CARMAX INC
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May 12, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

CarMax, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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x No fee required.

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CarMax, Inc.

Notice of 2006 Annual Meeting of Shareholders and Proxy Statement

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Dear Fellow CarMax Shareholders:

I cordially invite you to attend the 2006 Annual Meeting of CarMax, Inc. shareholders. The annual meeting this year will be held on Tuesday, June 20, 2006, at 10:00 a.m. at The Richmond Marriott West Hotel, 4240 Dominion Boulevard, in Glen Allen, Virginia.

The attached proxy statement describes the items to be voted upon at the annual meeting. In addition to voting, we will review the company s major developments from the prior fiscal year and answer your questions.

Whether or not you will be attending the annual meeting, your vote is very important. Please vote. There are four ways that you can cast your ballot by telephone, by Internet, by mailing your proxy card, or in person at the annual meeting.

I look forward to seeing you at the annual meeting.

Sincerely,

Richard L. Sharp

Chairman of the Board of Directors

May 12, 2006

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NOTICE OF 2006 ANNUAL MEETING OF SHAREHOLDERS

Meeting Date and Time:	Tuesday, June 20, 2006, at 10:00 a.m., Eastern Daylight Time
Place:	The Richmond Marriott West Hotel 4240 Dominion Boulevard Glen Allen, Virginia 23060
Items of Business:	(1) To elect four members of the board of directors. (2) To ratify the selection of KPMG LLP as the company s independent registered public accounting firm. (3) To approve two amendments to the CarMax, Inc. Amended and Restated 2002 Employee Stock Purchase Plan. (4) To transact any other business that may properly come before the annual meeting or any postponements or adjournments thereof.
Who May Vote:	You may vote if you were a shareholder of record at the close of business on April 14, 2006.

By order of the board of directors,

Keith D. Browning

Executive Vice President,

Chief Financial Officer and Corporate Secretary

May 12, 2006

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THE 2006 ANNUAL MEETING OF SHAREHOLDERS:

QUESTIONS AND ANSWERS

The board of directors of CarMax, Inc. (CarMax or the company) is soliciting proxies for the 2006 annual meeting of shareholders. This proxy statement, which contains information about the items that you will vote upon at the annual meeting, is first being mailed or distributed to holders of CarMax common stock on or about May 12, 2006. A copy of the company s annual report for the fiscal year ended February 28, 2006, is being delivered to you with this proxy statement.

1. What am I voting on?

You will be voting on each of the following items of business:

The election of four members of the board of directors.

The ratification of the selection of KPMG LLP (KPMG) as the company s independent registered public accounting firm.

The approval of two amendments to the CarMax, Inc. Amended and Restated 2002 Employee Stock Purchase Plan (the ESPP).

The board of directors recommends that you vote **FOR** each of these proposals. You may also be asked to vote on any other business that may properly come before the annual meeting or any postponements or adjournments thereof.

2. Who is entitled to vote?

All shareholders who owned CarMax common stock at the close of business on April 14, 2006, are entitled to vote at the annual meeting. Each share of common stock is entitled to one vote. There were 105,280,634 shares of CarMax common stock outstanding on that date.

3. How many votes must be present to hold the annual meeting?

In order for us to conduct the annual meeting, a majority of our outstanding shares of common stock as of April 14, 2006, must be present in person or by proxy. This is referred to as a quorum. Abstentions and shares held by banks, brokers, or nominees that are voted on any matter are included in determining a quorum.

4. How do I vote before the annual meeting?

If you are a shareholder of record, meaning that you hold your shares in certificate form or through an account with our transfer agent, Wells Fargo Bank, N.A., you may vote in person at the annual meeting or by proxy. You have three ways to vote by proxy**:**

By Internet: Connect to the Internet at www.eproxy.com/kmx/ and follow the instructions.

By Phone: Call 1-800-560-1965 and follow the instructions.

By Mail: Complete, sign, and date the enclosed proxy card and return it in the enclosed envelope.

If you are a beneficial shareholder, meaning that you hold your shares through an account with a bank or broker (*i.e.*, in street name), please follow the instructions found on the voting instruction card sent to you by your bank or broker. Your bank or broker will vote according to your instructions. As a beneficial shareholder, you may vote in person at the annual meeting provided that you obtain a legal proxy from your bank or broker and present it to the inspectors of election with your ballot.

5. How will my shares be voted if I sign and return my proxy card or voting instruction card, but do not provide voting instructions?

For shareholders of record, proxy cards that are signed and returned but do not contain voting instructions will be voted (1) **FOR** the election of the four director nominees named in the proxy statement, (2) **FOR** the ratification of the selection of KPMG as the company s independent registered public accounting firm, and (3) **FOR** the approval of two amendments to the ESPP.

For beneficial shareholders, voting instruction cards that are signed and returned to the appropriate bank or broker but do not contain voting instructions may be voted by the bank or broker (1) **FOR** the election of the four director nominees named in the proxy statement, (2) **FOR** the ratification of the selection of KPMG as the company s independent registered public accounting firm, and (3) **FOR** the approval of two amendments to the ESPP.

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6. How will my shares be voted if I do not return my proxy card or my voting instruction card?

If you are a shareholder of record and you do not return your proxy card, your shares will not be voted, unless you attend the annual meeting to vote them in person.

If you are a beneficial shareholder and you do not return your voting instruction card, your bank or broker may vote your shares (1) **FOR** the election of the four director nominees named in the proxy statement and (2) **FOR** the ratification of the selection of KPMG as the company s independent registered public accounting firm because these proposals are routine matters as described by the rules of the New York Stock Exchange (NYSE). However, your bank or broker cannot vote your shares with respect to the approval of the two amendments to the ESPP because this proposal is not considered a routine matter under NYSE rules.

7. What if I change my mind after I vote?

If you are a shareholder of record, you may revoke your proxy at any time before the close of voting at the annual meeting.

There are four ways to revoke your proxy:

By Internet: Connect to the Internet at www.eproxy.com/kmx/ and follow the instructions for revoking a proxy.

By Phone: Call 1-800-560-1965 and follow the instructions for revoking a proxy.

By Mail: Write to our corporate secretary at CarMax, Inc., 12800 Tuckahoe Creek Parkway, Richmond, Virginia 23238.

In Person: Vote your shares in person at the annual meeting on June 20, 2006.

If you are a beneficial shareholder, you must follow the instructions found on your voting instruction card, or contact your bank or broker, in order to revoke your proxy.

8. How do I vote my shares held as part of the company s employee stock purchase plan?

If you are a participant in the ESPP, you will receive a proxy card on which to provide voting instructions to Computershare Trust Co., Inc. (Computershare), the plan service provider. You have three ways to instruct Computershare to vote your ESPP shares:

By Internet: Connect to the Internet at www.eproxy.com/kmx/ and follow the instructions.

By Phone: Call 1-800-560-1965 and follow the instructions.

By Mail: Complete the proxy card provided to you by Computershare and return it in the envelope provided.

Complete instructions can be found on the proxy card included with the proxy statement sent to ESPP participants. Computershare will vote according to your instructions.

9. How will my shares be voted if I sign and return my proxy card to Computershare, but do not provide voting instructions?

If you sign and return your proxy card, but do not provide voting instructions, Computershare may vote your shares (1) **FOR** the election of the four director nominees named in the proxy statement, (2) **FOR** the ratification of the selection of KPMG as the company s independent registered public accounting firm, and (3) **FOR** the approval of two amendments to the ESPP.

10. How will my shares be voted if I do not return my proxy card to Computershare?

If you do not return your proxy card to Computershare, Computershare will not vote any of your shares.

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THE 2006 ANNUAL MEETING OF SHAREHOLDERS:

QUESTIONS AND ANSWERS CONTINUED

11. How many votes are needed to approve each of the three proposals?

The four nominees receiving the highest number of FOR votes will be elected directors. Votes that are withheld and shares held in street name that are not voted in the election of directors will have no effect on the election of directors.

The ratification of the selection of KPMG as the company s independent registered public accounting firm must be approved by the affirmative vote of a majority of the votes cast. Abstentions and shares held in street name that are not voted on the proposal will not be counted in determining the number of votes cast for this proposal.

In order to be adopted, the approval of the two amendments to the ESPP must be approved by the affirmative vote of a majority of the votes cast. Under applicable NYSE listing standards, the total votes cast on the proposal must also represent more than 50% of all shares of common stock outstanding on the record date. Shareholders may direct that their votes be cast for or against the proposal, or shareholders may abstain from this proposal. Abstentions will have the same effect as votes cast against the proposal. Shares held in street name that are not voted on this proposal are not considered votes cast.

12. What is householding and how does it affect me?

We have adopted a procedure approved by the Securities and Exchange Commission (SEC) called householding. Under this procedure, shareholders of record who have the same address and last name will receive only one copy of our notice of annual meeting, proxy statement, and annual report, unless one or more of these shareholders notifies us that they wish to continue receiving individual copies. This procedure reduces our printing costs and postage fees. Shareholders who participate in householding will continue to receive separate proxy cards.

If you do not wish to continue participating in householding and prefer to receive multiple copies of the 2006 or future notices of annual meeting, proxy statements, and annual reports, please contact our transfer agent, Wells Fargo Bank, N.A. (in writing: 161 North Concord Exchange, South St. Paul, Minnesota 55075; by phone: (800) 468-9716).

If you are eligible for householding, but you and other shareholders of record with whom you share an address currently receive multiple copies of our notice of annual meeting, proxy statement, and annual report, or if you hold stock in more than one account, and, in either case, you wish to receive only a single copy of each of these documents for your household, please contact Wells Fargo as indicated above.

Beneficial shareholders may request information regarding householding from their banks, brokers, or other holders of record.

13. Who can attend the annual meeting?

The annual meeting is open to all holders of CarMax common stock as of April 14, 2006. Shareholders who plan to attend the annual meeting may be asked to present a valid picture identification, such as a driver s license or passport. If you are a beneficial shareholder, you must bring a copy of a brokerage statement indicating ownership of CarMax shares. If you are an authorized proxy or if you want to vote in person the shares that you hold in street name, you must present the proper documentation. Cameras, recording devices, and other electronic devices will not be permitted at the annual meeting.

14. Who pays the cost of proxy solicitation?

The company pays the cost of soliciting proxies. We will solicit proxies from our shareholders, and some of our employees or agents may contact shareholders after the initial mail solicitation by telephone, by e-mail, or in person. We have retained Morrow & Co., Inc. of New York, New York, to distribute and solicit proxies for a fee of $7,500 plus reasonable expenses. We also will reimburse banks, brokerage firms, and other custodians, nominees, and fiduciaries for their reasonable expenses in sending proxy materials to the beneficial owners of our common stock.

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15. Who will count the votes?

Representatives from Wells Fargo Bank, N.A., our transfer agent, will tabulate the votes and act as inspectors of election at the annual meeting.

16. Could other matters be decided at the annual meeting?

Management and the directors are not aware of any matters that may come before the annual meeting other than matters disclosed in this proxy statement. However, if other matters do properly come before the annual meeting, it is the intention of the persons named on the proxy card or voting instruction card to vote in accordance with their best judgment.

17. How do I make a shareholder proposal for the 2007 annual meeting?

Pursuant to applicable SEC rules, for a shareholder proposal to be considered for possible inclusion in the 2007 proxy statement, the corporate secretary of CarMax must receive the proposal in writing no later than January 12, 2007. CarMax plans to hold its 2007 annual meeting on or about June 19, 2007.

Pursuant to the company s Bylaws, if you wish to bring any matter, other than nominations of director candidates (the process for shareholder nomination of directors is described on page 15), before the 2007 annual meeting outside of the proxy statement process, you must notify the corporate secretary in writing at CarMax, Inc., 12800 Tuckahoe Creek Parkway, Richmond, Virginia 23238, no earlier than February 1, 2007, and prior to March 1, 2007. Regarding each matter, the notice must contain:

- A brief description of the business to be brought before the annual meeting, including the complete text of any resolutions to be presented and the reasons for conducting this business at the annual meeting.
- The name and address of the shareholder proposing this business.
- A representation that the shareholder is a shareholder of record at the time of the giving of notice and intends to appear in person or by proxy at the annual meeting to present the business specified in the notice.
- The class and number of shares of company stock owned by the shareholder.
- Any interest that the shareholder may have in the business specified in the notice.

If proper notice is not received prior to March 1, 2007, the chairman of the annual meeting may exclude the matter and it will not be acted upon at the 2007 annual meeting. If the chairman does not exclude the matter, the proxies may vote in the manner they believe is appropriate, as the SEC rules allow.

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PROPOSAL ONE ELECTION OF DIRECTORS

The company s board of directors is divided into three classes with staggered three-year terms. Jeffrey E. Garten, Beth A. Stewart, and William R. Tiefel have been nominated for reelection to the board for three-year terms expiring at the 2009 annual meeting. Additionally, Vivian M. Stephenson, a first-time nominee who was elected to the board on April 24, 2006, has been nominated for election to the board for a three-year term expiring at the 2009 annual meeting.

Your proxy will be voted to elect each of the nominees unless you tell us otherwise. If any nominee is not available to serve for reasons such as death or disability your proxy will be voted for a substitute nominee if the board nominates one. Each nominee has consented to being named in this proxy statement and to serve if elected.

The board of directors recommends a vote **FOR** each of the nominees listed below. Information about the nominees and the other directors of the company whose terms of office do not expire this year follows.

Nominees for Election to Three-Year Terms Expiring at the 2009 Annual Meeting

JEFFREY E. GARTEN, 59. Director since 2002.

Juan Trippe Professor in the Practice of International Trade, Finance, and Business at the Yale School of Management since July 2005 and Chairman of Garten Rothkopf, an international consulting firm, since October 2005. He was the Dean of the Yale School of Management from 1995 to 2005. He was the United States Undersecretary of Commerce for International Trade from 1993 to 1995 and previously spent 13 years in investment banking with Lehman Brothers and Blackstone Group. He is a director of Aetna Corporation, Credit Suisse Asset Management, the Conference Board, and the International Rescue Committee.

BETH A. STEWART, 49. Director since 2002.

Chairman since 1999 and Chief Executive Officer since 2001 of Storetrax.com, an Internet retail real estate listing service company. From 1992 to 2004, she served as president of Stewart Real Estate Capital, a real estate investment company. She was an adjunct professor at Columbia University Graduate School of Business from 1994 to 1996. She previously spent 12 years in investment banking with Goldman, Sachs & Co. She is a director of General Growth Properties, Inc. and Avatar Holdings, Inc.

WILLIAM R. TIEFEL, 72. Director since 2002.

Retired Vice-Chairman of Marriott International, Inc. and Chairman Emeritus of The Ritz-Carlton Hotel Company, L.L.C. since 2002. He joined Marriott Corporation in 1961. He was named president of Marriott Hotels and Resorts in 1989, president of Marriott Lodging in 1993, and vice-chairman of Marriott International and chairman of The Ritz-Carlton Hotel Company in 1998. He is a director of Bulgari Hotels and Resorts and Lydian Private Bank.

VIVIAN M. STEPHENSON, 69. Director since April 24, 2006.

Chief Operating Officer since 2003 of Williams-Sonoma, Inc., a specialty retailer of products for the home (retiring effective June 30, 2006). From 2000 to 2003, she served as a consultant to Apple Computer and Williams-Sonoma. She was the chief information officer for Target Corporation from 1995 to 2000. She is the chair of the Mills College board of trustees and is a director of the California State Automobile Association.

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Directors Whose Terms Expire at the 2008 Annual Meeting

W. ROBERT GRAFTON, 65. Director since 2003.

Retired Managing Partner-Chief Executive, Andersen Worldwide S.C. Andersen Worldwide provided global professional auditing and consulting services through its two service entities, Arthur Andersen and Andersen Consulting. He is a certified public accountant and joined Arthur Andersen in 1963. He was elected a member of the Board of Partners, Andersen Worldwide in 1991 and chairman of the Board of Partners in 1994. He served as Managing Partner-Chief Executive from 1997 through 2000. Mr. Grafton is currently lead director of DiamondRock Hospitality Company.

WILLIAM S. KELLOGG, 62. Director since 2003.

Retired Chairman and Chief Executive Officer of Kohl s Corporation, a national chain of apparel and home products department stores. From 1978 to 2003, Kohl s business expanded from five stores in the Milwaukee area to almost 500 stores nationwide through organic growth and acquisitions of other retailers. Mr. Kellogg joined Kohl s in 1967, was chief executive officer from 1978 to 2001, and was chairman of the board from 1978 to 2003.

AUSTIN LIGON, 55. Director since 1997.

President and Chief Executive Officer of CarMax. He is a co-founder of CarMax and has been integrally involved in the leadership of the business since its inception. He has been president of CarMax since 1995 and chief executive officer since the separation of the company from its former parent, Circuit City Stores, Inc. on October 1, 2002. He was appointed senior vice president of corporate planning at Circuit City in 1991 and became senior vice president-automotive of Circuit City and president of CarMax in 1995. Prior to joining Circuit City in 1990, he was senior vice president of strategic planning for Marriott Hotels and Resorts. He is an advisory board member of the Center for Talented Youth, Johns Hopkins University and the VCU Business School Foundation, Virginia Commonwealth University.

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PROPOSAL ONE ELECTION OF DIRECTORS CONTINUED

Directors Whose Terms Expire at the 2007 Annual Meeting

KEITH D. BROWNING, 53. Director since 1997.

Executive Vice President, Chief Financial Officer, and Corporate Secretary of CarMax. He joined CarMax in 1996 after spending 14 years at Circuit City Stores, Inc. While at Circuit City, he served as controller for the West Coast Division from 1984 to 1987, assistant controller from 1987 to 1990, corporate controller from 1990 to 1996, and vice president from 1992 to 1996.

JAMES F. CLINGMAN, JR., 69. Director since 2003.

Retired President and Chief Operating Officer of the H.E. Butt Grocery Company, an independently owned food retailer. He joined H.E. Butt Grocery Company in 1975, was named chief operating officer in 1984 and president in 1995, and retired in 2003. Mr. Clingman is a director of H.E. Butt Grocery Company, Van de Walle Food Manufacturing Company, Ecce Panis, and Discovery Food Company.

MAJOR GENERAL HUGH G. ROBINSON, (U.S.A., Ret.), 73. Director since 2002.

Chief Executive Officer of Global Building Systems, Inc., a firm that develops and constructs low- and moderate-income residential housing. From 2003 to 2005, he was the chairman and chief executive officer of Granville Construction & Development Co., Inc., a housing development and construction firm. From 1989 to 2003, he was chairman and chief executive officer of the Tetra Group, a construction management and building services firm. He also is a former chairman and board member of the Federal Reserve Bank of Dallas. He is a retired Major General from the United States Army. He is a director of Aleris International, Inc. and Newmarket Technology, Inc., and an advisory board member of TXU Corp.

RICHARD L. SHARP, 59. Director since 2002; previously a director from 1997 to 1999.

Chairman of the Board of CarMax and a private investor. He is a co-founder of CarMax. Mr. Sharp joined Circuit City Stores, Inc. as executive vice president in 1982. He was president of Circuit City from 1984 to 1997, chief executive officer from 1986 to 2000, and chairman of the board from 1994 to 2002. He is the chairman of the board of Crocs, Inc. and Scram Technologies, Inc., and a director of Flextronics International, Ltd.

THOMAS G. STEMBERG, 57. Director since 2003.

Venture Partner of Highland Capital Partners, a venture capital firm, since 2005 and Chairman Emeritus of the Board of Staples, Inc., an office supply superstore retailer. He is the founder of Staples, Inc. and pioneered the office superstore industry. He was chief executive officer of Staples, Inc. from 1986 to 2002. From 2002 to 2004, Mr. Stemberg served as an executive officer at Staples, Inc. with the title of Chairman. Mr. Stemberg is a director of PETsMART, Inc., Polycom, Inc., and The NASDAQ Stock Market, Inc.

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CORPORATE GOVERNANCE

The business and affairs of the company are managed under the direction of the board of directors in accordance with the Virginia Stock Corporation Act and the company s Articles of Incorporation and Bylaws. The committees of the board of directors are the Audit Committee, the Compensation and Personnel Committee, the Nominating and Governance Committee, and the Executive Committee. Additionally, in October 2005, the board formed an ad hoc Executive Search Committee to find Mr. Ligon s successor as President and Chief Executive Officer (CEO) of the company.

Corporate Governance Policies and Practices

The board of directors is actively involved in shaping the company s corporate governance. As a result, the board regularly monitors and reviews the reforms initiated by the Sarbanes-Oxley Act of 2002 and the related rules and regulations proposed and adopted by the SEC and the NYSE. In response to the various laws, rules, and regulations applicable to the company and its own views on corporate governance, the board has adopted corporate governance guidelines and a code of conduct applicable to all company personnel, including members of the board.

The corporate governance guidelines set forth the practices of the board with respect to its responsibilities, qualifications, access to management and independent advisors, compensation, orientation and continuing education, management evaluation and succession, and evaluation of its performance. The company amended the corporate governance guidelines during fiscal 2006 to include stock ownership guidelines applicable to all directors.

The code of conduct contains provisions relating to honest and ethical behavior (including the handling of conflicts of interest between personal and professional relationships), corporate opportunities, handling of confidential information, fair dealing, protection and proper use of company assets, compliance with laws, and other matters. Any amendment to or waiver from a provision of the code of conduct will be promptly disclosed on the company s website.

The corporate governance guidelines, code of conduct, and the charters of the Audit Committee, Compensation and Personnel Committee, and Nominating and Governance Committee are available on the Corporate Governance link of the company s investor information home page at http://investor.carmax.com. A printed copy of these documents is available to any shareholder upon written request to the corporate secretary of the company at CarMax, Inc., 12800 Tuckahoe Creek Parkway, Richmond, Virginia 23238.

Director Independence

As part of the company s corporate governance guidelines, the board has adopted categorical standards, which meet or exceed the independence standards set by the NYSE, to assist the board in evaluating the independence of each director and determining whether certain relationships between directors and the company or its subsidiaries (either directly or as a partner, shareholder, or officer of an organization that has a relationship with the company) are material relationships. For purposes of these standards, the term immediate family member includes a person s spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person s home. The categorical standards are enumerated below:

1. A director who is an employee or whose immediate family member is an executive officer of the company is not independent until three years after the end of the employment relationship.

2. A director who receives, or whose immediate family member receives, more than $100,000 per fiscal year in direct compensation from the company, other than the normal compensation and benefits for service as a director (provided such compensation is not contingent in any way on continued service), is not independent until three years after ceasing to receive more than $100,000 in such compensation. Compensation received by an immediate family member for service as a non-executive employee of the company is not considered in determining independence under this test.

3. A director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, present or

CORPORATE GOVERNANCE CONTINUED

former internal or external auditors of the company is not independent until three years after the end of either the affiliation or the auditing relationship.

4. A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the company s present executives serves on that company s compensation committee is not independent until three years after the end of such service or the employment relationship.

5. A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of another company that makes payments to, or receives payments from the company for property or services in an amount which in any single fiscal year exceeds the greater of $1 million or 2% of such other company s consolidated gross revenues, is not independent until three years after falling below such threshold.

6. A director who serves as an executive officer of a charitable organization that receives contributions from the company in any single fiscal year in excess of the greater of $1 million or 2% of such charitable organization s consolidated gross revenues is not independent until three years after falling below such threshold.

In its annual review of director independence, with the assistance of the Nominating and Governance Committee, the board of directors evaluated the applicable commercial, industrial, banking, consulting, legal, accounting, charitable, familial, and other relationships of each director and their respective immediate family members with the company and its subsidiaries. In April 2006, the board of directors affirmatively determined, in its business judgment, that the following directors satisfy the company s independence guidelines and the NYSE independence standards: James F. Clingman, Jr., Jeffrey E. Garten, W. Robert Grafton, William S. Kellogg, Major General Hugh G. Robinson, Thomas G. Stemberg, Vivian M. Stephenson, Beth A. Stewart, and William R. Tiefel. The board determined that Austin Ligon and Keith D. Browning did not qualify as independent directors because they are executive officers of the company. Further, the board determined that Richard L. Sharp did not qualify as an independent director due to certain administrative support services provided by the company to Mr. Sharp, which are further detailed on page 29 under the heading, Certain Relationships and Related Transactions.

