to interest expense over the term of the Notes. At December 31, 2006 the unamortized balance of these costs is $2.8 million and is included in other assets in the consolidated balance sheet.

NOTE F — CAPITAL STOCK

Public offering
In November 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 $34.3 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 2006, 2005 and 2004. 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, 2006, 2,128,000 shares were repurchased for approximately $15.2 million (none were repurchased in 2006, 2005 and 2004).

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.

NOTE F — CAPITAL STOCK (continued)

Long-term incentive plan
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 the Company's Common Stock may be subject to outstanding awards granted to directors, officers, employees, consultants and service providers to the Company and its affiliates in the form of stock options or other equity-based awards. In June 2006, the stockholders of the Company approved an amendment to the Plan to increase the number of shares of the Company's Common Stock that may be subject to outstanding awards under the Plan to 2,500,000 shares and re-approved the performance criteria which may be utilized in establishing specific targets to be attained as a condition to the vesting of one or more stock-based awards under the Plan so as to qualify the compensation attributable to those awards as performance-based compensation under Section 162(m) of the Internal Revenue Code. 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 Plan expire over a range of five to ten years from the date of the grant and vest over a range of up to five years from the date of grant.

As of December 31, 2006, 678,396 shares were available for grants under the Plan. All stock options granted through December 31, 2006 under the Plan have exercise prices equal to the market values of the Company's stock on the dates of grant.

Stock options
A summary of the Company's stock option activity and related information for the three years ended December 31, 2006 is as follows:

	Options	Weighted-Average Exercise Price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Options outstanding, December 31, 2003	966,610	$ 7.27		
Grants	49,000	16.68		
Exercises	(217,041)	6.76		
Cancellations	(103,762)	10.60		
Options outstanding, December 31, 2004	694,807	7.59		
Grants	362,000	24.12		
Exercises	(150,650)	7.00		
Cancellations	(31,000)	8.25		
Options outstanding, December 31, 2005	875,157	14.51		
Grants	695,500	29.96		
Exercises	(146,157)	6.95		
Cancellations	(13,600)	28.12		
Options outstanding December 31, 2006	1,410,900	22.78	7.09	$3,146,332
Options exercisable December 31, 2006	811,233	17.47	5.43	$3,146,332

NOTE F — CAPITAL STOCK (continued)

Stock options (continued)
The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that would have been received by the option holders had all option holders exercised their stock options on December 31, 2006. The intrinsic value is calculated as the difference between the Company's closing stock price on the last trading day of fiscal 2006 and the exercise price, multiplied by the number of in-the-money stock options.

The total intrinsic value of stock options exercised for the years ended December 31, 2006, 2005 and 2004 was $2.7 million, $2.3 million and $2.7 million, respectively. The intrinsic value of a stock option that is exercised is calculated as the difference between the market value of the Company's Common Stock at the date of exercise and the exercise price of the stock option.

The adoption of SFAS 123(R) resulted in an increase to stock option expense of $1.2 million and a related reduction in basic and diluted earnings per share of $0.07 and $0.06, respectively, for the year ended December 31, 2006.

Total unrecognized compensation cost related to unvested stock options at December 31, 2006, before the effect of income taxes, was $5.8 million and is expected to be recognized over a weighted average period of 3.49 years.

The Company values stock options using the Black-Scholes option valuation model. However, the Black-Scholes option valuation model, as well as other available models, were 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 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 provide a reliable measure of the fair value of its stock options.

The weighted average per share grant date fair value of stock options granted during the years ended December 31, 2006, 2005 and 2004 was $12.11, $7.45 and $5.90, respectively.

NOTE F — CAPITAL STOCK (continued)

Stock options (continued)
The fair value for these stock options was estimated at the date of grant using the following weighted-average assumptions:

	2006	2005	2004
Volatility(1)	41%	42%	37%
Expected term (years) (2)	5.2	3.1	6.0
Risk-free interest rate(3)	5.02%	4.26%	3.73%
Expected dividend yield(4)	0.834%	1.04%	1.55%

(1) Volatility is measured using historical volatility.

(2) The expected term represents the period of time for which the stock options granted are expected to be outstanding.

(3) The risk-free interest rate is based on United States treasury yields in effect at the time of grant corresponding to the expected term of the stock options.

(4) The expected dividend yield was calculated by dividing the expected annual dividends by the market value of the Company's Common Stock on the grant date.

