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FIRSTIME DESIGN LIMITED AND SUBSIDIARIES
Unaudited Quarterly Report
For the Six Months Ended
June 30, 2018

FIRSTIME DESIGN LIMITED AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(US Dollars in thousands except shares and per share data)

	June 30, 2018 (Unaudited)	December 31, 2017 (Unaudited)
ASSETS		
Current Assets		
Cash	$ 137	$ 1,915
Accounts receivable, net	2,537	2,874
Inventory, net	2,843	1,978
Prepaid inventory	355	604
Other prepaid expenses	128	163
Total current assets	6,001	7,534
Other Assets		
Long-term receivables	250	232
Property and equipment, net	95	122
Deferred income tax asset	171	171
Goodwill and other intangibles, net	1,625	1,674
Total other assets	2,140	2,199
TOTAL ASSETS	$ 8,141	$ 9,733
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 517	$ 201
Accounts payable - inventory	135	406
Accrued liabilities	705	671
Loan Payable - Town Bank - S/T	300	-
Line of Credit - Town Bank	2,065	-
Total current liabilities	3,722	1,278
Loan Payable - Town Bank - L/T	1,134	-
Total liabilities	$ 4,856	$ 1,278
Shareholders' Equity		
Common stock, $0.06667 par value, 15,000,000 shares authorized, 1,245,409 (2018) and 1,962,436 (2017) shares issued and 1,154,651 (2018) and 1,871,678 (2017) shares outstanding	83	131
Additional paid-in capital	20,732	25,453
Accumulated deficit	(10,710)	(10,310)
Treasury stock, 90,758 shares at cost	(6,819)	(6,819)
Total shareholders' equity	3,286	8,455
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 8,141	$ 9,733

See accompanying Notes to Unaudited Consolidated Financial Statements.

FIRSTIME DESIGN LIMITED AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(US Dollars in thousands except shares and per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018 (Unaudited)	**2017 (Unaudited)**	**2018 (Unaudited)**	**2017 (Unaudited)**
Net sales	$ 3,386	$ 1,454	$ 6,519	$ 3,516
Cost of goods sold	2,413	995	4,616	2,398
Gross profit	973	459	1,903	1,118
Operating expenses				
Sales and marketing	115	71	225	123
New product development	49	31	121	67
Warehouse	514	138	874	275
General and administrative	569	578		818
Total operating expenses	1,247	818	1,220	1,283
Operating income (loss)	(274)	(359)	683	(165)
Non-operating income (expense)				
Other expense, net	(8)	(2)	(19)	(2)
Income (loss) before provision for income taxes	(282)	(361)	663	(167)
Provision for income taxes	3	-	3	2
Net income (loss)	$ (285)	$ (361)	$ 661	$ (169)
Earnings (loss) per share	$ (0.16)	$ (0.24)	$ 0.36	$ (0.11)
Weighted average shares outstanding	1,792,884	1,506,180	1,832,063	1,504,161

See accompanying Notes to Unaudited Consolidated Financial Statements.

FIRSTIME DESIGN LIMITED AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(US Dollars in thousands except shares and per share data)

	Common stock	Additional paid-in capital	Accumulated deficit	Treasury stock	Total
Balances - December 31, 2017	$ 131	$ 25,453	$ (10,310)	$ (6,819)	$ 8,455
Purchase and retirement of common stock	(48)	(4,721)			(4,769)
Net loss, six months ended June 30, 2018			(400)		(400)
Balances - June 30, 2018	$ 83	$ 20,732	$ (10,710)	$ (6,819)	$ 3,286

FIRSTIME DESIGN LIMITED AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(US Dollars in thousands except shares and per share data)

	For the Six Months Ended June 30, 2018 (Unaudited)	For the Six Months Ended June 30, 2017 (Unaudited)
Operating activities		
Net income (loss)	$ (400)	$ (169)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	65	10
Loss on disposal of property and equipment	12	-
Change in operating assets and liabilities:		
Accounts receivable	319	117
Inventory, including prepaid inventory	(618)	(412)
Prepaid expenses	35	(19)
Accounts payable	46	299
Other liabilities	33	140
Net cash provided (used in) by operating activities	(508)	(34)
Investing activities		
Property and equipment expenditures	(20)	(23)
Proceeds from sale of assets	20	-
Acquisition on InnerSpace, net of cash received	-	(3,261)
Net cash used in investing activities	(1)	(3,284)
Financing activities		
Stock repurchase	(4,768)	-
Issuance of stock	-	2,125
Issuance of line of credit	2,065	-
Issuance of loan	1,458	-
Payment on loan	(24)	(144)
Net cash provided by (used in) financing activities	(1,269)	1,981
Net change in cash	(1,778)	(1,337)
Cash - beginning of the period	1,915	3,832
Cash - end of the period	$ 137	$ 2,495