Executive Sessions

The company s corporate governance guidelines provide that executive sessions, where nonmanagement directors meet on an informal basis, are to be held at each board meeting and that these directors may designate, on an annual basis, a director to preside at such sessions. Mr. Sharp has been designated to serve as presiding director for executive sessions through the date of the 2006 annual meeting of shareholders. The company s nonmanagement directors met in executive session four times in fiscal 2006.

Board and Committee Meeting Attendance; Committee Membership

The board of directors met six times in fiscal 2006. Each director attended 75% or more of the total number of meetings of the board and of the committees on which he or she served. Further, the company requires members of the board of directors to attend the annual meeting of shareholders. All of the directors attended the 2005 annual meeting of shareholders.

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The table below provides, for fiscal 2006, membership information and the number of meetings held by the board of directors and each of the board s committees. The numbers in each column indicate the number of meetings each director attended within each category.

r	Audit	Compensation and Personnel	Nominating and Governance	Executive Search	Exe
ng					
in	13	3			
6					

The Company s product costs are subject to a high degree of price fluctuation.

Various commodities comprise the raw materials used to manufacture of the Company s products. The prices of these commodities have historically fluctuated on a cyclical basis and have often depended on a variety of factors over which the Company has no control. Additionally, labor costs represent a significant component of the Company s supplier s manufacturing costs and the Company s suppliers may increase the prices they charge the Company if they experience rising labor costs. The cost of producing and distributing the Company s products is also sensitive to energy costs, duties and tariffs. The selling prices of the Company s products have not always increased in response to raw material, labor or other cost increases, and the Company is unable to determine to what extent, if any, it will be able to pass future cost increases through to its customers. The Company s inability to come to favorable agreements with its suppliers or to pass increased costs through to the Company s customers could materially and adversely affect its financial condition or results of operations.

The Company s business is highly seasonal.

The Company s business and working capital needs are highly seasonal, with a majority of sales occurring in the third and fourth quarters. In 2014, net sales for the third and fourth quarters accounted for 60% of total annual net sales. If the Company has poor operating results during the third and fourth quarters it would have a disproportionately adverse effect on the Company s financial condition or results of operations. In addition, with a significant amount of its revenue being realized during the latter portion of the year, the Company s working capital and borrowing needs fluctuate, which could result in higher borrowings and lower availability under the Credit Agreement during these quarters.

If the Company s goodwill or other long-term assets become impaired, the Company will be required to record impairment charges, which may be significant.

A portion of the Company s long-term assets consists of goodwill recorded as a result of the Company s acquisitions. At December 31, 2014, goodwill totaled $18.1 million. The Company does not amortize goodwill but rather reviews it for impairment on an annual basis or more frequently whenever events or changes in circumstances indicate that its carrying value may not be recoverable. If future operating performance of one or more of the Company s operating segments does not meet expectations, the Company may be

required to record a significant charge during the period in which any impairment of the Company s goodwill or other long-term assets is determined. For the year ended December 31, 2012, the Company recorded an impairment charge of $1.1 million in the consolidated statement of operations which reduced the book value of the Elements home décor trade name. In the third quarter of 2014, the Company recorded another impairment charge of $3.4 million which further reduced the book value of Elements, as well as reduced the book value of Melannco, home decor trade names. In addition, during 2014, the Company recorded an impairment charge of $6.0 million related to its investment in GSI. The recognition of an impairment of the Company s goodwill or any of the Company s assets would negatively affect the results of operations and total capitalization, the effect of which could be material.

Interruptions in the Company s operations caused by outside forces could cause material losses.

The Company s worldwide operations could be subject to natural and man-made disasters, telecommunications failures, water shortages, tsunamis, floods, hurricanes, typhoons, fires, extreme weather conditions, conflicts, acts of terrorism, health epidemics and other business interruptions. The occurrence of any of these business disruptions could seriously harm the Company s business, revenue and financial condition and increase the Company s costs and expenses. If the Company s or

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its manufacturers warehousing facilities or transportation facilities are damaged or destroyed, the Company would be unable to distribute products on a timely basis, which could harm the Company s business. The Company s back-up operations may be inadequate, and the Company s business interruption insurance may not be sufficient to compensate for any losses that may occur.

The Company s projections of product demand, sales and net income are highly subjective in nature and the Company s future sales and net income could vary in a material amount from the Company s projections.

From time to time, the Company may provide projections to its stockholders, lenders, the investment community, and other stakeholders of the Company s future sales and net income. Since the Company does not have long-term purchase commitments from customers and the customer order and shipment process is very short, it is difficult for the Company to accurately predict the demand for many of its products, or the amount and timing of the Company s future sales and related net income. The Company s projections are based on management s best estimate of sales using historical sales data and other information deemed relevant. These projections are highly subjective since sales can fluctuate substantially based on the demands of retail customers and due to other risks described in this Annual Report. Additionally, changes in retailer inventory management strategies could make the Company s inventory management more difficult. Because the Company s ability to forecast product demand and the timing of related sales includes significant subjective input, future sales and net income could vary materially from the Company s projections.

The Company s business requires it to maintain a large fixed-cost base that can affect its profitability.

The Company s business requires it to maintain large distribution facilities in its key markets, which represent a high fixed rental costs relating to its leased facilities. In addition, significant portions of the Company s selling, general and administrative expenses, including leased showrooms, are fixed, they neither increase nor decrease proportionally with sales. Furthermore, the Company s gross margins depends, in part, on its ability to spread certain other costs, of which a significant portion are fixed, over its products sold. Decreased demand or the need to reduce inventories can lower the Company s ability to absorb fixed costs and adversely affect its results of operations. This is exacerbated by the high degree of seasonality impacting the Company, which results in lower demand during the first two quarters of the year, while many of the operating costs remain fixed, which further affects profitability.

The Company may not be able to adequately address the additional review and disclosure required in respect of Conflict Minerals.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains regulations concerning the supply of conflict minerals originating from the Democratic Republic of Congo and adjoining countries. As a result, the SEC adopted annual disclosure and reporting requirements for those companies that use such conflict minerals in the products they manufacture or contract to manufacture. These requirements require

ongoing due diligence efforts and there are costs associated with complying with these disclosure requirements, including the costs of investigations to determine the sources of raw materials used in the Company s products and the costs of any changes to products, processes or sources of supply as a consequence of the results of such investigations. These rules could adversely affect the sourcing, supply and pricing of materials used in the Company s products. As there may be only a limited number of suppliers offering these conflict minerals from conflict free sources, the Company cannot ensure that it will be able to obtain necessary materials from such suppliers in sufficient quantities or at competitive prices. Also, the Company may face reputational challenges if it determines that certain of its products contain conflict minerals not determined to be conflict free or if it is unable to sufficiently verify the origins for all conflict minerals used in its products through the procedures the Company has implemented and may implement in the future.

The Company may incur material costs due to environmental liabilities.

The Company is subject to a broad range of federal, state, local, foreign and multi-national laws and regulations relating to the environment. These include laws and regulations that govern:

discharges to the air, water and land;

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the handling and disposal of solid and hazardous substances and wastes; and

remediation of contamination associated with release of hazardous substances at the Company s facilities and at off-site disposal locations.

The Company may incur material costs to comply with increasingly stringent environmental laws and enforcement policies. Moreover, there are proposed international accords and treaties, as well as federal, state and local laws and regulations, which would attempt to control or limit the causes of climate change, including the effect of greenhouse gas emissions on the environment. In the event that the U.S. government or foreign governments enact new climate change laws or regulations or make changes to existing laws or regulations, compliance with applicable laws or regulations may result in increased manufacturing costs for the Company s products, such as by requiring investment in new pollution control equipment or changing the ways in which certain of the Company s products are made. The Company may incur some of these costs directly and others may be passed on to the Company from its third-party suppliers. Although the Company believes that it is substantially in compliance with applicable environmental laws and regulations at its facilities, the Company may not always be in compliance with such laws and regulations or any new laws and regulations in the future, which could have a material adverse effect on the Company s business, financial condition and results of operations.

A wholly-owned subsidiary of the Company operates a leased manufacturing facility in San Germán, Puerto Rico. The United States Environmental Protection Agency (the EPA) announced that the San Germán Ground Water Contamination site in Puerto Rico had been added to the Superfund National Priorities List due to contamination present in the local drinking water supply. The EPA has been granted access to the site and further EPA investigation is pending. The Company is not able to estimate the extent of any possible liability, but any such liability could have a material adverse effect on the business, financial condition and results of operations of the Company. If previously unknown contamination of property underlying or in the vicinity of the Company s manufacturing facility or other properties that are currently or have formerly been owned, operated or used by the Company is discovered, the Company could be required to incur material unforeseen expenses. If this occurs, it may have a material adverse effect on the Company s business, financial condition and results of operations.

The Company s growth has, to a material extent, depended upon acquisitions and its strategy is likely to continue to involve acquisitions. The Company may not be able to identify or complete future acquisitions or strategic alliances.

The Company has achieved growth through acquisitions, investments and joint ventures and the Company s future growth will depend in part on the successful acquisition and integration of businesses into the Company s existing operations. While the Company is focused on adding strategic pieces to its operations, primarily in international markets, by acquiring companies, product lines and manufacturing and distribution assets that complement the Company s existing businesses, the Company may not be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions on satisfactory terms, obtain regulatory approval or otherwise complete

acquisitions in the future.

Additionally, the Company makes certain assumptions based on the information provided by potential acquisition candidates and also conducts due diligence to ensure the information provided is accurate and based on reasonable assumptions. However, the Company may be unable to realize the anticipated benefits from an acquisition or predict accurately how an acquisition will ultimately affect the business, financial condition or results of operations of the Company. The failure of any of these businesses to achieve expected results, the diversion of the Company s management s attention, the incurrence of unforeseen contingencies and the failure to retain key personnel at these businesses could have a material adverse effect on the Company s business, results of operations and financial condition.

The Company may not be able to effectively integrate acquired businesses into its operations and if the Company is unable to manage its acquisitions effectively, its business may be materially harmed.

The Company has completed approximately 15 acquisitions and strategic investments since 2006, including four acquisitions completed in the first quarter of 2014. The Company seeks acquisition opportunities that complement and expand its operations, some of which are based outside the United States. The Company may not continue to be able to successfully integrate these businesses or identify and integrate future acquisitions into its existing business without

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substantial costs, delays or other operational or financial difficulties. The Company could face significant challenges in consolidating functions and integrating procedures and processes, internal controls, information technology and other systems, personnel, product lines and operations in a timely and efficient manner. The Company may encounter difficulties in training its sales forces to work with new products and customers. Many, if not all, of the entities the Company acquires may not be reporting companies under the Exchange Act and therefore may not have the internal controls and procedures that the Company, as a reporting company, is required to have under the Sarbanes-Oxley Act. Instituting and implementing such internal controls and procedures at the acquired businesses within the time period required by the Sarbanes Oxley Act may require significant time, costs and efforts. Additionally, disclosures the Company makes regarding past operating results of acquired businesses, projections and pro forma results are based on financial information provided to the Company by the management of the acquired business, which has not been reviewed by the Company s auditors or subject to the Company s internal controls and the combined company may be unable to achieve the projections and pro forma results reported.

The integration process is complex and time-consuming, may be disruptive to the Company s businesses, and may cause an interruption of, or a loss of momentum in, the business as a result of a number of obstacles, such as:

the loss of significant customers;

the need to retrain skilled design, sales and other personnel resulting from the loss of key employees;

the failure to maintain the quality of customer service that each business has historically provided;

the need to coordinate geographically diverse organizations;

the presence of unforeseen contingencies;

retooling and reprogramming of equipment and information technology systems; and

the resulting diversion of management s attention from the day-to-day business and the need to hire additional management personnel to address integration obstacles.

If the Company is not successful in integrating its recent and future acquisitions into its operations, if the integration takes longer than anticipated, if the companies or assets the Company acquires do not perform as anticipated, or if the integrated product offerings fail to achieve market acceptance, the business, financial position, results of operations and cash flows of the Company could be materially adversely affected.

The Company may not be able to realize the anticipated cost savings, synergies or revenue enhancements from acquisitions, and the Company may incur significant costs to achieve these savings.

Even if the Company is able to integrate successfully its operations and the operations of recent and any future acquisitions, the Company may not be able to realize the cost savings, synergies or revenue enhancements that were anticipated from these acquisitions, either as to amount or in the time frame that the Company expects. The Company s ability to realize anticipated cost savings, synergies and revenue enhancements may be materially adversely affected by a number of factors, including the following:

the ability to effectively eliminate duplicative administrative overhead and overlapping sales personnel, synchronize information technology and other systems, consolidate warehousing and distribution facilities and shift production to more economical vendors;

the incurrence of significant cash and non-cash integration and implementation costs or charges in order to achieve those cost savings, which could offset any such savings and other synergies resulting from recent or future acquisitions; and

the ability to avoid labor disruption in connection with integration efforts.

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The Company s growth to date has placed, and future acquisitions could continue to place, significant demands on the Company s administrative, operational and financial resources. Acquisitions may also result in the assumption of unexpected liabilities and may divert management s attention from the operation of the Company s legacy business. Additionally, strategic investments and partnerships with other companies expose the Company to the risk that it may not be able to control the operations of the investee or partnership, which could decrease the amount of benefits the Company realizes from a particular relationship. The Company is also exposed to the risk that its partners in strategic investments may encounter financial difficulties which could lead to disruption of investee or partnership activities, or impairment of assets acquired, which could materially adversely affect future reported results of operations and financial condition.

There are inherent limitations on the effectiveness of the Company s controls.

The Company does not expect that its disclosure controls or the Company s internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. The design of a control system must reflect the fact that resource constraints exist, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate due to changes in conditions or deterioration in the degree of compliance with policies or procedures. If the Company s controls become inadequate, it could fail to meet its financial reporting obligations, its reputation may be adversely affected, its business and operating results could be harmed, and the market price of its stock could decline.

If securities or industry analysts do not publish or cease publishing research or reports about the Company, its business or its market, or if they change their recommendations regarding the Company s common stock adversely, the price and trading volume of the Company s common stock could decline.

The trading market for the Company s common stock will be influenced by the research and reports that industry or securities analysts may publish about the Company, its business, its market, or its competitors. If any of the analysts who may cover the Company change their recommendation regarding our stock adversely or provide more favorable relative recommendations about the Company s competitors, the price of the Company s common stock would likely decline. If any analyst who may cover the Company were to cease coverage of the Company or fail to regularly publish reports on it, the Company could lose visibility in the financial markets, which in turn could cause its stock price or trading volume to decline.

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Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The following table lists the principal properties at which the Company operates its business at December 31, 2014:

Location	Description	Size (square feet)	Owned/ Leased
Fontana, California [1]	Principal West Coast warehouse and distribution facility	753,000	Leased
Robbinsville, New Jersey[1]	Principal East Coast warehouse and distribution facility	700,000	Leased
Birmingham, England [2]	Offices, showroom, warehouse and distribution facilities	277,000	Leased
Winchendon, Massachusetts[1]	Warehouse and distribution facility, and spice packing line	175,000	Owned
Garden City, New York[3]	Corporate headquarters/main showroom	159,000	Leased
Corby, England [2]	Offices, showroom, warehouse and distribution facility	147,000	Leased
Medford, Massachusetts[1]	Offices, showroom, warehouse and distribution facility	69,000	Leased
San Germán, Puerto Rico[1]	Sterling silver manufacturing facility	55,000	Leased
Cumberland, Rhode Island[1]	Offices	34,000	Leased
Shanghai, China[3]	Offices	22,000	Leased
Kowloon, Hong Kong[3]	Offices and showrooms	19,000	Leased
Guangzhou, China[3]	Offices	18,000	Leased
New York, New York [1]	Showrooms	17,000	Leased
York, Pennsylvania[1]	Offices	14,000	Leased
Atlanta, Georgia[1]	Showrooms	11,000	Leased
Bentonville, Arkansas[1]	Offices and showroom	7,000	Leased
Menomonee Falls, Wisconsin[1]	Showroom	4,000	Leased
Carlisle, Pennsylvania[1]	Showroom	2,300	Leased

(1) Location used by the U.S. Wholesale segment.
(2) Location used by the International segment.
(3) Location used by all segments.

Item 3. Legal Proceedings

Wallace Silversmiths de Puerto Rico, Ltd. (Wallace de Puerto Rico), a wholly-owned subsidiary of the Company, operates a manufacturing facility in San Germán, Puerto Rico that is leased from the Puerto Rico Industrial Development Company (PRIDCO). In March 2008, the United States Environmental Protection Agency (the EPA) announced that the San Germán Ground Water Contamination site in Puerto Rico (the Site) had been added to the Superfund National Priorities List due to contamination present in the local drinking water supply.

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In May 2008, Wallace de Puerto Rico received from the EPA a Notice of Potential Liability and Request for Information Pursuant to 42 U.S.C. Sections 9607(a) and 9604(e) of the Comprehensive Environmental Response, Compensation, Liability Act. The Company responded to the EPA s Request for Information on behalf of Wallace de Puerto Rico. In July 2011, Wallace de Puerto Rico received a letter from the EPA requesting access to the property that it leases from PRIDCO, and the Company granted such access. In February 2013, the EPA requested access to conduct further environmental investigation at the property. The Company granted such access.

The Company is not aware of any determination by the EPA that any remedial action is required for the Site and, accordingly, is not able to estimate the extent of any possible liability.

The Company is, from time to time, involved in other legal proceedings. The Company believes that such other current litigation is routine in nature and incidental to the conduct of the Company s business and that none of this litigation, individually or collectively, would have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosure

Not applicable.

PART II

Item 5. Market For Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company s common stock is traded under the symbol LCUT on the NASDAQ Global Select Market (NASDAQ).

The following table sets forth the quarterly high and low sales prices for the common stock of the Company for the fiscal periods indicated as reported by NASDAQ.

	2014		2013	
	High	**Low**	**High**	**Low**
First quarter	$ 18.84	$ 14.03	$ 13.00	$ 10.28
Second quarter	19.95	14.47	13.75	11.11
Third quarter	18.06	15.03	16.35	13.50
Fourth quarter	18.15	14.74	16.35	13.80

At December 31, 2014, the Company estimates that there were approximately 2,500 record holders of the Company s common 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 were issued or outstanding

at December 31, 2014.

In the last two fiscal years, the Board of Directors declared a dividend of $0.025 per share payable on February 15, 2013, a dividend of $0.03125 per share payable on May 15, 2013, August 15, 2013 and November 15, 2013 and a dividend of $0.0375 per share payable on February 14, 2014, May 15, 2014, August 15, 2014, November 14, 2014 and February 13, 2015. The Board of Directors currently intends to continue paying cash dividends for the foreseeable future, although the Board of Directors may in its discretion determine to modify or eliminate such dividends at any time. On March 4, 2015, the Board of Directors declared a quarterly dividend of $0.0375 per share payable on May 15, 2015 to shareholders of record on May 1, 2015. The Company s Credit Agreement, however, may restrict its ability to declare and pay dividends, establishing conditions that are to be met prior to making any dividend payment as well as restrictions in the amount of any dividend payment.

There were no purchases made by or on behalf of the Company or any affiliated purchaser of the Company s common stock during the quarter ended December 31, 2014.

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The following table summarizes the Company s equity compensation plan as of December 31, 2014:

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 plan approved by security holders	2,326,627	$ 14.19	296,362
Equity compensation plan not approved by security holders			
Total	2,326,627	$ 14.19	296,362

PERFORMANCE GRAPH

The following chart compares the cumulative total return on the Company s common stock with the NASDAQ Market Index and the Hemscott Group Index for Housewares & Accessories. The comparisons in this chart 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.

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Date	Lifetime Brands, Inc.	Hemscott Group Index	NASDAQ Market Index
12/31/2009	$ 100.00	$ 100.00	$ 100.00
12/31/2010	196.36	119.05	118.02
12/31/2011	171.01	110.14	117.04
12/31/2012	151.35	162.93	137.47
12/31/2013	226.41	250.47	192.62
12/31/2014	249.90	299.01	221.02

Note:

(1) The graph assumes $100 was invested as of the open of trading on January 1, 2010 and dividends were reinvested. Measurement points are at the last trading day of each of the fiscal years ended December 31, 2010, 2011, 2012, 2013 and 2014. The material in this chart is not soliciting material, is not deemed filed with the SEC and is not incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether or not the chart is prepared before or after the date of this Annual Report on Form 10-K and irrespective of any general incorporation language in such filing. A list of the companies included in the Hemscott Group Index will be furnished by the Company to any stockholder upon written request to the Chief Financial Officer of the Company.

Item 6. Selected Financial Data

The selected consolidated statement of operations data for the years ended December 31, 2014, 2013 and 2012 and the selected consolidated balance sheet data as of December 31, 2014 and 2013 has been derived from the Company s audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected consolidated statement of operations data for the years ended December 31, 2011 and 2010 and the selected consolidated balance sheet data at December 31, 2012, 2011 and 2010 have been derived from the Company s audited consolidated financial statements included in the Company s Annual Reports on Form 10-K for those respective years, which are not included in this Annual Report on Form 10-K.

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 on Form 10-K.

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	Year ended December 31,				
	2014	2013	2012	2011	2010[2]
	(in thousands, except per share data)				
STATEMENT OF OPERATIONS DATA[1]					
Net sales	$ 586,010	$ 502,721	$ 486,842	$ 444,418	$ 443,171
Cost of sales	373,129	315,459	310,054	282,058	273,774
Distribution expenses	54,202	44,364	44,046	43,882	44,570
Selling, general and administrative expenses [3]	133,786	114,345	104,338	93,894	95,044
Intangible asset impairment	3,384		1,069		
Restructuring expenses	125	367			
Income from operations	21,384	28,186	27,335	24,584	29,783
Interest expense	(6,418)	(4,847)	(5,898)	(7,758)	(9,351)
Financing expense	(758)				
Loss on early retirement of debt	(346)	(102)	(1,363)		(764)
Income before income taxes, equity in earnings and extraordinary item	13,862	23,237	20,074	16,826	19,668
Income tax provision	(5,825)	(9,175)	(5,208)	(6,122)	(4,602)
Equity in (losses) earnings, net of taxes [4]	(6,493)	(4,781)	6,081	3,362	2,718
Income before extraordinary item	1,544	9,281	20,947	14,066	17,784
Extraordinary item, net of taxes					2,477
Net income	$ 1,544	$ 9,281	$ 20,947	$ 14,066	$ 20,261
Basic income per common share before extraordinary item	$ 0.11	$ 0.73	$ 1.67	$ 1.16	$ 1.48
Basic income per common share of extraordinary item					0.20
Basic income per common share	$ 0.11	$ 0.73	$ 1.67	$ 1.16	$ 1.68
	13,519	12,757	12,511	12,128	12,036

Weighted-average shares outstanding basic					
Diluted income per common share before extraordinary item	$ 0.11	$ 0.71	$ 1.64	$ 1.12	$ 1.44
Diluted income per common share of extraordinary item					0.20
Diluted income per common share	$ 0.11	$ 0.71	$ 1.64	$ 1.12	$ 1.64
Weighted-average shares outstanding diluted	13,974	13,043	12,810	12,529	12,376
Cash dividends declared per common share	$ 0.15	$ 0.13125	$ 0.125	$ 0.075	$

			December 31,		
	2014	**2013**	**2012**	**2011**	**2010**
			(in thousands)		
BALANCE SHEET DATA[1]					
Current assets	$ 258,117	$ 214,676	$ 212,759	$ 198,797	$ 182,253
Current liabilities	83,869	69,494	66,899	69,962	60,512
Working capital	174,248	145,182	145,860	128,835	121,741
Total assets	421,402	336,739	348,797	318,745	277,586
Short-term borrowings	10,765	3,937	11,375	15,000	4,100
Long-term debt	127,655	65,919	84,593	82,625	50,000
Convertible senior notes					23,557
Stockholders equity	188,233	180,905	172,230	146,175	127,606

Notes:

(1) Investments and acquisitions of the following, in the respective years noted, affect the comparability of the periods: the acquisition of Creative Tops in November 2011, a 40% equity investment in GS Internacional S/A (GSI) in December 2011, the acquisition of Fred® & Friends in December 2012 and the acquisition of Kitchen Craft in January 2014.