Prior to the adoption of SFAS 123(R) the Company accounted for stock options under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, for the periods prior to the adoption of SFAS 123(R), no stock-based employee compensation cost was reflected in net income as all stock options granted under the plan had exercise prices equal to the market values of the underlying Common Stock of the Company on the dates of grant. Pro-forma information regarding the impact of stock-based compensation on Net income and Income per share for prior periods is required by SFAS No. 123(R).

NOTE F — CAPITAL STOCK (continued)

Stock options (continued)
The following table illustrates what would have been the effect on Net income and Net income per common share if the Company had accounted for its stock options using the fair value method during the years ended December 31, 2005 and 2004:

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

Restricted stock
During 2006 and 2005, the Company issued 5,254 and 2,950 restricted shares, respectively, of the Company's Common Stock to its board of directors representing payment of a portion of the director's fees. The total fair value of the restricted shares, based on the number of shares granted and the quoted market price of the Company's Common Stock on the date of grant, was approximately $115,000 and $50,000, respectively.

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NOTE G — INCOME PER COMMON SHARE

Basic income per common share has been computed by dividing net income by the weighted average number of shares of the Company's Common Stock outstanding. Diluted income per common share adjusts basic income per common share for the effect of all potentially dilutive shares of the Company's Common Stock outstanding. The calculations of basic and diluted income per common share for the years ended December 31, 2006, 2005 and 2004 are as follows:

	Year Ended December 31,		
	2006	2005	2004
	(in thousands, except per share amounts)		
Basic income per common share	$15,532	$14,109	$8,472
Net interest expense, 4.75% convertible notes	1,312	-	-
Diluted income per common share	$16,844	$14,109	$8,472
Weighted average shares outstanding – basic	13,171	11,283	10,982
Effect of dilutive securities:			
Stock options	183	223	244
4.75% convertible notes	1,362	-	-
Weighted average shares outstanding – diluted	14,716	11,506	11,226
Basic income per common share	$1.18	$1.25	$0.77
Diluted income per common share	$1.14	$1.23	$0.75

The computation of diluted income per common share for the years ended December 31, 2006, 2005 and 2004 excludes options to purchase 1,100,000, 350,000 and 24,000 shares of the Company's Common Stock, respectively, due to their antidilutive effect.

NOTE H — INCOME TAXES

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

	Year Ended December 31,		
	2006	2005	2004
Current:			
Federal	$7,442	$9,755	$4,861
State and local	1,860	1,618	841
Deferred	421	(2,726)	(100)
Income tax provision	$9,723	$8,647	$5,602

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 income tax asset (liability) are as follows (in thousands):

	December 31,	
	2006	2005
Deferred income tax assets:		
Merchandise inventories	$3,740	$ 3,266
Accounts receivable allowances	3,062	3,121
Deferred rent expense	753	552
Accrued bonuses	732	764
Stock options	232	-
Total deferred income tax asset	$8,519	$ 7,703
Deferred income tax liability:		
Depreciation and amortization	$(6,204)	$(4,967)

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,		
	2006	2005	2004
Provision for Federal income taxes at			
the statutory rate	$8,839	$ 7,965	$ 4,926
Increases (decreases):			
State and local income taxes, net of			
Federal income tax benefit	1,209	1,052	547
Other	(325)	(370)	129
Provision for income taxes	$9,723	$ 8,647	$ 5,602

NOTE H — INCOME TAXES (continued)

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 I — BUSINESS SEGMENTS

Segment information

The Company operates in two reportable business segments — wholesale and direct-to-consumer. The wholesale segment is the Company's primary 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. At December 31, 2006, the Company operated 43 stores under the Farberware® brand name and 40 outlet stores under the Pfaltzgraff® brand name. 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.

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, distribution expenses and selling, general and administrative expenses. Certain general and administrative expenses such as executive salaries and benefits, stock compensation, director fees and accounting, legal and consulting fees are not allocated to the specific segments and 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.