See accompanying Notes to Unaudited Consolidated Financial Statements.

NOTE 1 – Basis of Presentation

The unaudited consolidated financial statements of FirsTime Design Limited and Subsidiaries (Company) include the accounts of FirsTime Design Limited (Parent) and its two wholly-owned subsidiaries, Lee Middleton Original Dolls, Inc. (LMOD) and, effective June 16, 2017, InnerSpace Luxury Products, LLC (InnerSpace). In turn, LMOD has a wholly-owned subsidiary, FirsTime Manufactory, Inc. (FirsTime) also included. All significant intercompany accounts and transactions have been eliminated in the unaudited consolidated financial statements.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2018 are not necessarily indicative of the results expected for the year ending December 31, 2018.

It is suggested that the accompanying consolidated financial statements be read in conjunction with the unaudited consolidated financial statements and the notes thereto included in the Company's Reviewed Annual Report for the year ended December 31, 2017.

NOTE 2 – Acquisition

On June 16, 2017, Parent purchased 100% of the membership interest of InnerSpace. The acquisition of InnerSpace diversified and expanded the Company's footprint in the home goods space, bringing new products and distribution channels, while doubling the Company's manufacturing capacity.

Parent paid $3.3 million in cash at closing to InnerSpace's prior owners to complete the acquisition. The following table summarizes the final allocation of the assets acquired and liabilities assumed, net of cash acquired, as of the acquisition date at estimated fair value:

(dollars in thousand)	
Accounts receivable, net	$ 856
Inventory, net	1,814
Prepaid inventory	41
Other prepaid expenses	20
Property and equipment, net	36
Goodwill and other intangibles	1,727
Total assets acquired	4,494
Accounts payable	63
Accounts payable - inventory	225
Accrued liabilities	52
Capital lease obligation	16
Deferred income taxes	427
Revolving line of credit	450
Total liabilities assumed	1,233
Cash paid for acquisition, net of cash received	$ 3,261

NOTE 2 – Acquisition (continued)

Operating results of InnerSpace have been included in the financial statements only from the June 16, 2017 closing date forward.

NOTE 3 – Inventory

Inventory is comprised entirely of goods purchased for sale and is valued at the lower of cost, determined by the average cost method, and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The components of inventory are as follows:

	June 30, 2018	December 31, 2017
(dollars in thousands)		
Finished Goods	2,982	2,124
Allowance for obsolete and excess inventory	(139)	(146)
	$ 2,843	$ 1,978

NOTE 4 – Revolving Credit Agreement

Effective May 22, 2018, the Company has an available $2.5 million revolving credit agreement (Agreement) with a bank which expires July 1, 2019, of which $2.1 million was outstanding at June 30, 2018. Interest is payable monthly at LIBOR plus 2.50%. The interest rate in effect at June 30, 2018 was 4.51%. Borrowings are limited based on the balances of certain qualifying accounts and are secured by substantially all Company assets.

As part of the Agreement, the Company has an available standby letter of credit with the bank to be drawn upon as needed. Any amounts drawn under the standby letter of credit would reduce the amount available to the Company under their $2.5 million revolving credit agreement described above. To date, no amounts have been drawn under the standby letter of credit.

Prior to May 22, 2018, the Company had available a $1.5 million revolving credit agreement with a bank which expired on July 1, 2018. Interest was payable monthly at a variable rate, which was set at the Wall Street Journal Prime Rate. Borrowings under this Agreement are secured by substantially all of the Company's assets. The Agreement contained certain financial and restrictive covenants that must be met on a regular basis. There were no borrowings outstanding under the line of credit at May 22, 2018.