(2) In 2010, the Company recorded an extraordinary gain of $2.5 million as a result of the elimination of the negative goodwill recorded in conjunction with the purchase of the business and certain assets of Mikasa®, Inc.

(3) In 2014, the Company recorded a credit of $4.2 million related to an adjustment to the fair value of certain contingent consideration.

(4) In 2012, the Company recorded a gain of $4.1 million related to Vasconia s purchase of Almexa and in 2013, the Company recorded a charge of $5.0 million, net of tax for a reduction of the fair value of the Company s investment in Vasconia. In 2014,

the Company recorded a charge of $6.0 million, net of tax, for a reduction of the fair value of the Company s investment in GSI.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements for the Company and notes thereto set forth in Item 15. 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 Annual Report including those discussed on pages 2-3 of this Annual Report under Disclosures regarding Forward-Looking Statements and under Item 1A Risk Factors and Item 7A Quantitative and Qualitative Disclosures Regarding Market Risk. 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.

ABOUT THE COMPANY

The Company designs, sources and sells branded kitchenware, tableware and other products used in the home. The Company s product categories include two categories of products that people use to prepare, serve and consume foods: Kitchenware (kitchen tools and gadgets, cutlery, cutting boards, cookware and bakeware) and Tableware (dinnerware, stemware, flatware and giftware); and one category, Home Solutions, which comprises other products used in the home (pantryware, spice racks, thermal beverageware, food storage and home décor). In 2014, Kitchenware products and Tableware products accounted for approximately 88% of the Company s U.S. Wholesale net sales and 87% of the Company s consolidated net sales, as compared with 88% and 86%, respectively, in 2013.

The Company markets several product lines within each of its product categories and under most of the Company s brands, primarily targeting moderate price points through virtually every major level of trade. The Company believes it possesses certain competitive advantages based on its brands, its emphasis on innovation and new product development and its sourcing capabilities. The Company owns or licenses a number of leading brands in its industry including Farberware®, KitchenAid®, Mikasa®, KitchenCraft®, Pfaltzgraff®, Fred®, Sabatier®, masterclass®, Kamenstein®, Towle® and Built NY®. Historically, the Company s sales growth has come from expanding product offerings within its product categories, by developing existing brands, acquiring new brands and establishing new product categories. Key factors in the Company s growth strategy have been the selective use and management of the Company s brands and the Company s ability to provide a stream of new products and designs. A significant element of this strategy is the Company s in-house design and development teams that create new products, packaging and merchandising concepts. More recently, the Company has significantly expanded its international footprint through acquisitions of businesses which own or license complementary brands in markets outside the United States.

BUSINESS SEGMENTS

During the second quarter of 2014, the Company realigned its reportable segments into three categories: U.S. Wholesale, International and Retail Direct. The U.S. Wholesale segment, formerly the Wholesale segment, is the Company s primary domestic business that designs, markets and distributes its products to retailers and distributors. The International segment consists of certain business operations conducted outside the U.S. which were previously included in the Wholesale segment. The Retail Direct segment is that in which the Company markets and sells a limited selection of its products to consumers through its Pfaltzgraff®, Mikasa®, Fred® and Friends, Built NY® and Lifetime Sterling® Internet websites. The Company has segmented its operations to reflect the manner in which management reviews and evaluates its results of operations. To facilitate year over year comparison, previous periods presented have been recast to conform with the current period presentation.

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EQUITY INVESTMENTS

The Company owns approximately 30% of the outstanding capital stock of Grupo Vasconia, S.A.B. (Vasconia), an integrated manufacturer of aluminum products and one of Mexico s largest housewares companies.

The Company accounts for its investment in Vasconia using the equity method of accounting and has recorded its proportionate share of Vasconia s net income, net of taxes, as equity in earnings in the Company s consolidated statements of operations. Pursuant to a Shares Subscription Agreement (the Agreement), the Company may designate four persons to be nominated as members of Vasconia s Board of Directors. Shares of Vasconia s capital stock are traded on the Bolsa Mexicana de Valores, the Mexican Stock Exchange. The Quotation Key is VASCONI.

The Company recorded equity in earnings (losses) of Vasconia, net of taxes, of $230,000, $(4.0) million and $6.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. In 2013, as a result of a decline in the quoted stock price and the 2013 quarterly decline in the operating results of Vasconia, the carrying amount of the Company s investment in Vasconia exceeded its fair value and, therefore, the Company reduced its investment value by $5.0 million during the year ended December 31, 2013, net of tax, to its fair value. Equity in earnings of Vasconia in 2012 includes $4.1 million related to the Company s portion of a bargain purchase gain recognized by Vasconia on its purchase of Almexa, an aluminum mill and manufacturer of aluminum foil, a $1.1 million tax benefit realized in the period and a reduction of the Company s investment to fair value of $1.3 million, net of tax.

In December 2011, the Company acquired a 40% equity interest in GS Internacional S/A (GSI). GSI is a wholesale distributor of branded housewares products in Brazil. GSI markets dinnerware, glassware, home décor, kitchenware and barware to customers throughout Brazil including major department stores, housewares retailers and independent shops. The Company accounts for its investment in GSI using the equity method of accounting and has recorded its proportionate share of GSI s net income, net of taxes, as equity in earnings in the Company s consolidated statements of operations. Pursuant to a Shareholders Agreement, the Company has the right to designate three persons (including one independent person, as defined) to be nominated as members of GSI s Board of Directors.

As a result of the decline in operating results of GSI and the business environment in Brazil, in September 2014, the Company evaluated the carrying value of its investment for other-than-temporary impairment under the equity-method of accounting and recorded an impairment charge of $5.2 million, net of tax, during the third quarter of 2014. During the fourth quarter of 2014, the Company purchased 40% of newly issued common stock of GSI for R$2.0 million ($764,000). The Company assessed the valuation of its fourth quarter investment in GSI and determined there were no significant changes to the assumptions that were used in the valuation of GSI performed during the third quarter and as a result, the new investment also was impaired.

In February 2012, the Company acquired a 50% stake in Grand Venture Holdings Limited (Grand Venture), a joint venture with Manweal Development Limited (Manweal), a Chinese corporation, to distribute Mikasa® products in China, which included an initial investment by the Company of $500,000. The Company and Manweal each own 50% of Grand Venture and have rights and obligations proportionate to their ownership percentages. The Company accounts for its investment in Grand Venture using the equity method of accounting and has recorded its proportionate share of Grand Venture s net loss in equity in earnings in the Company s consolidated statements of operations.

In January 2011, the Company, together with Vasconia and unaffiliated partners, formed a joint venture based in Hong Kong that supplies imported kitchenware products to retailers in North, Central and South American. The Company sold its investment in this joint venture to an unaffiliated partner in October 2014.

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 2014, 2013 and 2012, net sales for the third and fourth quarters accounted for 60%, 61% and 58%, of total annual net sales, respectively. In anticipation of the pre-holiday shipping season, inventory levels increase primarily in the June through October time period.

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IMPACT OF INFLATION

Inflation rates in the United States and in major foreign countries where the Company operates have not had a significant impact on its results of operations or financial position during 2014, 2013, or 2012. The Company will continue its practice of monitoring costs and adjusting prices, accordingly.

EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLES

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*, which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative impairment test described in ASC Topic No. 350, Intangibles Goodwill and Other. The amendments in this update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company s adoption of this guidance did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

Effective January 2013, the Company adopted ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,* which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income (e.g., net periodic pension benefit cost), an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. In connection with the adoption of this standard, the Company added additional disclosure about the Company s accumulated other comprehensive income to Note M of its financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, to clarify the principles of recognizing revenue and create common revenue recognition guidance under U.S. GAAP and International Financial Reporting Standards. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016 and can be adopted either retrospectively to each reporting period presented or as a cumulative effect adjustment as of the date of the adoption, with early application not permitted. The Company is currently determining its implementation approach and assessing the impact, if any, on the consolidated financial statements.

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RESULTS OF OPERATIONS

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

	Year Ended December 31,		
	2014	2013	2012
Net sales	100.0%	100.0%	100.0%
Cost of sales	63.7	62.8	63.7
Gross margin	36.3	37.2	36.3
Distribution expenses	9.2	8.8	9.0
Selling, general and administrative expenses	22.8	22.7	21.4
Intangible asset impairment	0.6		0.2
Restructuring		0.1	
Income from operations	3.7	5.6	5.7
Interest expense	(1.1)	(1.0)	(1.2)
Financing expense	(0.1)		
Loss on early retirement of debt	(0.1)		(0.3)
Income before income taxes and equity in earnings	2.4	4.6	4.2
Income tax provision	(1.0)	(1.8)	(1.1)
Equity in (losses) earnings, net of taxes	(1.1)	(1.0)	1.2
Net income	0.3%	1.8%	4.3%

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MANAGEMENT S DISCUSSION AND ANALYSIS

2014 COMPARED TO 2013

As a result of the Company s realignment of its reportable segments into three categories: U.S. Wholesale, International and Retail Direct in the second quarter of 2014, previous periods presented have been recast to conform with the current period presentation.

Net Sales

Net sales for the year 2014 were $586.0 million, an increase of 16.6%, compared to net sales of $502.7 million in 2013.

Net sales for the U.S. Wholesale segment in 2014 were $441.3 million, a decrease of $2.9 million, or 0.7%, compared to net sales of $444.2 million in 2013.

Net sales for the Company s Kitchenware product category in 2014 were $269.3 million, a decrease of $11.9 million, or 4.2%, compared to net sales of $281.2 million in 2013. The decrease in the U.S. Wholesale s Kitchenware product category sales was in part, due to a decrease in cutlery programs and decreased sales volume in both cookware and novelty kitchenware.

Net sales for the Company s Tableware product category in 2014 were $117.5 million, an increase of $7.4 million, or 6.7%, compared to net sales of $110.1 million for 2013. The Tableware product category sales increase reflects higher sales volumes of luxury tableware and stainless flatware. The increased sales volume was primarily attributable to an increase in successful warehouse club programs year over year.

Net sales for the Company s Home Solutions products category in 2014 were $54.5 million, an increase of $1.6 million, or 3.0%, compared to net sales of $52.9 million in 2013. The increase in the Home Solutions product category reflects the inclusion of Built NY®, acquired in the first quarter of 2014, partially offset by a decrease in pantryware warehouse club programs and lower volume for the home décor product line from a reduction in retail space allocated to this category.

Net sales for the International segment in 2014 were $125.2 million, an increase of $86.3 million, compared to net sales of $38.9 million for 2013. Of the increase, $71.9 million represents sales from Kitchen Craft and La Cafetière, which were acquired during the first quarter of 2014. The balance of the increase was due to higher sales of tableware products as the impact of higher duties on ceramic products imposed by the European Union in 2013 has subsided and to a lesser degree the strength of the British Pound.

Net sales for the Retail Direct segment in 2014 were $19.5 million, a decrease of $1.2 million, or 5.8%, compared to $20.7 million for 2013. The decrease was primarily attributable to reduced activity on the Company s Pfaltzgraff® and Mikasa® internet websites in 2014 compared to 2013. The decrease in activity on the Pfaltzgraff® and

Mikasa® internet websites was partially offset by the launch of the Built NY® and Fred® & Friends internet websites in 2014.

Gross margin

Gross margin for 2014 was $212.9 million, or 36.3%, compared to $187.3 million, or 37.2%, for the corresponding period in 2013.

Gross margin for the U.S. Wholesale segment was $155.8 million, or 35.3%, for 2014 compared to $163.4 million, or 36.8%, for 2013. Gross margin may be expected to fluctuate from period to period based on a number of factors, including product and customer mix. The decrease in gross margin for the U.S. Wholesale segment reflects actions taken to create opportunities to expand the Company s retail placement, an increase in the proportion of tableware product sales, which typically have lower gross margin than kitchenware products, and an increase in promotional activities to introduce new brands and products. The decreases in margin in the Kitchenware and Tableware product categories were partially offset by an increase in margin in the Home Solutions product category.

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Gross margin for the International segment was $43.8 million, or 35.0%, for 2014 compared to $10.7 million, or 27.6%, for 2013. The increase in gross margin in the International segment is due to the inclusion of Kitchen Craft, the products of which carry a higher margin than other product categories in the segment, and, to a lesser extent, a decrease in pricing promotions for tableware products.

Gross margin for the Retail Direct segment was $13.4 million, or 68.8%, for 2014 compared to $14.3 million, or 68.8%, for 2013.

Distribution expenses

Distribution expenses for 2014 were $54.2 million as compared to $44.4 million for 2013. Distribution expenses as a percentage of net sales were 9.2% in 2014 and 8.8% in 2013.

Distribution expenses as a percentage of sales shipped from the Company s warehouses located in the United States for the U.S. Wholesale segment were 9.3% for 2014 as compared to 8.8% for 2013. The increase reflects higher expenses despite flat year over year shipments and the effect of labor costs on lower revenue per shipment.

Distribution expenses as a percentage of sales shipped from the Company s warehouses for the International segment were 12.1% and 15.1% for the 2014 and 2013, respectively. The decrease in expenses as a percentage of sales shipped reflects the higher sales volume from the tableware warehouses and a more efficient use of freight lines.

Distribution expenses as a percentage of net sales for the Retail Direct segment were 29.7% for 2014 compared to 29.6% for 2013. The increase was due to declining sales relative to fixed expenses.

Selling, general and administrative expenses

Selling, general and administrative expenses (SG&A) for 2014 were $133.8 million, an increase of $19.5 million, or 17.1%, as compared to $114.3 million for 2013. The 2014 period includes a credit of $4.2 million for the reduction in the fair value of certain contingent consideration obligations.

SG&A expenses for 2014 for the U.S. Wholesale segment were $85.0 million (excluding the credit related to the contingent consideration), an increase of $3.2 million, or 3.9%, compared to $81.8 million in 2013. During 2014, the Company incurred certain expenses related to its growth and acquisition activities which were offset primarily by a reduction in short term incentive compensation expense. As a percentage of net sales, SG&A expenses were 19.3% for 2014 compared to 18.4% for 2013.

SG&A expenses for 2014 for the International segment were $28.0 million compared to $9.5 million for 2013. The increase was primarily due to the inclusion of Kitchen Craft. As a percentage of net sales, SG&A expenses decreased to 22.4% for 2014 compared to

24.4% for 2013.

SG&A expenses for 2014 for the Retail Direct segment were $8.7 million compared to $8.2 million for 2013. The increase is primarily due to an increase in costs related to the launch of two new websites in 2014.

Unallocated corporate expenses for 2014 were $16.2 million compared to $14.9 million for 2013. The increase is primarily due to an increase in professional fees and acquisition related expenses.

Intangible asset impairment

The Company s home décor products category has experienced a decline in sales and profit in recent years. The Company believes the most significant factor resulting in the decline was the reduction in retail space allocated to the category which has also contributed to pricing pressure. The Company has been re-branding a portion of the home décor products under the Mikasa® and Pfaltzgraff® trade names and more recently under the Bombay® license. The Company is also taking advantage of promotional sale opportunities, such as flash sale websites and online retailers to offset the effect of a reduction in retail space for this product category and pricing pressures. As a result of these factors, the Company recorded an impairment charge of $3.4 million, related to these brands in its consolidated statement of operations for 2014.

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Restructuring expenses

The Company incurred one-time restructuring expenses of $0.1 million in 2014 and $0.4 million in 2013. The restructuring expenses in 2014 resulted from the consolidation of our customer service and call center functions which resulted in the elimination of certain employee positions. The expenses in 2013 resulted from the planned closure of the Fred® & Friends distribution center which included the elimination of certain employee positions in the third quarter of 2013.

Interest expense

Interest expense for 2014 was $6.4 million compared to $4.8 million for 2013. The increase in interest expense was attributable to higher average borrowings attributable to the recent acquisitions, which were partially offset by lower rates resulting from the debt refinancing in January 2014.

Financing expenses

In 2014 the Company wrote off $0.7 million of expenses related to the refinancing of indebtedness that was not completed. The Company did not incur financing expenses in 2013.

Loss on early retirement of debt

In January 2014, in connection with the refinancing of its senior debt, the Company repaid the senior secured term loan outstanding under its Amended and Restated Credit Agreement dated as of October 28, 2011 with JP Morgan Chase Bank, N.A. as Administrative Agent and a Co-Collateral Agent, which was replaced by the Credit Agreement (the Senior Secured Term Loan). In connection therewith, the Company wrote off the related debt issuance costs of $0.3 million. In December 2013, the Company repaid a portion of its senior secured credit agreement. In connection with the payoff, the Company wrote off debt issuance costs of $0.1 million.

Income tax provision

The income tax provision was $5.8 million in 2014 and $9.2 million in 2013. The Company s effective tax rate for 2014 was 42.0%, compared to 39.5% for 2013. The effective tax rate in 2014 reflects non-deductable transaction costs in both the U.S. and the U.K., as well as a reduction in the deferred tax assets in Puerto Rico as a result of a rate change and an increase in uncertain state tax positions. The effective tax rate in 2013 reflects a reduced tax rate in the U.K. and an increased tax rate in Puerto Rico.

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Equity in earnings (losses)

The Company s equity in earnings (losses) for 2014 and 2013 are as follows:

	Year Ended December 31,	
	2014	2013
	(in thousands)	
Equity in earnings (losses) of Grupo Vasconia:		
Equity earnings before reduction in investment to fair value, net of tax	$ 1,293	$ 1,000
Tax provision recorded in equity in earnings [(1)]	(1,063)	
Reduction in investment to fair value, net of tax		(5,040)
Equity in earnings (losses) of Grupo Vasconia	230	(4,040)
Equity in losses of GSI:		
Equity in losses before reduction in investment to fair value, net of tax	(692)	(656)
Reduction in investment to fair value, net of tax	(5,977)	
Equity in losses of GSI	(6,669)	(656)
Equity in losses of other investments	(54)	(85)
	$ (6,493)	$ (4,781)

(1) Income tax provision related to the valuation allowance for deferred taxes associated with the cumulative foreign currency translation adjustment.

Equity in earnings of Vasconia, net of taxes, was $230,000 in 2014, as compared to equity in losses, net of taxes, of $4.0 million for 2013. Equity in losses in 2013 includes a charge of $5.0 million, net of tax, for the reduction in Vasconia s fair value. Vasconia reported income from operations for 2014 of $7.8 million, compared to $5.4 million for 2013 and net income of $5.3 million in 2014, compared to $4.3 million in 2013.

Equity in losses of GSI was $6.7 million (including a charge of $6.0 million, net of tax, for the reduction in the fair value of the Company s investment in GSI) for 2014 and $0.7 million for 2013, respectively. As discussed under Equity Investments above, as a result of the decline in operating results of GSI and the business environment in Brazil, the Company recorded an aggregate impairment charge of $6.0 million, net of tax, during 2014.

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MANAGEMENT S DISCUSSION AND ANALYSIS

2013 COMPARED TO 2012

As a result of the Company s realignment of its reportable segments into three categories: U.S. Wholesale, International and Retail Direct in the second quarter of 2014, previous periods presented have been recast to conform with the current period presentation.

Net Sales

Net sales for the year 2013 were $502.7 million, an increase of 3.3%, compared to net sales of $486.8 million in 2012. The increase was primarily the result of the inclusion of the net sales of Fred® & Friends, which was acquired in December 2012.

Net sales for the U.S. Wholesale segment in 2013 were $444.2 million, an increase of $22.0 million, or 5.2%, as compared to net sales of $422.2 million in 2012.

Net sales for the Company s Kitchenware product category in 2013 were $281.2 million, an increase of $25.1 million, or 9.8%, as compared to net sales of $256.1 million in 2012. Net sales for the Company s Kitchenware product category included $19.5 million of net sales for the year ended December 31, 2013 from Fred® & Friends as compared to $0.2 million from Fred® & Friends in 2012. The increase in the Company s Kitchenware product category was primarily attributable to successful new cutlery programs and new kitchen tools and gadgets programs throughout the year.

Net sales for the Company s Tableware product category in 2013 were $110.1 million, a decrease of $3.8 million, or 3.3%, as compared to net sales of $113.9 million for 2012. The Tableware product category sales decrease reflected a decline in luxury tableware sales.

Net sales for the Company s Home Solutions products category in 2013 were $52.9 million, an increase of $0.7 million, or 1.3%, as compared to net sales of $52.2 million in 2012. The increase in sales for the Company s Home Solutions product category was primarily due to new pantryware programs, larger seasonal programs related to wall décor and lighting products in the second half of 2013, which offset reduced sales in the first half of the year resulting from a decline in close out activity, and lower volume at a major warehouse club in the first quarter.

Net sales for the International segment in 2013 were $38.9 million, a decrease of $3.7 million, or 8.7%, as compared to net sales of $42.6 million for 2012. The decrease in International segment net sales was due to the impact of higher duties imposed by the European Union. Sales increased in the fourth quarter of 2013 as customers in the European Union adjusted to the increased pricing resulting from duty rates.

Net sales for the Retail Direct segment in 2013 were $20.7 million, a decrease of $1.3 million, or 5.9%, as compared to $22.0 million for 2013. The decrease was primarily attributable to a reduction in promotional activities in 2013.

In 2013, the Company recorded a non-operating adjustment of $1.1 million to reduce accounts receivable for previously issued credits within the Retail Direct business which related to 2010 and earlier periods.

Gross margin

Gross margin for 2013 was $187.3 million, or 37.2%, as compared to $176.8 million, or 36.3%, for the corresponding period in 2012.

Gross margin for the U.S. Wholesale segment was 36.8% for 2013 as compared to 35.1% for 2012. Gross margin may be expected to fluctuate from period to period based on a number of factors, including product mix and customer mix. The increase in gross margin was the result of the inclusion of Fred® & Friends which was acquired in December 2012.

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Gross margin for the International segment was 27.6% for 2013 as compared to 31.9% for 2012. The decrease in gross margin was a result of an increase in pricing promotions.

Gross margin for the Retail Direct segment was 68.8% for 2013 as compared to 68.6% for 2012. The increase in gross margin reflects reduced discounting of dinnerware in 2013 principally from the elimination of the use of multiple coupons for one transaction.

Distribution expenses

Distribution expenses for 2013 were $44.4 million as compared to $44.0 million for 2012. Distribution expenses as a percentage of net sales were 8.8% in 2013 and 9.0% in 2012.

Distribution expenses as a percentage of sales shipped from the Company s warehouses located in the United States for the U.S. Wholesale segment were 8.8% for 2013 as compared to 8.9% for 2012. The decrease primarily reflects labor efficiencies and improved labor management which reduced headcount in the distribution facilities in 2013. Additionally, the closure of the Fred® & Friends distribution center reduced the related distribution expenses.

Distribution expenses as a percentage of sales shipped from the Company s warehouses for the International segment were 15.1% and 17.8% for 2013 and 2012, respectively. The decrease primarily relates to an increase in sales.

Distribution expenses as a percentage of net sales for the Retail Direct segment were 29.6% for 2013 compared to 28.9% for 2012. The increase was due to declining sales relative to fixed expenses.

Selling, general and administrative expenses

SG&A expenses for 2013 were $114.3 million, an increase of $10.0 million, or 9.6%, as compared to $104.3 million for 2012.

SG&A expenses for 2013 for the U.S. Wholesale segment were $81.8 million, an increase of $9.1 million, or 12.5%, as compared to $72.7 million in 2012. As a percentage of net sales, SG&A expenses were 18.5% for 2013 compared to 17.2% for 2012. The increase was due to the inclusion of Fred® & Friends and an increase in selling expenses, such as trade show expenses and employee-related expenses.