	Year Ended December 31,		
	2006	2005	2004
		(in thousands)	
Net sales:			
Wholesale	$374,081	$241,618	$173,559
Direct-to-Consumer	83,319	66,279	15,899
Total net sales	$457,400	$307,897	$189,458
Income (loss) from operations:			
Wholesale	$46,824	$33,150	$21,677
Direct-to-Consumer	(8,129)	(444)	(1,224)
Unallocated corporate expenses	(8,895)	(7,534)	(5,604)
Total income from operations	$29,800	$25,172	$14,849

NOTE I — BUSINESS SEGMENTS (continued)

Segment information (continued)

	Year Ended December 31,		
	2006	2005	2004
	(in thousands)		
Depreciation and amortization:			
Wholesale	$7,078	$4,558	$3,694
Direct-to-Consumer	1,302	1,083	380
Total depreciation and amortization	$8,380	$5,641	$4,074
Assets:			
Wholesale	$310,260	$190,967	$145,542
Direct-to-Consumer	24,136	23,191	6,513
Unallocated/ corporate/other	8,668	8,490	5,162
Total assets	$343,064	$222,648	$157,217
Capital expenditures:			
Wholesale	$17,719	$3,555	$1,060
Direct-to-Consumer	3,425	1,226	1,282
Total capital expenditures	$21,144	$4,781	$2,342

Product category information – net sales
The following table sets forth the net sales by the major product categories included within the Company's wholesale operating segment:

	Year ended December 31,		
	2006	2005	2004
	(in thousands)		
Food Preparation	$239,200	$210,509	$168,435
Tabletop	100,201	29,162	3,650
Home Décor	32,305	-	-
Other – bath hardware and accessories	2,375	1,905	1,474
Total net sales	$374,081	$241,618	$173,559

NOTE J — COMMITMENTS AND CONTINGENCIES

Operating leases
The Company has lease agreements for its corporate headquarters, warehouses, direct-to-consumer offices, showroom facilities, sales offices and outlet stores that expire through January 14, 2022. 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.

In May 2006, the Company entered into a 15-year lease agreement for approximately 114,000 square feet of office and warehouse space located in The Business and Research Center at Garden City located at 1000 Stewart Avenue in Garden City, New York. The location will serve as the Company's new corporate headquarters. Annual rent will be approximately $1.9 million with annual escalations of 2.625% per year, plus additional rent to cover real estate taxes. In September 2006, the lease was amended to include an additional 18,000 square feet of space that will be occupied by the Company beginning in January 2009. The lease term for the additional space will expire on the same date as the lease for the 114,000 square feet of space. Annual rent for the additional space will be approximately $500,000, with annual escalations of 2.625%. The Company occupied the new space in January 2007.

In July 2006, the Company entered into a 15-year lease agreement for approximately 60,000 square feet of office space located in the Greenway Tech Centre at 540 South George Street in York, Pennsylvania. The lease includes a renewal option for two additional five-year periods. The location will serve as the headquarters for the Company's direct-to-consumer businesses and will also serve as the Company's principal design center for ceramic dinnerware and other ceramic products. Annual rent at the outset of the lease will be approximately $600,000 and will increase over the initial term of the lease to approximately $700,000. Occupancy began in January 2007. The new office space replaces approximately 67,000 square feet of office space that the Company leased in five separate locations in the York, Pennsylvania area.

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

Year ended December 31,	
2007	$20,233
2008	17,087
2009	11,638
2010	8,804
2011	7,394
2012 and thereafter	47,070
	$112,226

NOTE J — COMMITMENTS AND CONTINGENCIES (continued)

Operating leases (continued)
During the years ended December 31, 2006, 2005 and 2004, the Company had an agreement with Meyer Corporation whereby Meyer Corporation assumed responsibility for merchandising and for stocking Farberware® cookware products in the Company's Farberware® outlet stores and received all revenue from the sale of the Farberware® cookware. Since October 2003, Meyer had occupied 30% of the space in each store and reimbursed the Company for 30% of the operating expenses of the stores. The agreement was terminated in June 2006. During the years ended December 31, 2006, 2005 and 2004, Meyer Corporation reimbursed the Company approximately $2.0 million, $4.2 million and $3.8 million, respectively, for operating expenses.

Rental and related expenses under operating leases were approximately $16.5 million, $13.0 million and $7.0 million for the years ended December 31, 2006, 2005 and 2004, 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 primarily in its Robbinsville, New Jersey distribution center. These leases expire through 2011 and the future minimum lease payments due under the leases are as follows (in thousands):

Year ended December 31,	
2007	$425
2008	413
2009	251
2010	156
2011	89
Total minimum lease payments	1,334
Less: amounts representing interest	132
Present value of minimum lease payments	$1,202

The current and non-current portions of the Company's capital lease obligations at December 31, 2006 of approximately $367,000 and $835,000, respectively, and at December 31, 2005 of approximately $310,000 and $758,000, respectively, are included in the accompanying consolidated balance sheets within accrued expenses and deferred rent and other long-term liabilities, respectively.