The company had an additional $600,000 revolving credit agreement with a bank which expired on April 16, 2018. Interest was payable monthly at a variable rate, which was set at the Wall Street Journal Prime Rate plus 1.25%. Borrowings under this line of credit were secured by substantially all of the InnerSpace assets. The Agreement contains certain financial and restrictive covenants that must be met on a regular basis. There were no borrowings outstanding under the line of credit at May 22, 2018.

NOTE 5 – Long-term Debt

Long-term debt consists of the following at June 30, 2018 and December 31, 2017:

(dollars in thousands)	June 30, 2018		December 31, 2017	
Bank term note, payable in monthly principal installments of $25,000 plus interest at the LIBOR rate plus 3.00% (5.00% at June 30, 2018), due May 22, 2023, secured by all Company assets.	$	1,475	$	-
Less unamortized debt issuance costs		(41)		
Less current maturities of long-term debt		(300)		-
Long-term debt, less current maturities	$	1,134	$	-

Maturities of long-term debt for each of the five years succeeding June 30, 2018 are:

2019	$	300
2020		300
2021		300
2022		300
2023		275

The Agreement and Bank term note described above contain various financial and restrictive covenants and conditions that must be met on a regular basis. Management believes the Company was in compliance with these covenants and conditions as of and for the six months ended June 30, 2018.

Debt issuance costs are amortized over the life of the loan as interest expense, using the straight-line method which approximates the effective interest method, and are presented as a reduction to the carrying amount of the debt.

NOTE 6 – Income Taxes

The Parent, LMOD and FirsTime each operate as a C Corporation under the Internal Revenue Code of 1986, as amended (the “Code”). InnerSpace has made a tax election to be treated as a disregarded entity under the Code. The Company has filed a consolidated federal income tax return for the year ended December 31, 2017.

The Company accounts for income taxes using an asset and liability approach, which generally requires the recognition of deferred income tax assets and liabilities, based on the expected future income tax consequences of events that have previously been recognized in the Company’s consolidated financial statements or tax returns. In addition, a valuation allowance is recognized if it is more likely than not that some or all of the deferred income tax assets will not be realized in the foreseeable future.

No interest or penalties relating to income taxes are included in these financial statements.

NOTE 7 – Fair Value Measurements

The Company defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Due to their nature, the carrying value of cash, accounts receivable and accounts payable approximate fair value.

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

The following is a discussion and analysis of the Company's financial condition and results of operations including information on the Company's critical accounting policies and liquidity. Information contained in this Management's Discussion and Analysis should be read in conjunction with the disclosure regarding Forward-Looking Statements, as well as the discussion set forth in Risk Factors and the Financial Statements. FirsTime Design Limited (Parent) has two wholly-owned subsidiaries, Lee Middleton Original Dolls, Inc. (LMOD) and, effective June 16, 2017, InnerSpace Luxury Products, LLC (InnerSpace). In turn, LMOD has a wholly-owned subsidiary, FirsTime Manufactory, Inc. (FirsTime).

Forward-Looking Statements

This filing contains statements that we believe are "forward-looking statements". Forward-looking statements generally can be identified by the use of words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "forecast," "guidance" or words of similar meaning. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this filing. Important factors that could cause actual results to differ materially from these expectations include, among other things, the following: the ability of the Company to provide the necessary cash to meet operating and working capital requirements; declining demand for the Company's products; legislative/regulatory changes; the degree of success of the strategy to reduce expenses and to increase revenue; competition; general economic conditions; monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board; changes in financial markets (such as interest rate, credit, currency, commodities and equities markets); potential changes in accounting policies by the Financial Accounting Standards Board or regulatory agencies, which may cause us to revise our financial accounting and/or disclosures in the future; and the necessity to make additions to the Company's allowance for obsolete inventory or allowance for uncollectible accounts.

Forward-looking statements included in this filing are made only as of the date of this filing, and we are under no obligation to update these statements to reflect subsequent events or circumstances. All subsequent written and oral forward-looking statements attributed to the Company, or persons acting on our behalf, are qualified entirely by these cautionary statements.

Risk Factors

In addition to the other information set forth or incorporated by reference in this Unaudited Quarterly Report, the risk factors described in the Company's Reviewed Annual Report for the year ended December 31, 2017 should be carefully considered. These risk factors are incorporated by reference herein. If any of the risk factors actually occur, the Company's financial condition or results of operations could be materially adversely affected.