SG&A expenses for 2013 for the International segment were $9.5 million compared to $9.7 million for 2012.

SG&A expenses for 2013 for the Retail Direct segment were $8.2 million compared to $8.3 million for 2012.

Unallocated corporate expenses for 2013 and 2012 were $14.9 and $13.6 million, respectively, the increase being due to an increase in professional fees.

Restructuring expenses

Restructuring expenses for 2013 were $0.4 million. The expenses resulted from the planned closure of the Fred® & Friends distribution center which included the elimination of certain employee positions in the third quarter of 2013.

Intangible asset impairment

During the year ended December 31, 2012, the Company s home décor products category experienced a significant decline in sales. The Company believes the most significant factor was the reduction in retail space allocated to the category which has also contributed to pricing pressure. While the Company believed this market condition was not permanent, following a strategic review of the business, it decided to re-brand a portion of the home décor products under the Mikasa® and Pfaltzgraff® trade names. As a result of these factors, the Company recorded an impairment charge of $1.1 million in its statement of operations for the year ended December 31, 2012, which reduced the book value of its Elements® trade name.

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Interest expense

Interest expense for 2013 was $4.8 million as compared to $5.9 million for 2012. The decrease in interest expense was attributable to lower average interest rates and lower average borrowings in 2013 as compared to 2012.

Loss on early retirement of debt

In December 2013, the Company repaid a portion of its senior secured credit agreement. In connection with the payoff, the Company wrote off debt issuance costs of $0.1 million. In June and July 2012, the Company repaid its second lien credit agreement. In connection with the payoff, the Company wrote off debt issuance costs of $1.4 million.

Income tax provision

The income tax provision was $9.2 million in 2013 and $5.2 million in 2012. The Company s effective tax rate for 2013 was 39.5% as compared to 25.9% for 2012. The effective tax rate in 2013 reflects a reduced tax rate in the United Kingdom and an increased tax rate in Puerto Rico. The effective tax rate for 2012 reflects an income tax benefit for a non-cash adjustment to a deferred tax liability of $2.3 million related to an earlier period.

Equity in earnings

Equity in losses of Vasconia, net of taxes, was $4.0 million for 2013 as compared to equity in earnings of $6.9 million for 2012. Equity in losses in 2013 includes a charge of $5.0 million, net of tax, for the reduction in Vasconia s fair value. Vasconia reported income from operations for 2013 of $5.4 million compared to $14.6 million for 2012 and net income of $4.3 million in 2013 compared to $34.2 million in 2012. The decrease in net income was due to a decline in kitchenware and aluminum sales and reduced margins on aluminum sales in 2013 and a $22.9 million bargain purchase gain recognized by Vasconia on its purchase of Almexa, an aluminum mill and manufacturer of aluminum foil in 2012.

Equity in earnings for 2013 also includes a loss of $0.7 million from the Company s 40% equity interest in GSI and losses of $85,000 related to other investments. Equity in earnings for 2012 also includes a loss of $0.7 million from the Company s 40% equity interest in GSI and losses of $0.1 million related to other investments.

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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 GAAP 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, 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, health insurance reserves, impairment of goodwill, tangible and intangible assets, stock option expense, accruals related to the Company s tax positions and tax valuation allowances. 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 of the Notes to the Consolidated Financial Statements included in Item 15. 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

Inventory consists principally of finished goods sourced from third-party suppliers. Inventory also includes finished goods, work in process and raw materials related to the Company s manufacture of sterling silver products. Inventory is priced using the lower of cost (first-in, first-out basis) or market method. The Company estimates the selling price of its inventory on a product by product basis based on the current selling environment. If the estimated selling price is lower than the inventory s cost, the Company reduces the value of the inventory to its net realizable value.

Accounts Receivable

The Company periodically reviews the collectability 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 initial and on-going creditworthiness of the Company s customers. The Company also maintains an allowance for anticipated customer deductions. The allowances for deductions are primarily based on contracts with customers. However, in certain cases the Company does not have a formal contract and, therefore, customer deductions are non-contractual. To evaluate the reasonableness of non-contractual customer deductions, the Company analyzes currently available information and historical trends of deductions. If the

financial conditions of the Company s customers or general economic conditions were to deteriorate, resulting in an impairment of their ability to make payments or sell the Company s products at reasonable sales prices, or the Company s estimate of non-contractual deductions varied from actual deductions, revisions to allowances would be required, which could adversely affect the Company s financial condition. Historically, the Company s allowances have been appropriate and have not resulted in material unexpected charges.

Goodwill, intangible assets and long-lived assets

Goodwill and intangible assets deemed to have indefinite lives are not amortized but, instead, are subject to an annual impairment assessment. Additionally, if events or conditions were to indicate the carrying value of a reporting unit may not be recoverable, the Company would evaluate goodwill and other intangible assets for impairment at that time. As it relates to the goodwill assessment, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment testing described in ASU Topic No. 350, *Intangibles Goodwill and Other*. If, after assessing qualitative factors, the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary and the

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Company s goodwill is considered to be unimpaired. However, if based on the Company s qualitative assessment it concludes that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, or if the Company elects to bypass the qualitative assessment, the company will proceed with performing the two-step process. The first step in the two-step process compares the carrying value of each reporting unit that has goodwill with the estimated fair value of the respective reporting unit. Should the carrying value of a reporting unit be in excess of the estimated fair value of that reporting unit, the second step must be performed. The second step represents a hypothetical purchase price allocation as if the company had acquired the reporting unit on that date. The Company also evaluates qualitative factors to determine whether or not its indefinite lived intangibles have been impaired and then performs quantitative tests if required. These tests can include the royalty savings model or other valuation models.

Long-lived assets, including intangible assets deemed to have finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that such assets 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 assets to the estimated discounted 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.

In 2014, the result of the impairment assessment of the Company s indefinite-lived trade names indicated that the carrying values of the Elements® and Melannco® trade names exceeded their fair values as of October 1, 2014. The Company recorded an impairment charge of $3.4 million, related to these brands. The impairment was triggered by a period of decline in the sales and gross margin of the brands.

Revenue recognition

The Company sells products:

- Wholesale, to retailers and distributors, and
- Retail, directly to consumers.

Wholesale sales and retail sales are recognized when title passes to the customer, which is primarily at the shipping point for wholesale sales and upon delivery to the customer for retail sales. Shipping and handling fees that are billed to customers in sales transactions are included in net sales. Net sales exclude taxes that are collected from customers and remitted to the taxing authorities.

The Company offers various sales incentives and promotional programs to its customers from time to time in the normal course of business. These incentives and promotions typically include arrangements such as cooperative advertising, buydowns, volume rebates and discounts. These arrangements and an estimate of sales returns are reflected as reductions in net sales in the Company s consolidated statements of operations.

Employee stock options

The Company accounts for its stock options through 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. The Company uses the Black-Scholes option valuation model to estimate the fair value of its stock options. The Black-Scholes option valuation model requires the input of highly subjective assumptions including the expected stock price volatility of the Company s common stock and the risk-free interest rate. Changes in these subjective input assumptions can materially affect the fair value estimate of the Company s stock options on the date of the option grant. The Company historically has not issued options which would be variable awards.

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Employee healthcare

The Company self-insures certain portions of its health insurance plan. The Company maintains an accrual for unpaid claims and estimated claims incurred but not yet reported (IBNR). Although management believes that it uses the best information available to estimate IBNR claims, actual claims may vary significantly from estimated claims.

Income taxes

The Company applies the required provisions for financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the Company s financial statements. Tax positions must meet a more-likely-than-not recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken. The valuation allowance is also calculated, established or maintained when it is more likely than not that all or a portion of deferred tax assets will not be realized.

Derivatives

The Company accounts for all derivative instruments on the balance sheet at fair value as either an asset or a liability. Changes in the fair value of derivatives that qualify as hedges and have been designated as part of a hedging relationship for accounting purposes have no net impact on earnings to the extent the derivative is considered highly effective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged, until the hedged item is recognized in earnings. If the derivative which is designated as part of a hedging relationship is considered ineffective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged, the changes in fair value are recorded in operations. For derivatives that do not qualify or are not designated as hedging instruments for accounting purposes, changes in fair value are recorded in operations.

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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 Revolving Credit Facility under the Credit Agreement. The Company s primary uses of funds consist of working capital requirements, capital expenditures, acquisitions and investments and payments of principal and interest on its debt.

At December 31, 2014, the Company had cash and cash equivalents of $5.1 million compared to $4.9 million at December 31, 2013, working capital of $174.2 million at December 31, 2014 compared to $145.2 million at December 31, 2013 and the current ratio (current assets to current liabilities) was 3.1 to 1 at December 31, 2014 compared to 3.09 to 1 at December 31, 2013.

Borrowings under the Company s Revolving Credit Facility increased to $92.7 million at December 31, 2014 compared to $49.2 million at December 31, 2013. The increase in borrowings was primarily attributable to the financing of the Kitchen Craft acquisition in January 2014.

The Company believes that availability under its Revolving Credit Facility and cash flows from operations are sufficient to fund the Company s operations for the next twelve months. However, if circumstances were to adversely change, the Company may seek alternative sources of liquidity including debt and/or equity financing. However, there can be no assurance that any such alternative sources would be available or sufficient. The Company closely monitors the creditworthiness of its customers. Based upon its evaluation of changes in customers creditworthiness, the Company may modify credit limits and/or terms of sale. However, notwithstanding the Company s efforts to monitor its customers financial condition, the Company could be materially affected in the future.

Credit Facilities

In January 2014, the Company entered into the Credit Agreement. The Credit Agreement, which expires in January 2019, provides for, among other things, the Revolving Credit Facility commitment totaling $175.0 million ($40.0 million of which is available for multi-currency borrowings) and the Term Loan facility of $50.0 million.

Each borrowing under the Revolving Credit Facility bears interest, at the Company s option, at one of the following rates: (i) the Alternate Base Rate, defined as the greater of the Prime Rate, Federal Funds Rate plus 0.5% or the Adjusted LIBO Rate plus 1.0%, plus a margin of 0.75% to 1.25%, or (ii) the Eurodollar Rate, defined as the Adjusted LIBO Rate plus a margin of 1.75% to 2.25%. Interest rates on outstanding borrowings at December 31, 2014 ranged from 2.00% to 4.6875%. In addition, the Company pays a commitment fee of 0.375% on the unused portion of the Revolving Credit Facility.

Availability under the Credit Agreement depends on the valuation of certain current assets and trademark values and the Company s ability to meet and maintain certain financial ratios, as discussed below. Due to the Company s seasonality, this may mean

that the Company will have greater borrowing availability during the third and fourth quarters of each year. At December 31, 2014, borrowings outstanding under the Revolving Credit Facility were $92.7 million and open letters of credit were $2.3 million. At December 31, 2014, availability under the Revolving Credit Facility was approximately $64.9 million. The borrowing capacity under the Revolving Credit Facility depends, in part, on eligible levels of accounts receivable and inventory that fluctuate regularly and certain trademark values based upon periodic appraisals. Consequently, the $175.0 million commitment may not represent actual borrowing capacity.

The Company classifies a portion of the Revolving Credit Facility as a current liability if the Company intends to and is able to repay the loan from cash flows from operations which are expected to occur within the year. Repayments and borrowings under the facility can vary significantly from planned levels based on cash flow needs and general economic conditions.

ABR Term Loans or Eurocurrency Term Loans, provided for under the Credit Agreement, bear interest based on the applicable Senior Leverage Ratio. As of December 31, 2014, the Company s Senior Leverage Ratio was 3.3 to 1. The ABR Spread for Term Loans is 3.0% to 3.5% and the Eurocurrency Spread for Term Loans is 4.0% to 4.5%. As of December 31, 2014, $45.0 million was outstanding under the Term Loan.

The Company s payment obligations under the Revolving Credit Facility are unconditionally guaranteed by each of its existing and future U.S. subsidiaries. Certain payment obligations under the Revolving Credit Facility are also direct obligations of its foreign subsidiary borrowers designated as such under the Credit Agreement and, subject to limitations on such guaranty, are guaranteed by the foreign subsidiary borrowers, as well as by the Company. The obligations of the Company under the Revolving Credit Facility and any hedging arrangements and cash management services and the guarantees by its domestic subsidiaries in respect of those obligations are secured by substantially all of the assets and stock (but in the case of foreign subsidiaries, limited to 65% of the capital stock in first-tier foreign subsidiaries and not including stock of subsidiaries of such first-tier foreign subsidiaries) owned by the Company and the U.S. subsidiary guarantors, subject to certain exceptions. Such security interest consists of a first-priority lien, subject to certain permitted liens, with respect to the assets of the Company and its domestic subsidiaries pledged as collateral in favor of lenders under the Revolving Credit Facility.

The Credit Agreement provides for customary restrictions and events of default. Restrictions include limitations on the incurrence of additional indebtedness, acquisitions, investments and payment of dividends, among other things. Further, the Credit Agreement provides that at any time any Term Loan is outstanding or at any time no Term Loan is outstanding and availability under the Revolving Credit Facility is less than $17.5 million and continuing until availability of at least $20.0 million is maintained for three consecutive months, the Company is required to maintain a minimum fixed charge coverage ratio of 1.10 to 1.00 for each of four consecutive fiscal quarter periods. The Credit Agreement also provides that when the Term Loan is outstanding, the Company is required to maintain a Senior Leverage Ratio (the ratio of the aggregate principal amount of all of the Company s indebtedness, other than certain subordinated indebtedness, to the Company s EBITDA) within defined parameters not to exceed 4.00 to 1.00 at the fiscal quarter ending September 30, 2014; and, prior to its amendment in February 2015, the Company was required to maintain a Senior Leverage Ratio of 4.25 to 1.00 at the fiscal quarter ending December 31, 2014; 3.50 to 1.00 at each fiscal quarter end in 2015; and 2.50 to 1.00 at each fiscal quarter end thereafter; provided that for any fiscal quarter ending on September 30 of any year, the maximum Senior Leverage Ratio specified above shall be increased by an additional 0.25:1.00.

Pursuant to the term loan agreement, as of December 31, 2014 the maximum additional permitted indebtedness other than certain subordinated indebtedness was $40.2 million. The Company was in compliance with the financial covenants of the Credit Agreement at December 31, 2014.

In February 2015, the Company entered into an amendment to its Credit Agreement (Amendment No. 2). Amendment No. 2, among other things, modified the Company s maximum permitted Senior Leverage Ratio to provide for a more gradual reduction, beginning March 31, 2015, than was previously the case as described above. The Company is now required to maintain a Senior Leverage Ratio not to exceed 4.25 to 1.00 for the fiscal quarter ended December 31, 2014; 4.00 to 1.00 for each fiscal quarter ending during 2015; and 3.25 to 1.00 for each fiscal quarter ending thereafter. Amendment No. 2 also amended the definition of EBITDA to exclude non-recurring

one-time cash charges incurred during 2014 in connection with a permitted acquisition and the refinancing of certain indebtedness if not completed, as well clarifying language as to the exclusion from EBITDA of potential contingent consideration payments related to certain completed acquisitions.

In January 2014, the Company repaid the previously outstanding Senior Secured Term Loan in connection with the execution and delivery of the Credit Agreement.

The Company expects that it will continue to borrow and repay funds, subject to availability, under the Credit Agreement based on working capital and other corporate needs.

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Covenant Calculations

Consolidated EBITDA, as provided below, is used in the calculation of covenants provided for in the Company s Credit Agreement. The following is the Company s Consolidated EBITDA for the last four fiscal quarters:

Consolidated EBITDA for the four quarters ended December 31, 2014	
(in thousands)	
Three months ended December 31, 2014	20,918
Three months ended September 30, 2014	16,470
Three months ended June 30, 2014	1,494
Three months ended March 31, 2014	3,660
Total for the four quarters	$ 42,542

Non-GAAP financial measure

Consolidated EBITDA is a non-GAAP financial measure within the meaning of Regulation G promulgated by the SEC. This measure is provided because management of the Company uses this financial measure in evaluating the Company s on-going financial results and trends. Management also uses this non-GAAP information as an indicator of business performance. Consolidated EBITDA is also one of the measures used to calculate financial covenants required to be maintained under the Company s Credit Agreement.

Investors should consider these non-GAAP financial measures in addition to, and not as a substitute for, the Company s financial performance measures prepared in accordance with GAAP. Further, the Company s non-GAAP information may be different from the non-GAAP information provided by other companies including other companies within the home retail industry.

The following is a reconciliation of net income as reported to Consolidated EBITDA for the years ended December 31, 2014 and 2013 and each fiscal quarter of 2014 and 2013:

	Three Months Ended				Year Ended
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014	December 31, 2014
	(in thousands)				
Net income as reported	(2,929)	$ (3,202)	$ (1,586)	$ 9,261	$ 1,544
Subtract out:					
Undistributed equity (earnings) losses, net	208	(41)	5,193	1,364	6,724

Add back:					
Income tax provision (benefit)	(1,185)	(1,586)	3,123	5,473	5,825
Interest expense	1,390	1,672	1,698	1,658	6,418
Financing expense				758	758
Depreciation and amortization	3,613	3,716	3,299	3,572	14,200
Stock compensation expense	726	713	694	2,360	4,493
Loss on early retirement of debt [1]	319			27	346
Intangible asset impairment			3,384		3,384
Contingent consideration accretion			665	(4,115)	(3,450)
Restructuring expenses [1]		125			125
Permitted acquisition related expenses	1,518	97		560	2,175
Consolidated EBITDA	$ 3,660	$ 1,494	$ 16,470	$ 20,918	$ 42,542

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	Three Months Ended				Year Ended
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013	December 31, 2013
	(in thousands)				
Net income as reported	(632)	$ (568)	$ 1,093	$ 9,388	$ 9,281
Subtract out:					
Undistributed equity (earnings) losses, net	(246)	480	5,452	(332)	5,354
Add back:					
Income tax provision (benefit)	(399)	(477)	3,869	6,182	9,175
Interest expense	1,162	1,149	1,280	1,256	4,847
Depreciation and amortization	2,523	2,667	2,517	2,708	10,415
Stock compensation expense	671	722	738	750	2,881
Loss on early retirement of debt (1)				102	102
Restructuring expenses (1)		288	79		367
Permitted acquisition related expenses		60	39	957	1,056
Consolidated EBITDA	$ 3,079	$ 4,321	$ 15,067	$ 21,011	$ 43,478

(1) Loss on retirement of debt and restructuring expenses represent non-recurring charges incurred during such periods and are permitted exclusions from the Company s Consolidated EBITDA, pursuant to the Company s Credit Agreement.

Other Credit Agreements

A subsidiary of the Company has a credit facility (HSBC Facility or Short term loan) with HSBC Bank (China) Company Limited, Shanghai Branch (HSBC) for up to 18.0 million Chinese Renminbi (RMB) ($2.9 million). The HSBC Facility is subject to annual renewal and may be used to fund general working capital needs of the subsidiary which is a trading company in the People s Republic of China. Borrowings under the HSBC Facility are guaranteed by the Company and are granted at the sole discretion of HSBC. At December 31, 2014, RMB 4.8 million ($765,000) was outstanding and the interest rate was 6.44% under the HSBC Facility.

Capital expenditures

Capital expenditures for the year ended December 31, 2014 were $6.2 million.

Derivatives

The Company is a party to interest rate swap agreements with an aggregate notional amount of $25.4 million to manage interest rate exposure in connection with its variable interest rate borrowings. The hedge periods in these agreements commenced in March 2013 and will expire in September 2018, and the notional amounts amortize over this period.

The Company has also entered into certain foreign exchange contracts, primarily to offset the earnings impact related to fluctuations in foreign currency exchange rates associated with inventory purchases denominated in foreign currencies. None of these foreign exchange contracts were designated as hedges as required in order to apply hedge accounting. There were no open foreign exchange contracts at December 31, 2014.

Dividends

The Board of Directors declared a dividend of $0.025 per share payable on February 15, 2013, a dividend of $0.03125 per share payable on May 15, 2013, August 15, 2013 and November 15, 2013 and a dividend of $0.0375 payable on February 14, 2014, May 15, 2014, August 15, 2014, November 14, 2014 and February 13, 2015.

Operating activities

Net cash provided by operating activities was $4.6 million in 2014 compared to $35.8 million in 2013 and $22.7 million in 2012. The decrease was primarily attributable to an increase in accounts receivable and an increase in payments of accounts payable, accrued expenses and other liabilities.

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Investing activities

Net cash used in investing activities was $72.2 million in 2014 compared to $3.8 million in 2013 and $22.2 million in 2012. In 2014 investing activities primarily related to the cash consideration paid in the 2014 acquisition of Kitchen Craft. In 2012 investing activities principally related to the cash consideration of $14.5 million paid in the acquisition of Fred® and Friends and the cash consideration of $2.6 million for the investment in GSI. No such investing activities occurred in 2013.

Financing activities

Net cash provided by financing activities was $67.8 million in 2014 compared to cash used in financing activities of $29.0 million in 2013 and $2.2 million in 2012. The Company had net borrowings of $43.9 million under its Revolving Credit Facility in 2014, compared to net repayments of $11.7 million in 2013 and net borrowings of $3.3 million in 2012. The proceeds from the 2014 borrowings were principally used to finance the 2014 acquisition of Kitchen Craft. The proceeds from the 2012 borrowings were principally used to finance a portion of the Fred® & Friends acquisition. Additionally, a portion of the Company s 2013 borrowings were used to repurchased 245,575 shares under the 2013 stock repurchase program for a total cost of $3.2 million.

CONTRACTUAL OBLIGATIONS

As of December 31, 2014, the Company s contractual obligations were as follows (in thousands):

	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	$ 109,250	$ 15,976	$ 27,489	$ 15,201	$ 50,584
Short-term debt	10,765	10,765			
Long-term debt	130,203		78,552	51,651	
Interest on debt	13,553	4,833	6,605	2,115	
Minimum royalty payments	17,709	8,632	4,659	3,822	596
Post retirement benefits	6,230	376	912	1,327	3,615
Contingent consideration (1)	3,286		3,270	16	
Total	$ 290,996	$ 40,582	$ 121,487	$ 74,132	$ 54,795

(1) Reported amounts reflect the present value of contingent payment obligations in connection with certain acquisition.

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Item 7A. 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 and foreign currency exchange rates. The Company believes it has moderate exposure to these risks. The Company assesses market risk based on changes in interest rates and foreign currency exchange rates utilizing a sensitivity analysis that measures the potential loss in earnings and cash flows based on a hypothetical 10% or 100 basis point change in these rates.

The Company s functional currency is the U.S. Dollar. The Company has foreign operations through its acquisitions, investments and strategic alliances in the United Kingdom, Mexico, Canada, Brazil, Hong Kong and China; therefore, the Company is subject to increases and decreases in its investments resulting from the impact of fluctuations in foreign currency exchange rates. Additional transactions exposing the company to exchange rate risk include sales, certain inventory purchases and operating expenses. Through its subsidiaries, including the January 2014 acquisition of Kitchen Craft as described in Note B of the Notes to the Consolidated Financial Statements included in Item 15 of this Annual Report, portions of the Company s cash, trade accounts receivable and trade accounts payable are denominated in foreign currencies. For the year ended December 31, 2014, approximately 18% of the Company s net sales revenue was in foreign currencies, compared to 10% for the year ended December 31, 2013. These sales were primarily denominated in British Pounds, Euro and Canadian Dollars. The increase in foreign currency sales revenue primarily relates to the acquisition of Kitchen Craft. The Company makes most of its inventory purchases from the Far East and uses the U.S. Dollar for such purchases. In the Company s consolidated statements of operations, foreign exchange gains and losses are recognized in SG&A expense. A hypothetical 10% change in exchange rates, with U.S. Dollar as the functional and reporting currency, would result in an approximately $2.0 million increase in SG&A expense.

In 2014, the Company entered into certain foreign exchange contracts, primarily to offset the earnings impact related to fluctuations in foreign currency exchange rates associated with inventory purchases denominated in foreign currencies. Included in selling, general and administrative expenses in the consolidated statement of operations is a gain of $0.7 million related to these foreign exchange derivative contracts. There were no open foreign exchange contracts at December 31, 2014.