Lifetime Brands, Inc.
Notes to Consolidated Financial Statements
December 31, 2006

NOTE J — COMMITMENTS AND CONTINGENCIES (continued)

Royalties
The Company has license agreements that require payments of royalties on sales of licensed products, which agreements expire through March 31, 2010. Future minimum royalties payable under these agreements are as follows (in thousands):

Year ended December 31,	
2007	$ 8,189
2008	9,341
2009	9,046
2010	25
	$26,601

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
In May 2006, Jeffrey Siegel entered into a new employment agreement with the Company whereby the Company employed him as its President and Chief Executive Officer for a five year term that commenced on January 1, 2006, and thereafter for additional consecutive one year periods unless terminated by either the Company or Mr. Siegel. The agreement provides for an annual salary of $900,000 with annual increments based on changes in the Bureau of Labor Statistics Consumer Price Index for All Urban Consumers and for the payment each year of: (i) an annual cash performance bonus of 3.5% of the annual increase of the Company's income before income taxes over the Company's income before income taxes for the immediately prior, and (ii) an annual cash performance bonus of 2.5% of the Company's annual income before income taxes (the "2.5% EIBIT Bonus"). In addition, if Mr. Siegel is entitled to the 2.5% EIBIT Bonus, pursuant to the agreement he will also receive 2.5% of an amount equal to the sum of his base salary and the 2.5% EIBIT Bonus. Pursuant to the agreement, the total of salary and the 2.5% EIBIT Bonus in any year shall not exceed $1.8 million. Pursuant to the agreement, Mr. Siegel was also granted an option in 2006 to purchase 250,000 shares of the Company's common stock pursuant to the Company's 2000 Long-Term Incentive Plan.

NOTE J — COMMITMENTS AND CONTINGENCIES (continued)

Employment agreements (continued)
Under Mr. Siegel's previous employment agreement, Mr. Siegel was due a payment of $350,000 which, pursuant to the agreement, is to be paid as follows: (i) $150,000 on July 1, 2006, plus simple interest at the prime rate from January 1, 2006; (ii) $150,000 on January 1, 2007, plus simple interest at the prime rate from January 1, 2006, and (iii) $50,000 on January 1, 2008, plus simple interest at the prime rate from January 1, 2006. In addition, the Company paid Mr. Siegel a $125,000 signing bonus upon execution of the agreement. The agreement also provides for certain fringe benefits, severance benefits and a change in control payment equal to 2.99 times Mr. Siegel's average annual compensation for the most recent five taxable years ending before the date on which the change in control occurs. The agreement also contains restrictive covenants preventing Mr. Siegel from competing with the Company during the term of his employment and for a period of five years thereafter.

In October 2005 the Company entered into an employment agreement with Ronald Shiftan whereby the Company employed 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 and an annual cash bonus equal to six-percent of the annual increase in the Company's income before taxes over the prior year. Pursuant to the agreement Mr. Shiftan was also granted an option in 2005 to purchase 350,000 shares of the Company's common stock pursuant to the Company's 2000 Long-Term Incentive Plan. The agreement also provides for certain fringe benefits, severance benefits and a change in control payment equal to the lesser of 2.99 times the average of his base salary and bonus for the three years immediately preceding the change of control or 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.

Several other members of senior management have entered into employment agreements with the Company. The employment agreements termination dates range from June 30, 2007 through April 27, 2009. The agreements provide for annual salaries and bonuses, severance and certain standard fringe benefit arrangements, such as disability benefits, medical insurance, life insurance and auto allowances.

The Company's aggregate commitment under employment agreements was $12.6 million at December 31, 2006.

Lifetime Brands, Inc.
Notes to Consolidated Financial Statements
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NOTE K — RETIREMENT PLANS

401(k) 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 $809,000, $372,000 and $257,000 in 2006, 2005 and 2004, respectively.

Retirement plan
With the acquisition of the business and certain assets of Syratech in April 2006, the Company assumed obligations that provide for retirement benefit payments to two former executives of Syratech and Alan Kanter, a former executive of Syratech who is currently an executive officer of the Company. The obligations under these agreements are unfunded. At December 31, 2006, the total unfunded retirement benefit obligation related to these agreements is $2.9 million and is included in accrued expenses and deferred rent and other long-term liabilities in the accompanying consolidated balance sheet. During the year ended December 31, 2006, the Company paid retirement benefits under these agreements totaling $148,000. The Company expects to pay a total of $148,000 in retirement benefits under the agreements for the year ending December 31, 2007.