Overview

FirsTime is headquartered in Pewaukee, Wisconsin. The organization designs, imports and distributes decorative home décor products through major, national retailers. FirsTime has experienced success at expanding its customer base and continues to introduce new and updated home décor items that have resulted in increased sales to many of its customers.

InnerSpace is located in Dalton, Georgia. The organization has two primary areas of activity. The organization distributes commercial and residential mattresses. They also design, import, and distribute decorative home décor products direct to consumers.

FirsTime and InnerSpace import its finished goods from China and Italy, as well as obtains products domestically from North Carolina. The company relies on those suppliers to procure sufficient raw materials to be used in production.

Amounts presented as of June 30, 2018 and 2017, December 31, 2017, and for the six months ended June 30, 2018 and 2017, include the consolidation of the Parent, LMOD and FirsTime. They also include InnerSpace activity since June 16, 2017. All significant intercompany accounts and transactions have been eliminated in the unaudited consolidated financial statements.

Critical Accounting Policies

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the U.S. which requires the use of estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The critical accounting policies that we believe could have the most significant effect on our reported results or require complex judgment by management are contained in the Management's Discussion and Analysis within our Annual Report for the year ended December 31, 2017. We believe that at June 30, 2018, there has been no material change to this information.

Liquidity and Capital Resources

As of June 30, 2018, along with a cash balance of $137,000, the Company also had a $2.5 million revolving credit agreement and a $1.5 million bank term note with Town Bank (See Note 4 and 5) accessible to meet the capital needs of the Company and its operating subsidiaries. We believe the combination of available borrowing capacity and operating cash flows will provide sufficient funds to finance our existing operations for the foreseeable future.

Results of Operations for the six months ended June 30, 2018 and June 30, 2017

Net sales increased by approximately 85.4%, to $6.5 million, for the six months ended June 30, 2018, compared to $3.5 million for the six months ended June 30, 2017. The increase in net sales was related primarily to the InnerSpace activity, with an offset related to current climate within big-box retail, and with increased sales to some current and new direct to consumer customers. Cost of goods sold increased approximately 92.5%, with total gross profit margin of approximately 29.2% for the six months ended June 30, 2018, compared to 31.8% for the same period in the prior year.

Total operating expenses for the six months ended June 30, 2018, were approximately $2.3 million compared to approximately $1.3 million for the six months ended June 30, 2017, an increase of approximately $998,000 and 77.8%. This increase is primarily associated with InnerSpace operating costs, as well as an increase in warehouse, moving, insurance, and corporate expenses.

The Company's total net loss applicable to common stock shareholders for the six months ended June 30, 2018 was approximately ($400,000) or ($0.25) per common share, as compared to a net loss of approximately ($169,000) or ($0.11) per common share, for the six months ended June 30, 2017.

Consolidated Balance Sheets at June 30, 2018 and June 30, 2017

Accounts receivable increased to approximately $2.5 million at June 30, 2018, from approximately $2.1 million at June 30, 2017. Included in Other Assets at June 30, 2018 is $250,000 of accounts receivables from a customer as collection may extend beyond one year of the balance sheet date. The customer filed for bankruptcy in 2018. At the time of these financial statements, the Company does not fully know the collectability of accounts receivable from this customer. Because of uncertainties in estimating the collectability of the accounts receivable, it is reasonably possible that the Company's estimate of the carrying amount will change significantly in the near term.

Inventory and prepaid inventory, net of an allowance for obsolete and excess inventory of approximately $139,000 at June 30, 2018 and $154,500 at June 30, 2017, decreased to approximately $3.2 million at June 30, 2018 from approximately $3.5 million at June 30, 2017. Inventories are valued at the lower of cost, determined by the average cost method, and net realizable value.

Property and equipment, net of accumulated depreciation, remained consistent between June 30, 2018 and June 30, 2017. Property and equipment expenditures were approximately $20,000, while depreciation expense was approximately $16,000 for the six months ended June 30, 2018.

Current liabilities were approximately $3.7 million at June 30, 2018, and $1.9 million at June 30, 2017, with the increase due primarily to the revolving credit agreement and short-term portion of the bank term loan.