The Company s Revolving Credit Facility and Term Loan, provided for under the Credit Agreement bear interest at variable rates. The Credit Agreement provides for interest rates linked to one of Adjusted LIBO, Prime Rate or Federal Funds Rate; and, therefore, the Company is subject to increases and decreases in interest expense resulting from fluctuations in interest rates. The Company entered into an interest rate swap agreement in August 2012 to manage interest rate exposure in connection with its variable interest rate borrowings. As of December 31, 2014, approximately $113.0 million of the Company s debt carries a variable rate of interest, as compared to $40.1 million at December 31, 2013. The increase of variable rate interest borrowings primarily arose out of the refinancing of the Company s existing debt and entry into the Credit Agreement in January 2014. The remainder of the debt at December 31, 2014

(approximately $25.4 million) carries a fixed rate of interest either by the rate itself being fixed or through the use of interest rate swaps. A hypothetical and instantaneous 100 basis point increase in the Company s variable interest rates would increase interest expense by approximately $1.5 million over a twelve month period.

The sensitivity analysis above assumes interest rate changes are instantaneous, parallel shifts in the yield curve.

The Company is a party to interest rate swap agreements with an aggregate notional amount of $25.4 million to manage interest rate exposure in connection with its variable interest rate borrowings. The hedge periods in these agreements commenced in March 2013 and will expire in September 2018.

Interest rate swaps expose the Company to counterparty credit risk for nonperformance. The Company manages its exposure to counterparty credit risk by dealing with counterparties who are international financial institutions with investment grade credit ratings. Although the Company s credit risk is the replacement cost at the estimated fair value of these instruments, the Company believes that the risk of incurring credit risk losses as a result of counterparty nonperformance is remote.

The Company does not enter into derivative financial instruments for trading purposes.

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Item 8. Financial Statements and Supplementary Data

The Company s Consolidated Financial Statements as of and for the year ended December 31, 2014 in Item 15 commencing on page F-1 are incorporated herein by reference.

The following tables set forth certain unaudited consolidated quarterly statement of operations data for the eight quarters ended December 31, 2014. 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 Annual Report on Form 10-K 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 Annual 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, 2014			
	First quarter	Second quarter	Third quarter	Fourth quarter
	(in thousands, except per share data)			
Net sales	$ 118,411	$ 115,321	$ 162,244	$ 190,034
Gross margin	44,332	40,852	57,923	69,774
Income (loss) from operations	(2,197)	(3,157)	8,428	18,310
Net income (loss)	(2,929)	(3,202)	(1,586)	9,261
Basic income (loss) per common share	(0.22)	(0.24)	(0.12)	0.68
Diluted income (loss) per common share	(0.22)	(0.24)	(0.12)	0.66

	Year ended December 31, 2013			
	First quarter	Second quarter	Third quarter	Fourth quarter[(1)]
	(in thousands, except per share data)			
Net sales	$ 98,657	$ 96,976	$ 142,229	$ 164,859
Gross margin	36,312	36,356	51,277	63,317
Income (loss) from operations	(115)	12	11,693	16,596
Net income (loss)	(632)	(568)	1,093	9,388
Basic income (loss) per common share	(0.05)	(0.04)	0.09	0.73
Diluted income (loss) per common share	(0.05)	(0.04)	0.08	0.72

Note:

(1) The fourth quarter December 31, 2013 reflects a non-operating adjustment of $1,053 to reduce accounts receivable for previously issued credits with respect to the Retail Direct business which related to 2010 and earlier periods.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

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Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer of the Company (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of December 31, 2014, that the Company s controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company s management, including the Chief Executive Officer and Chief Financial Officer of the Company, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

On January 15, 2014, the Company acquired 100% of the share capital of Kitchen Craft. The Company has begun to integrate policies, processes, people, technology and operations of Kitchen Craft with those of the Company and is evaluating and will continue to evaluate the impact of any changes to internal control over financial reporting. Except for any changes in internal controls related to the integration of Kitchen Craft into the post-acquisition combined company, during the quarter ended on December 31, 2014, there has been no change in the Company s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect the Company s internal control over financial reporting.

Management s Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2014. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act 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:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

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

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

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

Management performed an assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2014 using the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework). Based on this assessment, management has determined that the Company s internal control over financial reporting as of December 31, 2014 is effective.

Management s assessment of and conclusion on the effectiveness of disclosure controls and procedures and internal controls over financial reporting did not include the internal controls related to the operations acquired in the 2014

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acquisition of Kitchen Craft which is included in the Company s 2014 consolidated financial statements and constituted total and net assets of $38.1 million and $30.9 million, respectively as of December 31, 2014 and $67.6 million and $8.7 million, respectively, of net revenues and income from operations for the year then ended.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2014 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report.

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Report of Independent Registered Public Accounting Firm

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

We have audited Lifetime Brands, Inc. s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Lifetime Brands, Inc. 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 included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, 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 Kitchen Craft, which is included in the 2014 consolidated financial statements of Lifetime

Brands, Inc. and constituted $38.1 million and $30.9 million of total and net assets, respectively, as of December 31, 2014 and $67.6 million and $7.6 million of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Lifetime Brands, Inc. also did not include an evaluation of the internal control over financial reporting of Kitchen Craft.

In our opinion, Lifetime Brands, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014 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, 2014 and 2013, and the related consolidated statements of operations, comprehensive (loss) income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2014 of Lifetime Brands, Inc. and our report dated March 16, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Jericho, New York

March 16, 2015

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Item 9B. Other Information

Not applicable.

PART III

Items 10, 11, 12, 13 and 14

The information required under these items is contained in the Company s 2015 Proxy Statement, which will be filed with the SEC within 120 days after the close of the Company s fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) See Financial Statements and Financial Statement Schedule on page F-1.

(b) Exhibits*:

Exhibit No.	Description
3.1	Second Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.2 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2005)
3.2	Amended and Restated By-Laws of the Company (incorporated by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K filed on June 10, 2014)
4.1	Indenture dated as of June 27, 2006, Lifetime Brands, Inc. as issuer, and HSBC Bank USA, National Association as trustee, $75,000,000 4.75% Convertible Senior Notes due 2011 (incorporated by reference to Exhibit 4.2 to Amendment No. 1 to the Registrant s registration statement No. 333-137575 on Form S-3)
10.1	License Agreement dated December 14, 1989 between the Company and Farberware, Inc. (incorporated by reference to the Registrant s registration statement No. 33-40154 on Form S-1)
10.2	Evan Miller employment agreement dated July 1, 2003 (incorporated by reference to Exhibit 10.41 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003)*
10.3	Evan Miller Amendment of Employment Agreement dated June 29, 2007 (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed July 3, 2007)*
10.4	Employment Agreement, dated March 4, 2011, by and between Lifetime Brands, Inc. and Jeffrey Siegel (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed March 8, 2011)*
10.5	First Amendment to Employment Agreement, dated April 30, 2012, between Lifetime Brands, Inc. and Jeffrey Siegel (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed April 30, 2012)*
10.6	Employment Agreement, dated March 12, 2014, by and between Lifetime Brands, Inc. and Jeffrey Siegel (incorporated by reference to Exhibit 10.1 to

the Registrant s Current Report on Form 8-K filed March 18, 2014)*

10.7	Lease Agreement dated as of May 10, 2006 between AG Metropolitan Endo, L.L.C and Lifetime Brands, Inc. for the property located at 1000 Stewart Avenue in Garden City, New York (incorporated by reference to Exhibit 99.1 to the Registrant s Current Reports on Form 8-K filed May 15, 2006)
10.8	First Amendment to the Lease Agreement dated as of May 10, 2006 between AG Metropolitan Endo, L.L.C and Lifetime Brands, Inc. for the property located at 1000 Stewart Avenue in Garden City, New York (incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006)
10.9	Amended 2000 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed June 9, 2006)*
10.10	Amendment to the Lifetime Brands, Inc. 2000 Long-Term Incentive Plan dated November 1, 2007 (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed November 5, 2007)*

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10.11	Amendment of the Lifetime Brands, Inc. 2000 Long-Term Incentive Plan dated June 11, 2009 (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed June 12, 2009)*
10.12	Amendment of the Lifetime Brands, Inc. 2000 Long-Term Incentive Plan dated June 13, 2012 (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed June 15, 2012)*
10.13	Amended 2000 Incentive Bonus Compensation Plan (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed June 9, 2006)*
10.14	Employment Agreement dated June 28, 2007 between Lifetime Brands, Inc. and Laurence Winoker (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed July 3, 2007)*
10.15	Amendment to Employment Agreement, dated March 8, 2010, between Lifetime Brands, Inc. and Laurence Winoker (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed March 10, 2010)*
10.16	Amendment of Employment Agreement, dated April 12, 2012, between Lifetime Brands, Inc. and Laurence Winoker (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed April 16, 2012)*
10.17	Shares Subscription Agreement by and among Lifetime Brands, Inc., Ekco, S.A.B. and Mr. José Ramón Elizondo Anaya and Mr. Miguel Ángel Huerta Pando, dated as of June 8, 2007 (incorporated by reference to Exhibit 99.1 to the Registrant s Current Report on Form 8-K filed June 11, 2007)
10.18	Amendment No.1 dated September 5, 2007 to the Shares Subscription Agreement by and among Lifetime Brands, Inc., Ekco, S.A.B. and Mr. José Ramón Elizondo Anaya and Mr. Miguel Ángel Huerta Pando, dated as of June 8, 2007 (incorporated by reference to Exhibit 10.17 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008)
10.19	Amendment No. 2 dated September 25, 2008 to the Shares Subscription Agreement by and among Lifetime Brands, Inc., Ekco, S.A.B. and Mr. José Ramón Elizondo Anaya and Mr. Miguel Ángel Huerta Pando, dated as of June 8, 2007 (incorporated by reference to Exhibit 10.21 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2008)
10.20	Lease Agreement between Granite Sierra Park LP and Lifetime Brands, Inc. dated June 29, 2007 (incorporated by reference to Exhibit 99.1 to the Registrant s Current Report on Form 8-K filed July 6, 2007)
10.21	Asset Purchase Agreement between Mikasa, Inc. and Lifetime Brands, Inc. dated June, 6 2008 (incorporated by reference to Exhibit 99.1 to the Registrant s Form 10-Q for the quarter ended June 30, 2008)
10.22	Amended and Restated Employment Agreement, dated August 10, 2009 by and between Lifetime Brands, Inc. and Ronald Shiftan (incorporated by reference to

	Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed August 12, 2009)*
10.23	Amendment of Amended and Restated Employment Agreement, dated November 9, 2010, by and between Lifetime Brands, Inc. and Ronald Shiftan (incorporated by reference to Exhibit 10.33 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2010)*
10.24	Second Amended and Restated Employment Agreement, dated as of December 20, 2012, by and between Lifetime Brands, Inc. and Ronald Shiftan (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed December 21, 2012)*
10.25	Credit Agreement, dated as of June 9, 2010, among Lifetime Brands, Inc., JPMorgan Chase Bank, N.A., as administrative agent and a co-collateral agent, and HSBC Business Credit (USA) Inc., as syndication agent and a co-collateral agent, with exhibits (incorporated by reference to Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2013)

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10.26 Second Lien Credit Agreement, dated as of June 9, 2010, among Lifetime Brands, Inc. and Citibank, N.A., as administrative agent and collateral agent, with exhibits (incorporated by reference to Exhibit 99.2 to the Registrant s Current Report on Form 8-K filed June 15, 2010)

10.27 Amendment No. 1 to the Second Lien Credit Agreement, dated as of March 9, 2011, among Lifetime Brands, Inc. and Citibank, N.A., as administrative agent and collateral agent (incorporated by reference to Exhibit 10.34 to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2010)

10.28 Amendment No. 2 of the Second Lien Credit Agreement, dated as of October 28, 2011, by and among Lifetime Brands, Inc. and Citibank, N.A., as administrative agent and collateral agent, with exhibits (incorporated by reference to Exhibit 99.2 to the Registrant s Current Report on Form 8-K filed November 3, 2011)

10.29 Amended and Restated Credit Agreement, dated as of October 28, 2011, by and among Lifetime Brands, Inc., the Foreign Subsidiary Borrowers parties thereto, the Other Loan Parties hereto, the Lenders party hereto, JP Morgan Chase Bank, N.A., as Administrative Agent and a Co-Collateral Agent, and HSBC Bank USA, National Association, as Syndication Agent and a Co-Collateral Agent (incorporated by reference to Exhibit 10.4 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2013)

10.30 Share Purchase Agreement, dated November 4, 2011, by and among Lifetime Brands, Inc. and Creative Tops Holding Limited and Creative Tops Far East Limited (incorporated by reference to Exhibit 99.2 to the Registrant s Current Report on Form 8-K filed November 8, 2011)

10.31 Senior Secured Credit Agreement, dated as of July 27, 2012, among Lifetime Brands, Inc., the Subsidiary Guarantors, the Lenders and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.6 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2013)

10.32 Amendment No. 1 to the Senior Secured Credit Agreement, dated as of November 13, 2012, among Lifetime Brands, Inc., the Subsidiary Guarantors party thereto, the Swap Agreement Counterparty, the financial institutions party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 99.3 to the Registrant s Current Report on Form 8-K filed June 27, 2013)

10.33 Amendment No. 2 to the Senior Secured Credit Agreement, dated as of June 21, 2013, among Lifetime Brands, Inc., the Subsidiary Guarantors party thereto, the financial institutions party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 99.1 to the Registrant s Current Report on Form 8-K filed June 27, 2013)

10.34 Share Purchase Agreement, dated January 15, 2014, relating to Thomas Plant (Birmingham) Limited (incorporated by reference to Exhibit 99.2 to the Registrant s Current Report on Form 8-K filed January 17, 2014)

10.35 Second Amended and Restated Credit Agreement, dated as of January 13, 2014, among Lifetime Brands, Inc., as Borrower, the Subsidiary Guarantors Party Thereto, as Subsidiary Guarantors, the Lenders Party Thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and a Co-Collateral Agent, and HSBC Bank USA, National Association, as Syndication Agent and a Co-Collateral Agent, with exhibits. (incorporated by reference to Exhibit 99.3 to the Registrant s Current Report on Form 8-K filed January 17, 2014)

10.36 Amendment No. 1 to the Second Amended and Restated Credit Agreement, dated as of September 23, 2014 among Lifetime Brands, Inc., as Borrower, the Subsidiary Guarantors Party Thereto, as Subsidiary Guarantors, the Lenders Party Thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and a Co-Collateral Agent, and HSBC Bank USA, National Association, as Syndication Agent and a Co-Collateral Agent. (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed September 26, 2014)

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10.37	Amendment No. 2 to the Second Amended and Restated Credit Agreement, dated as of February 17, 2015 among Lifetime Brands, Inc., as Borrower, the Subsidiary Guarantors Party Thereto, as Subsidiary Guarantors, The Lenders Party Thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and a Co-Collateral Agent, and HSBC Bank USA, National Association, as Syndication Agent and a Co-Collateral Agent. (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed February 23, 2015)
10.38	Employment Agreement, dated November 28, 2014, by and between Lifetime Brands, Inc. and Daniel Siegel (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed December 3, 2014)*
14.1	Code of Ethics dated February 28, 2013 (incorporated by reference to Exhibit 14.1 to the Registrant s Current Report on Form 8-K filed March 6, 2013)
18.1	Letter from Ernst & Young LLP stating an acceptable change in accounting method for the impairment of goodwill dated October 28, 2008 (incorporated by reference to Exhibit 18 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended September, 30 2008)
21.1	Subsidiaries of the registrant
23.1	Consent of Ernst & Young LLP
23.2	Consent of KPMG Cardenas Dosal, S. C. (Mexico)
31.1	Certification by Jeffrey Siegel, Chief Executive Officer and Chairman of the Board of Directors, pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Laurence Winoker, Senior Vice President Finance, Treasurer and Chief Financial Officer, pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by Jeffrey Siegel, Chief Executive Officer and Chairman of the Board of Directors, and Laurence Winoker, Senior Vice President Finance, Treasurer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Grupo Vasconia, S.A.B. (formerly Ekco, S.A.B.), Report of Independent Registered Accounting Firm
99.2	Grupo Vasconia, S.A.B. (formerly Ekco, S.A.B.), separate financial statements and Report of Independent Registered Accounting Firm (incorporated by reference to Exhibit 99.1 to the Registrant s Annual Report on Form 10-K/A for the year ended December 31, 2013)
101.INS	XBRL Instance Document

101.SCH	XBRL Taxonomy Extension Schema Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Notes to exhibits:

The Company will furnish a copy of any of the exhibits listed above upon payment of $5.00 per exhibit to cover the cost of the Company furnishing the exhibit.

* Compensatory plans in which the directors and executive officers of the Company participate.

(c) Financial Statement Schedules the response to this portion of Item 15 is submitted as a separate section of this Annual Report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Lifetime Brands, Inc.

/s/ Jeffrey Siegel
Jeffrey Siegel
Chairman of the Board of Directors,
Chief Executive Officer and Director
Date: March 16, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jeffrey Siegel Jeffrey Siegel	Chairman of the Board of Directors, Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2015
/s/ Ronald Shiftan Ronald Shiftan	Vice Chairman of the Board of Directors, Chief Operating Officer and Director	March 16, 2015
/s/ Laurence Winoker Laurence Winoker	Senior Vice President Finance, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2015
/s/ David Dangoor David Dangoor	Director	March 16, 2015
/s/ Michael Jeary	Director	

Michael Jeary		March 16, 2015
/s/ John Koegel John Koegel	Director	March 16, 2015
/s/ Cherrie Nanninga Cherrie Nanninga	Director	March 16, 2015
/s/ Craig Phillips Craig Phillips	Director	March 16, 2015
/s/ Dennis Reaves Dennis Reaves	Director	March 16, 2015
/s/ Michael Regan Michael Regan	Director	March 16, 2015
/s/ William Westerfield William Westerfield	Director	March 16, 2015

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Item 15

LIFETIME BRANDS, INC.

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

The following consolidated financial statements of Lifetime Brands, Inc. are filed as part of this Annual Report under Item 8 *Financial Statements and Supplementary Data.*

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2014 and 2013	F-3
Consolidated Statements of Operations for the Years ended December 31, 2014, 2013, and 2012	F-4
Consolidated Statements of Comprehensive (Loss) Income for the Years ended December 31, 2014, 2013 and 2012	F-5
Consolidated Statements of Stockholders Equity for the Years ended December 31, 2014, 2013, and 2012	F-6
Consolidated Statements of Cash Flows for the Years ended December 31, 2014, 2013, and 2012	F-7
Notes to Consolidated Financial Statements	F-8

The following consolidated financial statement schedule of Lifetime Brands, Inc. required pursuant to Item 15(a) is submitted herewith:

Schedule II Valuation and Qualifying Accounts	S-1

All other financial schedules are not required under the related instructions or are inapplicable, and therefore have been omitted.

The unaudited supplementary data regarding quarterly results of operations are incorporated by reference to the information set forth in Item 8 *Financial Statements and Supplementary Data*.

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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, 2014 and 2013, and the related consolidated statements of operations, comprehensive (loss) income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2014. 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 did not audit the consolidated financial statements of Grupo Vasconia, S.A.B. and Subsidiaries, a corporation in which the Company has a 30% interest. In the consolidated financial statements, the Company s investment in Grupo Vasconia, S.A.B. and Subsidiaries is stated at $27.8 million and $30.5 million at December 31, 2014 and 2013, respectively, and the Company s equity in the net income (loss) of Grupo Vasconia, S.A.B. and Subsidiaries is stated at $0.2 million for the year ended December 31, 2014, ($4.0) million for the year ended December 31, 2013 and $6.9 million for the year ended December 31, 2012. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Grupo Vasconia, S.A.B. and Subsidiaries, is based solely on the report of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lifetime Brands, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lifetime Brands, Inc. s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 16, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Jericho, New York

March 16, 2015

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LIFETIME BRANDS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands-except share data)

	December 31, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 5,068	$ 4,947
Accounts receivable, less allowances of $6,663 at December 31, 2014 and $5,209 at December 31, 2013	107,211	87,217
Inventory (Note M)	137,924	112,791
Prepaid expenses and other current assets	7,914	5,781
Deferred income taxes (Note I)		3,940
TOTAL CURRENT ASSETS	258,117	214,676
PROPERTY AND EQUIPMENT, net (Note M)	26,801	27,698
INVESTMENTS (Note C)	28,155	36,948
INTANGIBLE ASSETS, net (Note D)	103,597	55,149
OTHER ASSETS	4,732	2,268
TOTAL ASSETS	$ 421,402	$ 336,739
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Current maturity of Credit Agreement Term Loan (Note E)	$ 10,000	$
Current maturity of Senior Secured Term Loan (Note E)		3,937
Short term loan (Note E)	765	
Accounts payable	28,694	21,426
Accrued expenses (Note M)	36,961	41,095
Deferred income taxes (Note I)	2,293	
Income taxes payable (Note I)	5,156	3,036
TOTAL CURRENT LIABILITIES	83,869	69,494
DEFERRED RENT & OTHER LONG-TERM LIABILITIES (Note M)	20,160	18,644
DEFERRED INCOME TAXES (Note I)	1,485	1,777
REVOLVING CREDIT FACILITY (Note E)	92,655	49,231
CREDIT AGREEMENT TERM LOAN (Note E)	35,000	
SENIOR SECURED TERM LOAN (Note E)		16,688
STOCKHOLDERS EQUITY		

Preferred stock, $.01 par value, shares authorized: 100 shares of Series A and 2,000,000 shares of Series B; none issued and outstanding		
Common stock, $.01 par value, shares authorized: 25,000,000; shares issued and outstanding: 13,712,081 at December 31, 2014 and 12,777,407 at December 31, 2013	137	128
Paid-in capital	160,315	146,273
Retained earnings	37,703	38,224
Accumulated other comprehensive loss (Note M)	(9,922)	(3,720)
TOTAL STOCKHOLDERS EQUITY	188,233	180,905
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 421,402	$ 336,739

See notes to consolidated financial statements.

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LIFETIME BRANDS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except per share data)

	Year Ended December 31,		
	2014	**2013**	**2012**
Net sales	$ 586,010	$ 502,721	$ 486,842
Cost of sales	373,129	315,459	310,054
Gross margin	212,881	187,262	176,788
Distribution expenses	54,202	44,364	44,046
Selling, general and administrative expenses	133,786	114,345	104,338
Intangible asset impairment (Note D)	3,384		1,069
Restructuring expenses	125	367	
Income from operations	21,384	28,186	27,335
Interest expense (Note E)	(6,418)	(4,847)	(5,898)
Financing expense	(758)		
Loss on early retirement of debt (Note E)	(346)	(102)	(1,363)
Income before income taxes and equity in earnings	13,862	23,237	20,074
Income tax provision (Note I)	(5,825)	(9,175)	(5,208)
Equity in (losses) earnings, net of taxes (Note C)	(6,493)	(4,781)	6,081
NET INCOME	$ 1,544	$ 9,281	$ 20,947
BASIC INCOME PER COMMON SHARE (NOTE H)	$ 0.11	$ 0.73	$ 1.67
DILUTED INCOME PER COMMON SHARE (NOTE H)	$ 0.11	$ 0.71	$ 1.64

See notes to consolidated financial statements.

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LIFETIME BRANDS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(in thousands)

	Year ended December 31,		
	2014	**2013**	**2012**
Net income	$ 1,544	$ 9,281	$ 20,947
Other comprehensive income (loss), net of tax:			
Translation adjustment (Note M)	(4,736)	(140)	3,077
Deferred gains (losses) on cash flow hedges (Notes F & M):			
Fair value adjustment, net of tax of $9 in 2014 and tax benefit of $160 in 2013	13	241	(272)
Total deferred gains (losses) on cash flow hedges	13	241	(272)
Effect of retirement benefit obligations (Note M):			
Net (loss) income arising from retirement benefit obligations, net of tax of ($589) in 2014 and $241 in 2013	(1,507)	361	(1,187)
Less: amortization of loss included in net income, net of tax of $19 in 2014 and $36 in 2013	28	54	27
Total effects of retirement benefit obligations	(1,479)	415	(1,160)
Other comprehensive (loss) income, net of tax	(6,202)	516	1,645
Comprehensive (loss) income	$ (4,658)	$ 9,797	$ 22,592

See notes to consolidated financial statements.