NOTE L — OTHER

Property and equipment
Property and equipment consist of (in thousands):

	December 31,	
	2006	2005
Machinery, furniture and equipment	$53,667	$37,550
Construction in progress	9,826	177
Building and improvements	7,300	7,201
Leasehold improvements	3,683	2,076
Land	947	932
	75,423	47,936
Less: accumulated depreciation and amortization	32,701	23,947
	$42,722	$23,989

Construction in progress represents advances paid towards acquisitions of property and equipment and the cost of property and equipment not yet placed in service. Pursuant to the Company's leases of space at the Business and Research Center at Garden City and the Greenway Tech Centre as discussed in Note J, the Company will be reimbursed by the landlords for certain construction costs up to $ 4.8 million. The amount will be recognized by the Company as a reduction of rent expense over the terms of leases.

NOTE L — OTHER (continued)

Property and equipment (continued)
Depreciation and amortization expense on property and equipment for the years ended December 31, 2006, 2005 and 2004 was $7.5 million, $4.8 million and $3.5 million, respectively. Included in machinery, furniture and equipment and related accumulated depreciation at December 31, 2006 and 2005 are approximately $2.1 million and $911,000, respectively, and approximately $1.6 million and $569,000, respectively, related to assets recorded under capital leases.

At December 31, 2006, the Company's corporate headquarters were located in a building owned by the Company. In January 2007 the Company moved its corporate headquarters to a leased facility. The building owned by the Company has been put up for sale and in January 2007 will be classified by the Company as assets held for sale. The net book value of the building, land and related improvements was $5.1 million at December 31, 2006.

Accrued Expenses
Accrued expenses consist of (in thousands):

	December 31,	
	2006	2005
Accrued purchases	$9,756	$ 3,923
Accrued customer allowances and rebates	4,835	3,755
Accrued salaries, vacation and temporary labor billings	3,360	3,139
Officer and employee bonuses	3,287	3,714
Accrued freight	2,939	2,482
Accrued royalties	4,743	2,186
Accrued interest	1,892	160
Commissions	1,600	1,381
Dividends payable	843	808
Amounts due Meyer Corporation	-	981
Other	12,488	6,165
	$45,743	$28,694

Sources of supply
The Company sources products from approximately 450 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, the Czech Republic, Italy, India, Portugal, Hong Kong, Great Britain, Hungary, The Philippines, Poland, Slovakia, Turkey and Vietnam. The Company 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 40% and 54% of the products the Company distributed in 2006 and 2005, respectively.

NOTE L — OTHER (continued)

Supplemental cash flow information

	Year Ended December 31,		
	2006	2005	2004
	(in thousands)		
Supplemental disclosure of cash flow information:			
Cash paid for interest	$2,500	$2,400	$800
Cash paid for taxes	10,994	6,800	4,200
Non-cash investing activities:			
Common stock issued in connection with Syratech acquisition	$6,821	$ -	$ -
Equipment acquired under capital lease obligations	521	317	569

NOTE M — SUBSEQUENT EVENTS

On March 7, 2007, the Company entered into two letters of intent, one relating to the acquisition from JP Products, LLC of the Pomerantz® brand and certain related assets and a separate one relating to the acquisition from Design for Living LLC of the Design for Living® brand and certain related assets. Both transactions are expected to be concluded by March 31, 2007 and will serve to strengthen and expand the Company's presence in the pantryware category.

On March 8, 2007, the Company entered into a letter of intent to acquire up to a 29.0% interest in Ekco, S.A.B. Ekco is based in Mexico City and manufactures and sells cookware, bakeware, kitchenware, cutlery, dinnerware, flatware and related items primarily in Mexico. Ekco markets its products in Mexico under the following brands: Vasconia®, Ekco®, Regal®, H. Steele®, Presto® and Thermos®. Ecko's shares are listed on the Bolsa Mexicana de Valores and for the year ended December 31, 2006, Ekco reported net revenues of approximately $54 million. On February 28, 2007, Ekco completed the acquisition of Industria Mexicana del Aluminio, S.A. de C.V. (IMASA), the largest aluminum smelter and rolling mill in Mexico. IMASA's revenues for 2006 were approximately $43 million. The Company's acquisition of up to a 29% interest in Ekco is expected to close in the second quarter of 2007 and is subject to corporate, regulatory and governmental approvals, including approval by the Comisión Nacional Bancaria y de Valores, and by Ecko's shareholders, and is subject to customary closing conditions and adjustments.