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LIFETIME BRANDS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)

	Common stock				Accumulated other	
	Shares	**Amount**	**Paid-in capital**	**Retained earnings**	**comprehensive loss**	**Total**
BALANCE AT DECEMBER 31, 2011	12,431	124	137,467	14,465	(5,881)	146,175
Comprehensive income:						
Net income				20,947		20,947
Translation adjustment					3,077	3,077
Derivative fair value adjustment (Note F)					(272)	(272)
Effect of retirement benefit obligations					(1,160)	(1,160)
Total comprehensive income						22,592
Shares issued to directors (Note G)	23		267			267
Stock compensation expense (Note G)			2,526			2,526
Issuance of 143,568 shares of common stock for acquisition of Fred® & Friends (Note B)	144	1	1,506			1,507
Tax benefit on exercise of stock options			150			150
Exercise of stock options	156	3	573			576
Dividends (Note G)				(1,563)		(1,563)

BALANCE AT DECEMBER 31, 2012	12,754	128	142,489	33,849	(4,236)	172,230
Comprehensive income:						
Net income				9,281		9,281
Translation adjustment					(140)	(140)
Derivative fair value adjustment (Note F)					241	241
Effect of retirement benefit obligations					415	415
Total comprehensive income						9,797
Shares issued to directors (Note G)	21		277			277
Stock compensation expense (Note G)			2,604			2,604
Reduction of tax benefit from stock options, net			(310)			(310)
Exercise of stock options	248	2	1,213			1,215
Treasury Stock Repurchase	(246)	(2)		(3,227)		(3,229)
Dividends (Note G)				(1,679)		(1,679)
BALANCE AT DECEMBER 31, 2013	12,777	$ 128	$ 146,273	$ 38,224	$ (3,720)	$ 180,905
Comprehensive income:						
Net income				1,544		1,544
Translation adjustment					(4,736)	(4,736)
Derivative fair value adjustment (Note F)					13	13
Effect of retirement benefit obligations					(1,479)	(1,479)
Total comprehensive loss						(4,658)

Shares issued to directors (Note G)	23		344			344
Shares issued to employee (Note G)	5		2			2
Stock compensation expense (Note G)			2,489			2,489
Issuance of 581,432 shares of common stock for acquisition of Kitchen Craft (Note B)	581	6	8,376			8,382
Tax provision on exercise of stock options			343			343
Exercise of stock options	326	3	2,488			2,491
Dividends (Note G)				(2,065)		(2,065)
BALANCE AT DECEMBER 31, 2014	13,712	$ 137	$ 160,315	$ 37,703	$ (9,922)	$ 188,233

See notes to consolidated financial statements.

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LIFETIME BRANDS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year ended December 31,		
	2014	**2013**	**2012**
OPERATING ACTIVITIES			
Net income	$ 1,544	$ 9,281	$ 20,947
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for doubtful accounts	286	139	123
Depreciation and amortization	14,200	10,415	9,324
Amortization of financing costs	617	528	649
Deferred rent	(722)	(962)	(668)
Deferred income taxes	(3,757)	(2,275)	(3,011)
Stock compensation expense	4,493	2,881	2,793
Undistributed equity losses (earnings)	6,724	5,354	(5,665)
Intangible asset impairment (Note D)	3,384		1,069
Loss on early retirement of debt (Note E)	346	102	1,363
Contingent consideration fair value adjustment	(4,203)		
Changes in operating assets and liabilities (excluding the effects of business acquisitions)			
Accounts receivable	(6,209)	10,099	(14,741)
Inventory	(6,354)	(8,207)	9,694
Prepaid expenses, other current assets and other assets	(2,063)	(449)	(529)
Accounts payable, accrued expenses and other liabilities	(950)	9,437	(166)
Income taxes payable	(2,747)	(579)	1,515
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,589	35,764	22,697
INVESTING ACTIVITIES			
Purchases of property and equipment	(6,171)	(3,842)	(4,955)
Equity investments	(764)		(2,765)
Kitchen Craft acquisition, net of cash acquired	(59,977)		
Other acquisitions, net of cash acquired	(5,389)		(14,500)
Net proceeds from sale of property	68	11	27
	(72,233)	(3,831)	(22,193)

NET CASH USED IN INVESTING ACTIVITIES			
FINANCING ACTIVITIES			
Proceeds from Revolving Credit Facility (Note E)	278,014	220,222	183,600
Repayments from Revolving Credit Facility (Note E)	(234,067)	(231,959)	(180,257)
Proceeds from Senior Secured Term Loan (Note E)			35,000
Repayments of Senior Secured Term Loan (Note E)	(20,625)	(14,375)	
Repayments of Term Loan (Note E)			(40,000)
Proceeds from Credit Agreement Term Loan (Note E)	50,000		
Repayments of Credit Agreement Term Loan (Note E)	(5,000)		
Proceeds from Short Term Loan (Note E)	1,645		
Payments from Short Term Loan (Note E)	(880)		
Payments for stock repurchase		(3,229)	
Payment of financing costs	(2,283)		
Cash dividends paid (Note G)	(2,031)	(1,515)	(1,249)
Proceeds from the exercise of stock options	2,488	1,215	577
Excess tax benefit from stock options	553	613	150
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	67,814	(29,028)	(2,179)
Effect of foreign exchange on cash	(49)	171	574
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	121	3,076	(1,101)
Cash and cash equivalents at beginning of year	4,947	1,871	2,972
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 5,068	$ 4,947	$ 1,871

See notes to consolidated financial statements

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LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE A SIGNIFICANT ACCOUNTING POLICIES

Organization and business

Lifetime Brands, Inc. (the Company) designs, sources and sells branded kitchenware, tableware and other products used in the home and markets its products under a number of brand names and trademarks, which are either owned or licensed by the Company or through retailers private labels. The Company markets and sells its products principally on a wholesale basis to retailers. The Company also markets and sells a limited selection of its products directly to consumers through its Pfaltzgraff®, Mikasa®, Fred® and Friends, Built NY®, Lifetime Sterling® and The English Table Internet websites.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for financial information and with the instructions to Form 10-K.

The accompanying consolidated financial statements include estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with U.S. GAAP. The most significant of these estimates and assumptions relate 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, stock option expense, estimates for unpaid healthcare claims, derivative valuations, accruals related to the Company s tax positions and tax valuation allowances. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Foreign Currency

All foreign wholly-owned subsidiaries use the local currency of their respective countries as their functional currency. Assets and liabilities are translated into U.S. dollars at exchange rates prevailing at the balance sheet dates. Revenues, costs and expenses are translated into U.S. dollars at average exchange rates for the relevant period. Income and losses resulting from translation are recorded as a component of

accumulated other comprehensive income (loss). Gains and losses from foreign currency transactions are recognized in selling, general and administrative expenses in the consolidated statements of operations. Foreign currency gain/loss included within selling, general and administrative expenses was a $1.4 million loss in 2014, a $258,000 loss in 2013 and a $415,000 loss in 2012.

Revenue recognition

The Company sells products wholesale, to retailers and distributors, and retail, directly to consumers. Wholesale sales and retail direct sales are recognized when title passes to the customer, which is primarily at the shipping point for wholesale sales and upon delivery to the customer for retail direct sales. Shipping and handling fees that are billed to customers in sales transactions are included in net sales and amounted to $1.4 million for each of the three years ended December 31, 2014, 2013, and 2012. Net sales exclude taxes that are collected from customers and remitted to the taxing authorities.

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LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

The Company offers various sales incentives and promotional programs to its customers from time to time in the normal course of business. These incentives and promotions typically include arrangements such as cooperative advertising, buydowns, volume rebates and discounts. These arrangements and an estimate of sales returns are reflected as reductions in net sales in the Company s consolidated statements of operations.

Cost of sales

Cost of sales consist primarily of costs associated with the production and procurement of product, inbound freight costs, purchasing costs, royalties and other product procurement related charges.

Distribution expenses

Distribution expenses consist primarily of warehousing expenses and freight-out expenses. Freight-out expenses were $11.4 million, $9.0 million, and $8.5 million for the years ended December 31, 2014, 2013, and 2012, respectively. Handling costs of products sold are included in cost of sales.

Advertising expenses

Advertising expenses are expensed as incurred and are included in selling, general and administrative expenses. Advertising expenses were $1.6 million, $0.8 million, and $0.8 million for the years ended December 31, 2014, 2013, and 2012, respectively.

Accounts receivable

The Company periodically reviews the collectability 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 initial and on-going creditworthiness of the Company s customers. The Company also maintains an allowance for anticipated customer deductions. The allowances for deductions are primarily based on contracts with customers.

However, in certain cases the Company does not have a formal contract and, therefore, customer deductions are non-contractual. To evaluate the reasonableness of non-contractual customer deductions, the Company analyzes currently available information and historical trends of deductions.

Inventory

Inventory consists principally of finished goods sourced from third-party suppliers. Inventory also includes finished goods, work in process and raw materials related to the Company s manufacture of sterling silver products. Inventory is priced using the lower of cost (first-in, first-out basis) or market method. The Company estimates the selling price of its inventory on a product by product basis based on the current selling environment. If the estimated selling price is lower than the inventory s cost, the Company reduces the value of the inventory to its net realizable value.

Property and equipment

Property and equipment is stated at cost. Property and equipment, other than leasehold improvements, is depreciated using 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 periods ranging from 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.

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LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Cash equivalents

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

Concentration of credit risk

The Company s cash and cash equivalents are potentially subject to concentration of credit risk. The Company maintains cash with several financial institutions that, in some cases, is in excess of Federal Deposit Insurance Corporation insurance limits.

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.

During the years ended December 31, 2014, 2013, and 2012, Wal-Mart Stores, Inc. (including Sam s Club and Asda Superstore, in the United Kingdom) accounted for 16%, 15%, and 16% of net sales, respectively. Sales to Wal-Mart Stores, Inc. are included in the Company s U.S. Wholesale and International segments. No other customer accounted for 10% or more of the Company s sales during these periods.

Fair value measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic No. 820, *Fair Value Measurements and Disclosures*, provides enhanced guidance for using fair value to measure assets and liabilities and establishes a common definition of fair value, provides a framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosure requirements about fair value measurements. Fair value measurements included in the Company s consolidated financial statements relate to the Company s annual goodwill and other intangible asset impairment tests and derivatives, described in Notes D and F, respectively.

Fair value of financial instruments

The Company determined the carrying amounts of cash and cash equivalents, accounts receivable and accounts payable are reasonable estimates of their fair values because of their short-term nature. The Company determined that the carrying amounts of borrowings outstanding under its Revolving Credit Facility and Term Loan approximate fair value since such borrowings bear interest at variable market rates.

Derivatives

The Company accounts for derivative instruments in accordance with ASC Topic No. 815, *Derivatives and Hedging*. ASC Topic No. 815 requires that all derivative instruments be recognized on the balance sheet at fair value as either an asset or liability. Changes in the fair value of derivatives that qualify as hedges and have been designated as part of a hedging relationship for accounting purposes have no net impact on earnings to the extent the derivative is considered highly effective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged, until the hedge item is recognized in earnings. If the derivative which is designated as part of a hedging relationship is considered ineffective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged, the changes in fair value are recorded in operations. For derivatives that do not qualify or are not designated as hedging instruments for accounting purposes, changes in fair value are recorded in operations.

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LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

Goodwill, intangible assets and long-lived assets

Goodwill and intangible assets deemed to have indefinite lives are not amortized but, instead, are subject to an annual impairment assessment. Additionally, if events or conditions were to indicate the carrying value of a reporting unit may not be recoverable, the Company would evaluate goodwill and other intangible assets for impairment at that time. As it relates to the goodwill assessment, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment testing described in ASU Topic No. 350, *Intangibles Goodwill and Other*. If, after assessing qualitative factors, the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary and the Company s goodwill is considered to be unimpaired. However, if based on the Company s qualitative assessment it concludes that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, or if the Company elects to bypass the qualitative assessment, the Company will proceed with performing the two-step process. The first step in the two-step process compares the carrying value of each reporting unit that has goodwill with the estimated fair value of the respective reporting unit. Should the carrying value of a reporting unit be in excess of the estimated fair value of that reporting unit, the second step must be performed. The second step represents a hypothetical purchase price allocation as if the Company had acquired the reporting unit on that date. The Company also evaluates qualitative factors to determine whether or not its indefinite lived intangibles have been impaired and then performs quantitative tests if required. These tests can include the royalty savings model or other valuation models.

Long-lived assets, including intangible assets deemed to have finite lives, are 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 discounted future cash flows expected to be generated by the asset. If the asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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. The Company accounts for foreign income taxes based upon anticipated reinvestment of profits into respective foreign tax jurisdictions.

The Company applies the authoritative guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the Company s financial statements. In accordance with this guidance, 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. A valuation allowance is required to be established or maintained when it is more likely than not that all or a portion of deferred tax assets will not be realized.

Stock options

The Company measures compensation expense for all share-based compensation granted to employees and non-employee directors at fair value on the date of grant and recognizes compensation expense over the related service period for awards expected to vest. The Company uses the Black-Scholes option valuation model to estimate the fair value of its stock options. The Black-Scholes option valuation model requires the input of highly subjective assumptions including the expected stock price volatility of the Company s common stock and the risk free interest rate.

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LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Employee Healthcare

The Company self-insures certain portions of its health insurance plan. The Company maintains an accrual for estimated unpaid claims and claims incurred but not yet reported (IBNR). Although management believes that it uses the best information available to estimate IBNR claims, actual claims may vary significantly from estimated claims.

Restructuring Expenses

Costs associated with restructuring activities are recorded at fair value when a liability has been incurred. A liability has been incurred at the point of closure for any remaining operating lease obligations and at the communication date for severance.

In May 2014, the Company commenced a plan to consolidate its customer service and call center functions and eliminated certain employee positions in connection with this consolidation. The Company recorded $125,000 of restructuring expenses during the year ended December 31, 2014 related to the execution of this plan.

In April 2013, the Company commenced a plan to close the Fred® & Friends distribution center and eliminate certain employee positions in conjunction with the closure. The Company recorded $367,000 of restructuring expenses during the year ended December 31, 2013 related to the execution of this plan. The Company does not anticipate that it will incur any further restructuring expenses related to this closure.

New Accounting Pronouncements

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*, which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative impairment test described in ASC Topic No. 350, Intangibles Goodwill and Other. The amendments in this update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company s adoption of this guidance did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

Effective January 2013, the Company adopted ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other*

Comprehensive Income, which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income (e.g., net periodic pension benefit cost), an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. In connection with the adoption of this standard, the Company added additional disclosure about the Company s accumulated other comprehensive income to Note M of its financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, to clarify the principles of recognizing revenue and create common revenue recognition guidance under U.S. GAAP and International Financial Reporting Standards. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016 and can be

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LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

adopted either retrospectively to each reporting period presented or as a cumulative effect adjustment as of the date of the adoption, with early application not permitted. The Company is currently determining its implementation approach and assessing the impact, if any, on the consolidated financial statements.

NOTE B ACQUISITIONS

Kitchen Craft

On January 15, 2014, the Company acquired 100% of the share capital of Thomas Plant (Birmingham) Limited (Kitchen Craft) for cash in the amount of £37.4 million ($61.5 million) and 581,432 shares of common stock of the Company with an intrinsic value of £5.5 million ($9.0 million). The purchase price also includes contingent cash consideration of up to £5.5 million ($9.0 million) which will be payable in future years if Kitchen Craft achieves certain financial targets. Kitchen Craft is a leading supplier of kitchenware products and accessories in the United Kingdom. The assets, liabilities and operating results of Kitchen Craft are reflected in the Company s consolidated financial statements in accordance with ASC Topic No. 805, *Business Combinations*, commencing from the acquisition date.

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

Cash	$ 61,302
Share consideration issued[1]	8,382
Value of contingent consideration[2]	2,488
Working capital adjustment[3]	374
Total purchase price	$ 72,546

(1) Share consideration issued is valued at the closing market price discounted to account for lack of marketability related to the lock up period as described in the share purchase agreement.
(2) The value of contingent consideration represents the present value of the estimated payments related to the attainment of certain financial targets for the years 2014 through 2016. The maximum undiscounted contingent consideration to be paid on the agreement is £5.5 million ($9.0 million).

(3) A working capital adjustment was made in May 2014 as provided for in the share purchase agreement.

The purchase price was allocated based on the Company s estimate of the fair value of the assets acquired and liabilities assumed, as follows (in thousands):

	Purchase Price Allocation
Accounts Receivable [(1)]	$ 14,267
Inventory	17,912
Other assets	4,054
Other liabilities	(10,242)
Deferred income tax	(8,391)
Goodwill and other intangibles	54,946
Total allocated value	$ 72,546

(1) The fair value of accounts receivable approximated the gross contractual amounts receivable.

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LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Goodwill results from such factors as an assembled workforce. The total amount of goodwill is not expected to be deductible for tax purposes. All of the goodwill and other intangible assets are included in the International Segment. Customer relationships and trade names are amortized on a straight-line basis over their estimated useful lives (see Note D).

Kitchen Craft pension plan

Kitchen Craft is the sponsor of a defined benefit pension plan (the Plan) for which service costs accrual ceased prior to the acquisition. Pursuant to the share purchase agreement, the Company and the sellers agreed to take action to settle the Plan s obligation through the purchase of a group annuity contract and terminate the Plan.

As of the acquisition closing date, the projected benefit obligation of the Plan was estimated to be £7.1 million ($11.7 million) and was fully funded pursuant to the share purchase agreement. The assumptions utilized in the measurement of the funded status at the acquisition date, including a discount rate of 3.3%, reflected Kitchen Craft s intent to settle the Plan through the purchase of a group annuity contract.

On October 31, 2014, the Plan trustees secured, in full, all benefits payable or contingently payable under the Plan (subject to adjustment as determined by the UK pension authority in connection with its approval of the Plan s termination) through the purchase of a group annuity contract from a major UK-based insurance company. The terms of the group annuity contract required Kitchen Craft to make an additional payment of approximately £1.5 million ($2.4 million). The share purchase agreement provides that any additional contribution required in connection with the settlement and termination of the Plan shall be offset by future amounts owed to the sellers or, if those amounts are insufficient, reimbursed by the sellers. Accordingly, there was no impact, nor is there any expected future impact, to the Company s statement of operations in connection with the settlement and planned termination of the Plan, which is expected to occur in 2015.

The Company s net periodic benefit cost for the year ended December 31, 2014 is described in Note L.

Unaudited pro forma results

The year ended December 31, 2014 includes the operations of Kitchen Craft for the period from January 15, 2014 to December 31, 2014. The consolidated statements of operations for the year ended December 31, 2014 includes $67.6 million of net sales

and $4.1 million of income from operations contributed by Kitchen Craft.

The following table presents the Company s pro forma consolidated net sales and income before income taxes and equity in earnings for the year ended December 31, 2014 and 2013. The unaudited pro forma results include the historical statements of operations information of the Company and of Kitchen Craft, giving effect to the Kitchen Craft acquisition and related financing as if they had occurred at the beginning of the period presented. As described below under Other Acquisitions, the Company consummated certain other acquisitions during the year ended December 31, 2014; however the Company has not included the results prior to their acquisition in these pro forma results as the impact would not have been material.

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LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	Unaudited pro forma results Year ended	
	December 31, 2014	December 31, 2013
	(In thousands, except per share data)	
Net sales	$ 586,010	$ 567,218
Income before income taxes and equity in earnings	15,760	26,491
Net income	2,702	12,031
Basic earnings per common share	0.20	0.90
Diluted earnings per common share	$ 0.19	$ 0.88

The pro forma results, prepared in accordance with U.S. GAAP, include the following pro forma adjustments related to the Kitchen Craft acquisition:

(i) the elimination of the charge in cost of sales related to the increase in fair value of acquired inventory of $0.9 million in the year ended December 31, 2014;

(ii) an increase in amortization expense related to the fair value of the identifiable intangible assets of $3.4 million in the year ended December 31, 2013;

(iii) the elimination of acquisition costs recorded in the year ended December 31, 2014 and 2013 of $1.0 million and $0.6 million, respectively;

(iv) an increase in interest expense and amortization of debt issuance costs of $2.0 million, resulting from the refinancing of the Company s debt to finance the acquisition, during the year ended December 31, 2013; and

(v) an adjustment of $2.2 million in the year ended December 31, 2013 to conform compensation expense to the Company s current compensation policies.

The unaudited pro forma results do not include any revenue or cost reductions that may be achieved through the business combination, or the impact of non-recurring items directly related to the business combination.

The unaudited pro forma results are not necessarily indicative of the operating results that would have occurred if the Kitchen Craft acquisition had been completed as of the date for which the pro forma financial information is presented. In addition, the unaudited pro forma results do not purport to project the future consolidated operating results of the combined companies.

Other 2014 acquisitions

In February 2014, the Company acquired certain assets of Built NY, Inc. (Built NY), including inventory, trademarks and other intellectual property. Also in February 2014, the Company acquired certain assets of The Empire Silver Company, Inc. (Empire Silver), including trademarks and other intellectual property. In March 2014, the Company acquired the share capital of La Cafetière (UK) Limited, together with certain assets of other subsidiaries of The Greenfield Group Limited (collectively, La Cafetière). The La Cafetière acquisition included the purchase of certain trademarks and other intellectual property, and certain inventory and receivables.

In aggregate, the Company paid approximately $5.4 million of primarily cash consideration for the acquisitions of Built NY, Empire Silver and La Cafetière. The assets, liabilities and operating results of the acquisitions are reflected in the Company s consolidated financial statements in accordance with ASC Topic No. 805, *Business Combinations*, commencing from the acquisition dates.

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LIFETIME BRANDS, INC.

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Fred® & Friends

On December 20, 2012, the Company acquired the Fred® & Friends (F&F) business. F&F designs and distributes novelty housewares under the Fred® brand directly to retailers throughout the United States and Canada. The assets, liabilities and operating results of F&F have been reflected in the Company s consolidated financial statements in accordance with ASC Topic No. 805, *Business Combinations*, commencing from the acquisition date and did not significantly impact the Company s consolidated financial results for the year ended December 31, 2012.

The purchase price was comprised of the following (in thousands):

Cash paid	$ 14,500
Common stock issued	1,507
Value of contingent consideration	5,370
Total purchase price	$ 21,377

The cash portion of the purchase price was funded by borrowings under the Company s revolving credit facility. The value of contingent consideration represents the present value of estimated contingent payments of $4.0 million related to the attainment of certain gross contribution targets for the years 2013 through 2016 and the present value of the contractual holdback amount of $1.4 million, which serves as security for payments in satisfaction of any claim. The maximum undiscounted deferred and contingent consideration to be paid under the agreement is $7.7 million.

The Company assessed the fair value of the contingent consideration as of December 31, 2014 and based upon the projected attainment of certain gross contribution margin targets, a fair value adjustment to reduce the contingent consideration accrual by $4.2 million is included within Selling, general and administrative expenses for the year ended December 31, 2014.

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
Accounts receivable[1]	$ 5,003
Inventory	3,941
Other assets	360
Other liabilities	(1,519)
Goodwill and other intangibles	13,592
Total allocated value	$ 21,377

Note:

(1) The fair value of accounts receivable approximated the gross contractual amounts receivable.

On the basis of estimated fair values, the excess of the purchase price over the net assets acquired of $13.6 million has been allocated as follows: $7.2 million for customer relationships, $3.9 million for trade names and $2.5 million for goodwill. The goodwill recognized results from such factors as an assembled workforce and the value of other

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LIFETIME BRANDS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

synergies expected from combining operations with the Company. The total amount of goodwill is expected to be deductible for tax purposes. All of the goodwill and other intangibles are included in the U.S. Wholesale segment. Customer relationships and trade names are amortized on a straight-line basis over their estimated useful lives (see Note D).

See Note M for amounts accrued as of December 31, 2014 and 2013 related to contingent consideration. The estimated fair value of the contingent consideration was calculated using Level 3 unobservable inputs.

NOTE C EQUITY INVESTMENTS

The Company owns approximately 30% of the outstanding capital stock of Grupo Vasconia, S.A.B. (Vasconia) an integrated manufacturer of aluminum products and one of Mexico s largest housewares companies. Shares of Vasconia s capital stock are traded on the Bolsa Mexicana de Valores, the Mexican Stock Exchange. The Quotation Key is VASCONI. The Company accounts for its investment in Vasconia using the equity method of accounting and records its proportionate share of Vasconia s net income in the Company s statement of operations. Accordingly, the Company has recorded its proportionate share of Vasconia s net income (reduced for amortization expense related to the customer relationships acquired) for the years ended December 31, 2014, 2013, and 2012 in the accompanying consolidated statements of operations. The value of the Company s investment balance has been translated from Mexican Pesos (MXN) to U.S. Dollars (USD) using the spot rate of MXN 14.74 and MXN 13.06 at December 31, 2014 and 2013, respectively. The Company s proportionate share of Vasconia s net income has been translated from MXN to USD using the average exchange rates of MXN 12.99 to 13.87, MXN 12.46 to 13.01, and MXN 12.94 to 13.51 during the years ended December 31, 2014, 2013, and 2012, respectively. The effect of the translation of the Company s investment resulted in a (decrease) increase of the investment of $(4.0) million, $(0.3) million, and $2.7 million during the years ended December 31, 2014, 2013, and 2012, respectively. These translation effects are recorded in accumulated other comprehensive loss. The Company received cash dividends of $230,000, $571,000, and $416,000 from Vasconia during the years ended December 31, 2014, 2013, and 2012, respectively. Included in prepaid expenses and other current assets at December 31, 2014 is $33,000 due from Vasconia. Included within accrued expenses at December 31, 2013 is $152,000 due to Vasconia.

Summarized income statement information for the years ended December 31, 2014, 2013, and 2012, as well as summarized balance sheet information as of December 31, 2014 and 2013, for Vasconia in USD and MXN is as follows:

	Year Ended December 31,					
	2014		2013		2012	
	(in thousands)					
	USD	MXN	USD	MXN	USD	MXN
ncome tatement						
Net Sales	$ 188,863	$ 2,514,294	$ 159,574	$ 2,038,200	$ 168,712	$ 2,224,256
Gross Profit	35,592	474,482	28,775	367,944	38,134	497,413
ncome rom perations	7,790	103,658	5,438	70,430	14,614	192,182
Net Income	5,328	71,732	4,315	55,077	34,172	443,630

	December 31,			
	2014		2013	
	(in thousands)			
	USD	MXN	USD	MXN
Balance heet				
Current ssets	$ 110,865	$ 1,634,154	$ 100,227	$ 1,309,210
Non-current ssets	86,888	1,280,723	75,659	988,289
Current abilities	37,032	545,852	26,187	342,060
Non-current abilities	58,753	866,022	39,033	509,868

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The Company recorded equity in (losses) earnings of Vasconia, net of taxes, of $0.2 million, $(4.0) million, and $6.9 million for the years ended December 31, 2014, 2013, and 2012, respectively. Equity in losses in 2013 includes a charge of $5.0 million, net of tax, for the reduction in Vasconia s fair value, as discussed in the following paragraph. Equity in earnings of Vasconia in 2012 includes $4.1 million related to the Company s portion of a bargain purchase gain recognized by Vasconia on its purchase of Almexa, an aluminum mill and manufacturer of aluminum foil, a $1.1 million tax benefit realized in the period and the reduction of the Company s investment to fair value of $1.3 million, net of tax.

As of December 31, 2014, the fair value (based upon the quoted stock price) of the Company s investment in Vasconia was $30.8 million. The carrying value of the Company s investment in Vasconia was $27.8 million.

In 2013, as a result of a decline in the quoted stock price and the 2013 quarterly decline in the operating results of Vasconia, the carrying amount of the Company s investment in Vasconia exceeded its fair value and, therefore, the Company reduced its investment value by $5.0 million during the year ended December 31, 2013, net of tax, to its fair value.

In 2012, as a result of recording the bargain purchase gain and a corresponding increase in the investment, the Company determined it was necessary to perform an impairment test on its investment in Vasconia as of December 31, 2012. The test involved the assessment of the fair value of the Company s investment in Vasconia based on Level 1 quoted prices in active markets. The result of the assessment of the Company s investment in Vasconia indicated that the carrying amount of the investment exceeded its quoted fair value and, therefore, was required to be reduced by $1.3 million, net of tax.

The Company owns a 40% equity interest in GS Internacional S/A (GSI), a wholesale distributor of branded housewares products in Brazil, which the Company acquired in December 2011. As a result of the decline in operating results of GSI and the current business environment in Brazil, the Company evaluated its carrying value of the investment for other-than-temporary impairment under the equity-method of accounting. Management performed an evaluation of quantitative factors and concluded that the investment was other-than-temporarily impaired as of September 30, 2014. The estimate of fair value was based upon the median of the income-approach (discounted cash flow method) and market-approach valuation methodology using Level 3 unobservable inputs. During the fourth quarter of 2014, the Company purchased 40% of newly issued common stock of GSI for R$2.0 million ($764,000). The Company

assessed the valuation of its fourth quarter investment in GSI and determined there were no significant changes to the assumptions used in the valuation of GSI performed during the third quarter. As a result, the new investment is also impaired. Accordingly, the Company recorded a total $6.0 million impairment charge, net of tax, in equity in earnings (losses), net of tax during the third and fourth quarters of 2014.

The Company, together with Vasconia and unaffiliated partners, formed Housewares Corporation of Asia Limited (HCA), a Hong Kong-based company, to supply direct import kitchenware products to retailers in North, Central and South America. The Company initially invested $105,000 for a 40% equity interest in this entity during 2011. The operating results of HCA were not significant through December 31, 2013. As of December 31, 2013, the carrying value of the Company s investment in HCA was $144,000. In October 2014, the Company sold its investment in HCA to an unaffiliated partner. No significant gains or losses were recognized in connection with this sale.

In February 2012, the Company entered into Grand Venture Holdings Limited (Grand Venture), a joint venture with Manweal Development Limited (Manweal), a Chinese corporation, to distribute Mikasa® products in China, which included an initial investment of $500,000. The Company and Manweal each own 50% of Grand Venture and have rights and obligations proportionate to their ownership percentages. The Company accounts for its investment in Grand Venture using the equity method of accounting and has recorded its proportionate share of Grand Venture s net loss as equity in earnings (losses) in the Company s consolidated statements of operations. The Company recorded

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equity in losses of the joint venture of $39,000, $83,000 and $125,000 for the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014 and 2013, the carrying value of the Company s investment in Grand Venture was $251,000 and $287,000, respectively.

The Company evaluated the disclosure requirements of ASC Topic No. 860, *Transfers and Servicing*, and determined that at December 31, 2014, the Company did not have a controlling voting interest or variable interest in any of its investments and therefore continued accounting for the investments using the equity method of accounting.

NOTE D GOODWILL AND INTANGIBLE ASSETS

The Company s intangible assets, all of which are included in the U.S. Wholesale and International segments, consist of the following (in thousands):

	Year Ended December 31,					
	2014			2013		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Goodwill	$ 18,101	$	$ 18,101	$ 5,085	$	$ 5,085
Indefinite -lived intangible assets:						
Trade names	7,616		7,616	18,364		18,364
Finite -lived intangible assets:						
Licenses	15,847	(8,007)	7,840	15,847	(7,551)	8,296
Trade names	29,768	(4,568)	25,200	10,056	(2,677)	7,379
Customer relationships	50,823	(6,754)	44,069	18,406	(2,736)	15,670
Other	1,202	(431)	771	584	(229)	355
Total	$ 123,357	$ (19,760)	$ 103,597	$ 68,342	$ (13,193)	$ 55,149

The Company performed its 2014 annual impairment test for its indefinite-lived trade names as of October 1, 2014. The test involved the assessment of the fair market values of the Company s indefinite-lived trade names based on Level 3 unobservable inputs, using a relief from royalty approach, assuming a discount rate of 14.0%-15.5% and an average long term growth rate of 2.5%-3%. The result of the impairment assessment of the Company s indefinite-lived trade names indicated that the carrying values of the Elements® and Melannco® trade names exceeded their fair values as of October 1, 2014.

The Company s home décor products category has experienced a decline in sales and profit in recent years. The Company believes the most significant factor resulting in the decline was the reduction in retail space allocated to the category which has also contributed to pricing pressure. The Company has been re-branding a portion of the home décor products under the Mikasa® and Pfaltzgraff® trade names and more recently under the Bombay® license. The Company is also taking advantage of promotional sale opportunities, such as flash sale websites and online retailers to offset the effect of a reduction in retail space for this product category and pricing pressures. As a result of these factors, the Company recorded an impairment charge of $3.4 million, related to these brands, in its consolidated statement of operations for the year ended December 31, 2014.

In addition, as of October 1, 2014 and December 31, 2014, the Company assessed the carrying value of its goodwill and determined based on quantitative and qualitative factors that no impairment existed.

As part of the Company s annual impairment analysis of indefinite-lived trade names it was determined that certain of the Company s trade names, previously estimated to contribute to cash flows indefinitely, have definite lives.

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Accordingly, these trade names were reclassified from indefinite-lived or unamortizable intangible assets to finite lived or amortizable intangible assets as of October 1, 2014. The remaining useful lives of these trade names is 10 to 15 years.

A summary of the activities related to the Company s intangible assets for the year ended December 31, 2014 consists of the following (in thousands):

	Intangible Assets	Goodwill	Total Intangible Assets and Goodwill
Goodwill and Intangible Assets, December 31, 2011	$ 44,264	$ 2,673	$ 46,937
Acquisition of trade names	3,940		3,940
Acquisition of customer relationships	7,240		7,240
Goodwill from F&F acquisition		2,412	2,412
Impairment of Elements® trade name	(1,069)		(1,069)
Amortization	(1,618)		(1,618)
Goodwill and Intangible Assets, December 31, 2012	52,757	5,085	57,842
Amortization	(2,693)		(2,693)
Goodwill and Intangible Assets, December 31, 2013	50,064	5,085	55,149
Acquisition of trade names	12,348		12,348
Acquisition of customer relationships	32,417		32,417
Acquisition of other intangible assets	618		618
Goodwill from Kitchen Craft acquisition		13,016	13,016
Impairment of trade names	(3,384)		(3,384)

Amortization	(6,567)		(6,567)
Goodwill and Intangible Assets, December 31, 2014	$ 85,496	$ 18,101	$ 103,597

The weighted-average amortization periods for the Company s finite-lived intangible assets as of December 31, 2014 are as follows:

	Years
Trade names	14
Licenses	33
Customer relationships	13
Other	11

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

Year ending December 31,	
2015	$ 7,004
2016	6,996
2017	6,708
2018	6,708
2019	6,708

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Amortization expense for the years ended December 31, 2014, 2013, and 2012 was $6.6 million, $2.7 million, and $1.6 million, respectively.

NOTE E DEBT

Credit Agreement

In January 2014, the Company entered into a Second Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A, as Administrative Agent and Co-Collateral Agent, and HSBC Bank USA, National Association, as Syndication Agent and Co-Collateral Agent (as amended, the Credit Agreement) amending and restating the Company s then existing Amended and Restated Credit Agreement. The Credit Agreement, which expires in January 2019, provides for, among other things, a Revolving Credit Facility commitment totaling $175.0 million ($40.0 million of which is available for multi-currency borrowings) and a new Term Loan facility of $50.0 million.

Each borrowing under the Revolving Credit Facility bears interest, at the Company s option, at one of the following rates: (i) the Alternate Base Rate, defined as the greater of the Prime Rate, Federal Funds Rate plus 0.5% or the Adjusted LIBO Rate plus 1.0%, plus a margin of 0.75% to 1.25%, or (ii) the Eurodollar Rate, defined as the Adjusted LIBO Rate plus a margin of 1.75% to 2.25%. The respective margins are based upon availability which is a function of usage and the borrowing base. Interest rates on outstanding borrowings at December 31, 2014 ranged from 2.125% to 4.25%. In addition, the Company pays a commitment fee of 0.375% on the unused portion of the Revolving Credit Facility.

At December 31, 2014 and 2013, borrowings outstanding under the Revolving Credit Facility were $92.7 million and $49.2 million, respectively. At December 31, 2014 and 2013, open letters of credit were $2.3 million and $1.3 million, respectively. At December 31, 2014 and 2013, availability under the Revolving Credit Facility was approximately $64.9 million and $87.8 million, respectively. The borrowing capacity under the Revolving Credit Facility depends, in part, on eligible levels of accounts receivable and inventory that fluctuate regularly and certain trademark values based upon periodic appraisals and may be lower in the first two quarters when the Company s inventory level is lower due to seasonality. Consequently, the $175.0 million commitment may not represent actual borrowing capacity.

The Company classifies a portion of the Revolving Credit Facility as a current liability if the Company s intent and ability is to repay the loan from cash flows from operations

which are expected to occur within the next 12 months. Repayments and borrowings under the facility can vary significantly from planned levels based on cash flow needs and general economic conditions. The Company expects that it will continue to borrow and repay funds, subject to availability, under the facility based on working capital and other corporate needs.

ABR Term Loans or Eurocurrency Term Loans, provided for under the Credit Agreement, bear interest based on the applicable Senior Leverage Ratio. The ABR Spread for Term Loans is 3.0% to 3.5% and the Eurocurrency Spread for Term Loans is 4.0% to 4.5%. As of December 31, 2014, $45.0 million was outstanding under the Term Loan.

The Company s payment obligations under the Revolving Credit Facility are unconditionally guaranteed by each of its existing and future U.S. subsidiaries. Certain payment obligations under the Revolving Credit Facility are also direct obligations of its foreign subsidiary borrowers designated as such under the Credit Agreement and, subject to limitations on such guaranty, are guaranteed by the foreign subsidiary borrowers, as well as by the Company. The obligations of the Company under the Revolving Credit Facility and any hedging arrangements and cash management services and the guarantees by its domestic subsidiaries in respect of those obligations are secured by substantially all of the assets and stock (but in the case of foreign subsidiaries, limited to 65% of the capital stock in first-tier foreign subsidiaries and not including stock of subsidiaries of such first-tier foreign subsidiaries) owned by the Company and the U.S. subsidiary guarantors, subject to certain exceptions. Such security interest consists of a first-priority lien, subject to certain permitted liens, with respect to the assets of the Company and its domestic subsidiaries pledged as collateral in favor of lenders under the Revolving Credit Facility.

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The Credit Agreement provides for customary restrictions and events of default. Restrictions include limitations on additional indebtedness, acquisitions, investments and payment of dividends, among other things. Further, the Credit Agreement provides that at any time any Term Loan is outstanding or at any time no Term Loan is outstanding and availability under the Revolving Credit Facility is less than $17.5 million and continuing until availability of at least $20.0 million is maintained for three consecutive months, the Company is required to maintain a minimum fixed charge coverage ratio of 1.10 to 1.00 for each of four consecutive fiscal quarter periods. The Credit Agreement also provides that when the Term Loan is outstanding, the Company is required to maintain a Senior Leverage Ratio within defined parameters not to exceed 4.00 to 1.00 at the fiscal quarter ending September 30, 2014; 4.25 to 1.00 at the fiscal quarter ending December 31, 2014; 3.50 to 1.00 at each fiscal quarter end in 2015; and 2.50 to 1.00 at each fiscal quarter end thereafter; provided that for any fiscal quarter ending on September 30 of any year, the maximum Senior Leverage Ratio specified above shall be increased by an additional 0.25:1.00.

Pursuant to the term loan agreement, as of December 31, 2014 the maximum additional permitted indebtedness other than certain subordinated indebtedness was $40.2 million. The Company was in compliance with the financial covenants of the Credit Agreement at December 31, 2014.

In February 2015, the Company entered into an amendment to its Credit Agreement (Amendment No. 2). Amendment No. 2, among other things, modified the Company s maximum permitted Senior Leverage Ratio to provide for a more gradual reduction, beginning March 31, 2015, than was previously the case. The Company is now required to maintain a Senior Leverage Ratio not to exceed 4.25 to 1.00 for the fiscal quarter ended December 31, 2014; 4.00 to 1.00 for each fiscal quarter ending during 2015; and 3.25 to 1.00 for each fiscal quarter ending thereafter. Amendment No. 2 also amended the definition of EBITDA to exclude non-recurring one-time cash charges incurred during 2014 in connection with a permitted acquisition and the refinancing of certain indebtedness if not completed, as well clarifying language as to the exclusion from EBITDA of potential contingent consideration payments related to certain completed acquisitions.

In January 2014, the Company repaid the previously outstanding Senior Secured Term Loan in connection with the execution and delivery of the Credit Agreement.

Other Credit Agreements

A subsidiary of the Company has a credit facility (HSBC Facility or Short term loan) with HSBC Bank (China) Company Limited, Shanghai Branch (HSBC) for up to RMB 18.0 million ($2.9 million). The HSBC Facility is subject to annual renewal and may be used to fund general working capital needs of the subsidiary which is a trading company in the People s Republic of China. Borrowings under the HSBC Facility are guaranteed by the Company and are granted at the sole discretion of HSBC. At December 31, 2014, RMB 4.8 million ($765,000) was outstanding and the interest rate was 6.44% under the HSBC Facility.

NOTE F DERIVATIVES

The Company is a party to interest rate swap agreements with an aggregate notional amount of $25.4 million to manage interest rate exposure in connection with its variable interest rate borrowings. The hedge periods of these agreements commenced in March 2013 and expire in June 2018 and the notional amounts amortize over this period. The interest rate swap agreements were designated as cash flow hedges under ASC Topic No. 815. The effective portion of the fair value gain or loss on these agreements is recorded as a component of accumulated other comprehensive loss. The effect of recording these derivatives at fair value resulted in an unrealized gain of $13,000 and $241,000 and an unrealized loss of $272,000, net of taxes, for the years ended December 31, 2014, 2013 and 2012, respectively. No amounts recorded in accumulated other comprehensive loss are expected to be reclassified to interest expense in the next twelve months.

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The fair values of the derivatives have been obtained from the counterparties to the agreements and were based on Level 2 observable inputs using proprietary models and estimates about relevant future market conditions. The aggregate fair value of the Company s interest derivative instruments was a liability of $32,000 and $54,000 at December 31, 2014 and December 31, 2013, respectively, and is included in accrued expenses and other long-term liabilities in the consolidated balance sheets.

During 2014, the Company also entered into certain foreign exchange contracts, primarily to offset the earnings impact related to fluctuations in foreign currency exchange rates associated with inventory purchases denominated in foreign currencies. These foreign exchange contracts were not designated as hedges as required in order to apply hedge accounting. The changes in the fair values of these contracts were recorded in earnings immediately. As of December 31, 2014, there were no open foreign exchange contracts. Included in selling, general and administrative expenses in the consolidated statement of operations is a gain of $0.7 million related to these foreign exchange derivative contracts.

NOTE G CAPITAL STOCK

Long-term incentive plan

The Company s 2000 Long-Term Incentive Plan, as amended (the Plan) provides for up to 4,200,000 shares available for grant. These shares of the Company s common stock are available for grants to directors, officers, employees, consultants and service providers and affiliates in the form of stock options or other equity-based awards. The Plan authorizes the Board of Directors of the Company, or a duly appointed committee thereof, to issue incentive stock options, non-qualified options 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 grant and vest over a range of up to five years from the date of grant. As of December 31, 2014, there were 296,362 shares available for the grant of awards.

Cash dividends

Dividends declared in 2014 and 2013 are as follows:

Dividend per share	Date declared	Date of record	Payment date
$0.03125	March 12, 2013	May 1, 2013	May 15, 2013

$0.03125	June 13, 2013	August 1, 2013	August 15, 2013
$0.03125	August 2, 2013	November 1, 2013	November 15, 2013
$0.0375	October 31, 2013	January 31, 2014	February 14, 2014
$0.0375	March 11, 2014	May 1, 2014	May 15, 2014
$0.0375	June 19, 2014	August 1, 2014	August 15, 2014
$0.0375	July 29, 2014	October 31, 2014	November 14, 2014
$0.0375	November 5, 2014	January 30, 2015	February 13, 2015

On March 4, 2015, the Board of Directors declared a quarterly dividend of $0.0375 per share payable on May 15, 2015 to shareholders of record on May 1, 2015.

Stock repurchase program

On April 30, 2013, Lifetime s Board of Directors authorized the repurchase of up to $10.0 million of the Company s common stock. The repurchase authorization permits the Company to effect repurchases from time to time through open market purchases and privately negotiated transactions. During the year ended December 31, 2013, the Company repurchased 245,575 shares for a total cost of $3.2 million and thereafter retired the shares. No shares were repurchased during the year ended December 31, 2014.

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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 issued or outstanding at December 31, 2014.

Restricted stock

In 2014, 2013, and 2012, the Company granted an aggregate of 21,511, 22,459, and 23,394 restricted shares, respectively, of the Company s common stock to its non-employee directors representing payment of a portion of their annual retainer. In 2014, the Company also granted 5,000 restricted shares to an employee.

The total fair value of the restricted shares, based on the number of shares granted and the quoted market prices of the Company s common stock on the dates of grant was $420,000 in 2014, $298,000 in 2013 and $270,000 in 2012. For restricted stock grants made to the Company s non-employee directors, the restrictions lapse one year from the date of grant and the stock is expensed over the one year period. For the restricted stock granted to an employee in 2014, the restriction on one third of the shares lapses annually, over three years. Total unrecognized restricted stock compensation expense at December 31, 2014 was $232,000 and is expected to be recognized over a weighted-average period of 0.9 years.

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Stock options

A summary of the Company s stock option activity and related information for the three years ended December 31, 2014, is as follows:

	Options	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
Options outstanding at December 31, 2011	2,475,750	$ 12.62		
Grants	305,000	11.64		
Exercises	(199,823)	5.47		
Cancellations	(52,750)	12.82		
Options outstanding at December 31, 2012	2,528,177	13.06		
Grants	390,800	12.26		
Exercises	(247,827)	4.91		
Cancellations	(68,000)	16.89		
Expirations	(231,500)	22.46		
Options outstanding at December 31, 2013	2,371,650	12.75		
Grants	394,400	18.83		
Exercises	(365,223)	8.63		
Cancellations	(32,200)	12.23		
Expirations	(42,000)	26.61		
Options outstanding at December 31, 2014	2,326,627	14.19	5.99	$ 10,670,919
Options exercisable at December 31, 2014	1,533,785	$ 13.69	4.83	$ 8,425,516

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, 2014. The intrinsic value is calculated for each in-the-money stock option as the difference between the closing price of the Company s common stock on December 31, 2014 and the exercise price.

The total intrinsic values of stock options exercised for the years ended December 31, 2014, 2013, and 2012 were $3,103,000, $1,997,000, and $1,182,000, respectively. The intrinsic value of a stock option that is exercised is calculated at the date of exercise.

The Company recognized stock compensation expense of $4.5 million for the year ended December 31, 2014, of which $2.5 million represents stock option compensation expense, $0.3 million represents restricted share compensation expense and $1.7 million represents stock awards to be granted in 2015. The Company recognized stock compensation expense of $2.9 million and $2.8 million for the years ended December 31, 2013, and 2012, respectively. The stock compensation expense recognized each year is equal to the grant date fair values of stock options vested during the year. Total unrecognized compensation cost related to unvested stock options at December 31, 2014, before the effect of income taxes, was $5.0 million and is expected to be recognized over a weighted-average period of 2.54 years.

The Company values stock options using the Black-Scholes option valuation model. The Black-Scholes option valuation model, as well as other available models, was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. The Black-Scholes option valuation model requires the input of highly subjective assumptions including the expected stock price volatility and risk-free interest rate. Because the Company s stock options have characteristics significantly different from those of traded options, changes in the subjective input assumptions can materially affect the fair value estimates of the Company s stock options. The weighted-average per share grant date fair value of stock options granted during the years ended December 31, 2014, 2013, and 2012 was $9.73, $6.12, and $6.05, respectively.

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The fair values for these stock options were estimated at the dates of grant using the following weighted-average assumptions:

	2014	2013	2012
Historical volatility	58%	61%	61%
Expected term (years)	6.0	5.6	6.0
Risk-free interest rate	1.95%	0.88%	1.10%
Expected dividend yield	0.77%	0.97%	0.86%

NOTE H 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 net income and basic income per common share for the effect of all potentially dilutive shares of the Company s common stock. The calculations of basic and diluted income per common share for the years ended December 31, 2014, 2013, and 2012 are as follows:

	2014	2013	2012
	(in thousands - except per share amounts)		
Net income Basic and Diluted	$ 1,544	$ 9,281	$ 20,947
Weighted-average shares outstanding Basic	13,519	12,757	12,511
Effect of dilutive securities:			
Stock options	455	286	299
Weighted-average shares outstanding Diluted	13,974	13,043	12,810
Basic income per common share	$ 0.11	$ 0.73	$ 1.67
Diluted income per common share	$ 0.11	$ 0.71	$ 1.64

The computations of diluted income per common share for the years ended December 31, 2014, 2013 and 2012 and excludes options to purchase 2,004,836, 1,417,145 and 1,450,200 shares of the Company s common stock, respectively. The above shares were excluded due to their antidilutive effect.

NOTE I INCOME TAXES

The components of income before income taxes, equity in earnings and extraordinary item are as follows:

	Year Ended December 31,		
	2014	**2013**	**2012**
	(in thousands)		
Domestic	$ 10,251	$ 26,470	$ 20,609
Foreign	3,611	(3,233)	(535)
Total income before income taxes and equity in earnings	$ 13,862	$ 23,237	$ 20,074

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The provision for income taxes (before equity in earnings) consists of:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Current:			
Federal	$ 4,709	$ 8,996	$ 6,691
State and local	1,284	1,707	761
Foreign	1,691	747	503
Deferred	(1,859)	(2,275)	(2,747)
Income tax provision	$ 5,825	$ 9,175	$ 5,208

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

	December 31,	
	2014	2013
	(in thousands)	
Deferred income tax assets:		
Deferred rent expense	$ 3,686	$ 3,694
Stock options	3,348	3,237
Inventory	1,312	1,317
Operating loss carry-forward	2,073	2,140
Accounts receivable allowances	406	192
Accrued compensation	897	758
Other	2,911	1,831
Total deferred income tax assets	$ 14,633	$ 13,169

Significant components of the Company s net deferred income tax (liability) asset are as follows:

	December 31,	
	2014	**2013**
	(in thousands)	
Deferred income tax liabilities:		
Depreciation and amortization	$ (3,461)	$ (3,826)
Intangibles	(12,549)	(5,162)
Equity in earnings	(504)	(805)
Total deferred income tax liabilities	(16,514)	(9,793)
Net deferred income tax (liability) asset	(1,881)	3,376
Valuation allowance	(1,897)	(1,213)
Net deferred income tax (liability) asset	$ (3,778)	$ 2,163

The Company has generated various state net operating loss carryforwards of which, $14.0 million remains at December 31, 2014 that begin to expire in 2015. The Company has net operating losses in foreign jurisdictions of $6.9 million at December 31, 2014 that begin to expire in 2020. The increase in the deferred tax liabilities is primarily

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LIFETIME BRANDS, INC.

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due to the 2014 acquisition of Kitchen Craft, which included approximately $8.8 million of deferred tax liabilities related to the intangible assets acquired. The valuation allowance which remains as of December 31, 2014 relates to certain state net operating losses.

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

	Year Ended December 31,		
	2014	**2013**	**2012**
Provision for federal income taxes at the statutory rate	35.0%	35.0%	35.0%
Increases (decreases):			
State and local income taxes, net of Federal income tax benefit	4.9	5.5	3.2
Foreign rate differences	(2.7)	(1.1)	(1.8)
Non-deductible expenses	6.4	2.8	1.2
Reduction of deferred tax liabilities related to the prior year			(11.6)
Other	(1.6)	(2.7)	(0.1)
Provision for income taxes	42.0%	39.5%	25.9%

The estimated values of the Company s gross uncertain tax positions at December 31, 2014, 2013 and 2012 are liabilities of $572,000, $351,000 and $301,000, respectively, and consist of the following:

	Year Ended December 31,		
	2014	**2013**	**2012**
	(in thousands)		
Balance at January 1	$ (351)	$ (301)	$ (134)
Additions based on tax positions related to the current year		(31)	
Additions for tax positions of prior years	(221)	(164)	(167)
Settlements		145	

Balance at December 31	$ (572)	$ (351)	$ (301)

The Company had approximately $40,000 and $71,000, net of federal and state tax benefit, accrued at December 31, 2014 and 2013, respectively, for the payment of interest. The Company s policy for recording interest and penalties is to record such items as a component of income taxes.

If the Company s tax positions are ultimately sustained, the Company s liability, including interest, would be reduced by $530,000, all of which would impact the Company s tax provision. On a quarterly basis, the Company evaluates its tax positions and revises its estimates accordingly. The Company believes that it is reasonably possible that $420,000 of its tax positions will be resolved within the next twelve months.

The Company is no longer subject to U.S. Federal income tax examinations for the years prior to 2011. The Company has identified the following jurisdictions as major tax jurisdictions: U.S. Federal, California, Massachusetts, Illinois, New York, New Jersey and the United Kingdom. At December 31, 2014, the periods subject to examination for the Company s major state jurisdictions are the years ended 2010 through 2013.

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NOTE J BUSINESS SEGMENTS

Segment information

During the second quarter of 2014, the Company realigned its reportable segments into three categories, U.S. Wholesale, International and Retail Direct. The U.S. Wholesale segment, formerly the Wholesale segment, includes the Company s primary domestic business that designs, markets and distributes its products to retailers and distributors. The International Segment consists of certain business operations conducted outside the U.S. which was previously included in the Wholesale segment. The Retail Direct segment is that in which the Company markets and sells a limited selection of its products to consumers through its Pfaltzgraff®, Mikasa®, Built NY®, Fred® & Friends and Lifetime Sterling® websites.

The Company has segmented its operations to reflect the manner in which management reviews and evaluates the results of its operations. While the three segments distribute similar products, the segments have been distinct due to the different methods the Company uses to sell, market and distribute the products. Management evaluates the performance of the U.S. Wholesale, International and Retail Direct 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 senior 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.

As a result of the Company s realignment of its reportable segments, previous periods presented have been recast to conform with the current period presentation

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	Year Ended December 31,		
	2014	**2013**	**2012**
	(in thousands)		
Net sales:			
U.S. Wholesale	$ 441,293	$ 444,187	$ 422,241
International	125,230	38,907	42,621
Retail Direct	19,487	20,680	21,980
Non-operating adjustment[1]		(1,053)	
Total net sales	$ 586,010	$ 502,721	$ 486,842
Income from operations:			
U.S. Wholesale[2]	$ 34,874	$ 46,303	$ 40,227
International	3,759	(2,151)	303
Retail Direct	(1,034)	(62)	463
Non-operating adjustment[1]		(1,053)	
Unallocated corporate expenses	(16,215)	(14,851)	(13,658)
Total income from operations	$ 21,384	$ 28,186	$ 27,335
Depreciation and amortization:			
U.S. Wholesale	$ 8,618	$ 8,549	$ 7,637
International	5,379	1,601	1,437
Retail Direct	203	265	250
Total depreciation and amortization	$ 14,200	$ 10,415	$ 9,324

Note:

(1) In 2013, the Company recorded a non-operating adjustment to reduce accounts receivable for previously issued credits within the Retail Direct business which related to 2010 and earlier periods.

(2) In 2014, income from operations for the U.S. Wholesale segment includes $3.4 million of intangible asset impairment and $4.2 million related to the reduction in certain contingent consideration accruals. In 2012, income from operations for the U.S. Wholesale segment includes $1.1 million of intangible asset impairment.

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	Year Ended December 31,		
	2014	**2013**	**2012**
	(in thousands)		
Assets:			
U.S. Wholesale	$ 287,744	$ 291,757	$ 305,054
International	128,055	35,365	37,818
Retail Direct	535	730	512
Unallocated/ corporate/ other	5,068	8,887	5,413
Total assets	$ 421,402	$ 336,739	$ 348,797
Capital expenditures:			
U.S. Wholesale	$ 5,431	$ 3,375	$ 3,637
International	650	272	1,260
Retail Direct	90	195	58
Total capital expenditures	$ 6,171	$ 3,842	$ 4,955

	Year Ended December 31,		
	2014	**2013**	**2012**
	(in thousands)		
Goodwill:			
U.S. Wholesale			
Beginning balance	$ 2,412	$ 2,412	$
Acquisition activity			2,412
Ending balance	2,412	2,412	2,412
International			
Beginning balance	2,673	2,673	2,673
Acquisition activity	13,016		
Ending balance	15,689	2,673	2,673
Total goodwill [1]	$ 18,101	$ 5,085	$ 5,085

Note:

(1) No goodwill is allocated to the Company s Retail Direct reportable segment.

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Geographical information

The following table sets forth net sales and long-lived assets by the major geographic locations (in thousands):

	Year ended December 31,		
	2014	**2013**	**2012**
Net sales:			
United States	$ 436,049	$ 439,129	$ 430,758
United Kingdom	93,432	29,012	30,709
Rest of World	56,529	34,580	25,375
Total	$ 586,010	$ 502,721	$ 486,842

	December 31,	
	2014	**2013**
Long-lived assets, excluding intangible assets, at period-end:		
United States	$ 54,594	$ 65,043
United Kingdom	3,927	1,321
Rest of World	1,167	550
Total	$ 59,688	$ 66,914

Product category information net sales

The following table sets forth net sales by major product categories included within the Company s U.S. Wholesale operating segment:

	Year Ended December 31,		
	2014	**2013**	**2012**
		(in thousands)	
Category:			
Kitchenware	$ 269,265	$ 281,211	$ 256,154

Tableware [1]	117,546	110,108	113,911
Home Solutions	54,482	52,868	52,176
Total	$ 441,293	$ 444,187	$ 422,241

(1) The tableware product category previously included revenue from Creative Tops, which is included as part of the International segment. Revenue sources disclosed in 2013 have been reclassified to conform to the current year presentation for comparative purposes.

The following table sets forth net sales by major product categories included within the Company s International operating segment:

	Year Ended December 31,		
	2014	**2013**	**2012**
	(in thousands)		
Category:			
Kitchenware	$ 67,604	$	$
Tableware	57,626	38,907	42,621
Total	$ 125,230	$ 38,907	$ 42,621

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LIFETIME BRANDS, INC.

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NOTE K COMMITMENTS AND CONTINGENCIES

Operating leases

The Company has lease agreements for its corporate headquarters, distribution centers, showrooms and sales offices that expire through 2029. These leases generally provide for, among other things, annual base rent escalations and additional rent for real estate taxes and other costs.

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

Year Ending December 31,	
2015	$ 15,976
2016	15,417
2017	12,072
2018	8,394
2019	6,807
Thereafter	50,584
Total	$ 109,250

Rent and related expenses under operating leases were $15.8 million, $14.3 million and $14.8 million for the years ended December 31, 2014, 2013 and 2012, respectively. There was no sublease rental income in 2014, 2013 or 2012.

Royalties

The Company has license agreements that require the payment of royalties on sales of licensed products which expire through 2023. Future minimum royalties payable under these agreements are as follows (in thousands):

Year ending December 31,	
2015	$ 8,632
2016	2,574
2017	2,085

2018	1,952
2019	1,870
Thereafter	596
Total	$ 17,709

Legal proceedings

Wallace Silversmiths de Puerto Rico, Ltd. (Wallace de Puerto Rico), a wholly-owned subsidiary of the Company, operates a manufacturing facility in San Germán, Puerto Rico that is leased from the Puerto Rico Industrial Development Company (PRIDCO). In March 2008, the United States Environmental Protection Agency (the EPA) announced that the San Germán Ground Water Contamination site in Puerto Rico (the Site) had been added to the Superfund National Priorities List due to contamination present in the local drinking water supply.

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In May 2008, Wallace de Puerto Rico received from the EPA a Notice of Potential Liability and Request for Information Pursuant to 42 U.S.C. Sections 9607(a) and 9604(e) of the Comprehensive Environmental Response, Compensation, Liability Act. The Company responded to the EPA s Request for Information on behalf of Wallace de Puerto Rico. In July 2011, Wallace de Puerto Rico received a letter from the EPA requesting access to the property that it leases from PRIDCO, and the Company granted such access. In February 2013, the EPA requested access to conduct further environmental investigation at the property. The Company granted such access and further EPA investigation is pending.

The Company is not aware of any determination by the EPA that any remedial action is required for the Site, and, accordingly, is not able to estimate the extent of any possible liability.

The Company is, from time to time, involved in other legal proceedings. The Company believes that other current litigation is routine in nature and incidental to the conduct of the Company s business and that none of this litigation, individually or collectively, would have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

NOTE L RETIREMENT PLANS

401(k) plan

The Company maintains a defined contribution retirement plan for eligible employees under Section 401(k) of the Internal Revenue Code. Participants can make voluntary contributions up to the Internal Revenue Service limit of $17,500 ($23,000 for employees 50 years or over) for 2014. Effective January 1, 2009, the Company suspended its matching contribution as an expense savings measure. The Company s U.K.-based subsidiaries also maintain defined contribution pension plans.

Retirement benefit obligations

The Company assumed retirement benefit obligations, which are paid to certain former executives of an acquired business in 2006. These obligations under these agreements are unfunded and amounted to $6.9 million at December 31, 2014 and $5.4 million at December 31, 2013.

The discount rate used to calculate the retirement benefit obligations was 3.65% at December 31, 2014 and 4.50% at December 31, 2013. The retirement benefit

obligations are included in accrued expenses and deferred rent and other long-term liabilities.

The Company expects to recognize $132,000 of actuarial losses included in accumulated other comprehensive loss in net periodic benefit cost in 2015.

LIFETIME BRANDS, INC.

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Expected benefit payments for each of the next five fiscal years and in aggregate for the five fiscal years thereafter are as follows (in thousands):

Year ending December 31,	
2015	$ 144
2016	137
2017	264
2018	388
2019	377
2020 through 2024	1,909

Kitchen Craft pension plan

Kitchen Craft is the sponsor of a defined benefit pension plan (the Plan) for which service costs accrual ceased prior to the acquisition in January 2014. In October 2014, the Plan trustees secured, in full, all benefits payable or contingently payable under the Plan (subject to adjustment as determined by the UK pension authority in connection with its approval of the Plan s termination) through the purchase of a group annuity contract from a major UK-based insurance company. The share purchase agreement, pursuant to which the Company acquired Kitchen Craft, provides that any additional contributions required in connection with the settlement and termination of the Plan shall be offset by future amounts owed to the sellers or, if those amounts are insufficient, reimbursed to the Company by the sellers. Accordingly, there was no impact, nor is there any expected future impact, to the Company s statement of operations in connection with the settlement and planned termination of the Plan, which is expected to occur in 2015.

The following table summarizes the changes in the projected benefit obligations and plan assets for the year ended December 31, 2014:

	December 31, 2014 (in thousands)
Change in projected benefit obligations	
Projected benefit obligations, acquisition	$ 11,678
Interest cost	364

Actuarial losses		2,887
Benefits paid		(216)
Currency adjustment		(917)
Projected benefit obligations, end of year	$	13,796
Change in plan assets		
Fair value of plan assets, acquisition	$	11,678
Actual return on plan assets		2,618
Employer contributions		2,471
Benefits paid		(216)
Currency adjustment		(1,018)
Fair value of plan assets, end of year	$	15,533
Net Plan funding, end of year	$	1,738

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The following table summarizes the components of net period pension costs:

	Year Ended December 31, 2014
	(in thousands)
Components of net periodic pension cost	
Expected return on plan assets	$ (390)
Interest cost on projected benefit obligations	364
Net periodic pension cost	$ (26)

The accumulated benefit obligations at December 31, 2014 are $13.8 million. The amount in accumulated Other comprehensive income at December 31, 2014 is $623,000.

The following are assumptions used to determine the actuarial present value of the projected benefit obligations and net periodic pension benefit cost as of and for the year ended December 31, 2014:

	December 31, 2014
Discount rate	2.19%
Expected long-term rate of return on plan assets	2.43%

Expected Benefit Payments Expected benefit payments for each of the next five fiscal years and in the aggregate for the five fiscal years thereafter are as follows (in thousands):

Year ending December 31,	
2015	$ 232

2016	252
2017	258
2018	274
2019	288
2020 through 2024	1,706

Plan Assets- As described above, the Plan trustees invested the Plan assets in a deferred annuity contract in October 2014. As of December 31, 2014, the fair value of this insurance contract was $15.5 million. The fair value of the insurance contract was obtained using Level 3 unobservable inputs. Assets of the Plan also include less than $0.1 million of cash and cash equivalents with a Level 1 observable fair value. The net Plan assets are included within Other Assets on the Company s Consolidated Balance Sheet.

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LIFETIME BRANDS, INC.

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NOTE M OTHER

Inventory

The components of inventory are as follows:

	December 31, 2014	December 31, 2013
	(in thousands)	
Finished goods	$ 134,564	$ 108,340
Work in process	1,887	1,966
Raw materials	1,473	2,485
Total	$ 137,924	$ 112,791

Property and equipment

Property and equipment consist of:

	December 31, 2014	December 31, 2013
	(in thousands)	
Machinery, furniture and equipment	$ 85,556	$ 79,132
Leasehold improvements	28,056	26,959
Building and improvements	1,604	1,604
Construction in progress	1,108	104
Land	100	100
	116,424	107,899
Less: accumulated depreciation and amortization	(89,623)	(80,201)
Total	$ 26,801	$ 27,698

Depreciation and amortization expense of property and equipment for the years ended December 31, 2014, 2013 and 2012 was $7.7 million, $7.7 million, and $7.8 million,

respectively.

Included in machinery, furniture and equipment at each of December 31, 2014 and 2013 is $2.1 million related to assets recorded under capital leases. Included in accumulated depreciation and amortization at each of December 31, 2014 and 2013 is $2.0 million and $1.9 million related to assets recorded under capital leases.

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Accrued expenses

Accrued expenses consist of:

	December 31,	
	2014	2013
	(in thousands)	
Customer allowances and rebates	$ 12,314	$ 11,756
Compensation and benefits	9,412	11,781
Interest	224	98
Vendor invoices	3,071	5,135
Royalties	2,266	2,567
Commissions	1,222	1,245
Freight	1,519	1,419
Professional fees	1,527	1,170
VAT	1,400	533
Contingent consideration related to acquisitions		1,647
Working capital excess related to F&F acquisition		254
Other	4,006	3,490
Total	$ 36,961	$ 41,095

Deferred rent & other long-term liabilities

Deferred rent & other long-term liabilities consist of:

	December 31,	
	2014	2013
	(in thousands)	
Deferred rent liability	$ 9,530	$ 9,737
Retirement benefit obligations	6,776	5,212
Contingent consideration related to acquisitions	3,286	3,647
Compensation guarantees	542	

Derivative liability	26	48
Total	$ 20,160	$ 18,644

Supplemental cash flow information

	Year Ended December 31,		
	2014	**2013**	**2012**
	(in thousands)		
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 5,035	$ 4,115	$ 5,498
Cash paid for taxes	4,912	10,862	6,067
Non-cash investing activities:			
Translation adjustment	$ (4,736)	$ (140)	$ 3,077

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LIFETIME BRANDS, INC.

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Components of accumulated other comprehensive loss, net

	Year Ended December 31,		
	2014	**2013**	**2012**
	(in thousands)		
Accumulated translation adjustment:			
Balance at beginning of year	$ (2,944)	$ (2,804)	$ (5,881)
Translation adjustment during period	(4,736)	(140)	3,077
Balance at end of year	$ (7,680)	$ (2,944)	$ (2,804)
Accumulated effect of retirement benefit obligations:			
Balance at beginning of year	$ (745)	$ (1,160)	$
Net gain (loss) arising from retirement benefit obligations, net of tax	(1,507)	361	(1,187)
Amounts reclassified from accumulated other comprehensive loss:			
Amortization of loss, net of tax[1]	28	54	27
Balance at end of year	$ (2,224)	$ (745)	$ (1,160)
Accumulated deferred gains (losses) on cash flow hedges:			
Balance at beginning of year	$ (31)	$ (272)	$
Derivative fair value adjustment, net of tax	13	241	(272)
Balance at end of year [2]	$ (18)	$ (31)	$ (272)

Notes:

(1) Amount is recorded in selling, general and administrative expenses on the consolidated statements of operations.

(2) No amounts were reclassified out of accummulared other comprehensive loss. Amounts reclassifed would be recorded in interest expense on the consolidated statements of operations.

NOTE N SUBSEQUENT EVENTS

Credit Agreement Amendment

In February 2015, the Company entered into an amendment to its Credit Agreement (Amendment No. 2). Amendment No. 2, among other things, modified the Company s maximum permitted Senior Leverage Ratio to provide for a more gradual reduction, beginning March 31, 2015, than was previously the case. The Company is now required to maintain a Senior Leverage Ratio not to exceed 4.25 to 1.00 for the fiscal quarter ended December 31, 2014; 4.00 to 1.00 for each fiscal quarter ending during 2015; and 3.25 to 1.00 for each fiscal quarter ending thereafter.

Amendment No. 2 also amended the definition of EBITDA to exclude non-recurring one-time cash charges incurred during 2014 in connection with a permitted acquisition and the refinancing of certain indebtedness if not completed, as well clarifying language as to the exclusion from EBITDA of potential contingent consideration payments related to certain completed acquisitions.

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Reed and Barton

In February 2015, the Company entered into an asset purchase agreement to acquire the operating asset and to assume certain liabilities of Reed and Barton Corporation, a designer and marketer of fine tableware and giftware products. The agreement provides that Lifetime will purchase the assets pursuant to Section 363 of the United States Bankruptcy Code. The transaction is subject to a number of conditions, including completion of an auction process and bankruptcy court approval.

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Item 15(a)

LIFETIME BRANDS, INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

COL. A	COL. B	COL. C Additions		COL. D	COL. E
Description	**Balance at beginning of period**	**Due to acquisitions**	**Charged to costs and expenses**	**Deductions**	**Balance at end of period**
Year ended December 31, 2014					
Deducted from asset accounts:					
Allowance for doubtful accounts	$ 473	$ 119	$ 401	$ (178)(a)	$ 815
Reserve for sales returns and allowances	4,736	350	10,996(c)	(10,234)(b)	5,848
	$ 5,209	$ 469	$ 11,397	$ (10,412)	$ 6,663
Year ended December 31, 2013					
Deducted from asset accounts:					
Allowance for doubtful accounts	$ 361	$	$ 260	$ (148)(a)	$ 473
Reserve for sales returns and allowances	3,635		6,004(c)	(4,903)(b)	4,736
	$ 3,996	$	$ 6,264	$ (5,051)	$ 5,209
Year ended December 31, 2012					
Deducted from asset accounts:					
Allowance for doubtful accounts	$ 328	$ 67	$ 181	$ (215)(a)	$ 361
Reserve for sales returns and allowances	4,274	179	6,660(c)	(7,478)(b)	3,635

$ 4,602	$ 246	$ 6,841	$ (7,693)	$ 3,996

(a) Uncollectible accounts written off, net of recoveries.
(b) Allowances granted.
(c) Charged to net sales.