



LUXURY LIFESTYLE BRANDS  
*Since 1990*

FIRSTIME DESIGN LIMITED®

— AMERICAN DESIGNED —



## FIRSTIME DESIGN LIMITED AND SUBSIDIARIES

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## Forward-Looking Statements

In this report and in the Letter to our Shareholders, we make statements concerning expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. Such statements are “forward-looking statements”. Although we believe that these forward-looking statements and the underlying assumptions are reasonable, we cannot provide assurance that they will prove correct. Except to the extent required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

In addition to statements regarding trends or estimates included in Management’s Discussion and Analysis of Financial Condition and Results of Operations, and the Letter to our Shareholders, forward-looking statements include statements incorporated into this report, but are not limited to such statements, regarding future:

- Revenues or expenses, and
- Financing sources and strategic alternatives.

Forward-looking statements involve a number of risks and uncertainties. There are many factors that could cause actual results to differ materially from those expressed or implied in this report and the Letter to our Shareholders. Some risks and uncertainties that could cause results different from any forward-looking statement include those described under Risk Factors in this Reviewed Annual Report for the year ended December 31, 2018. Other factors include, but are not limited to:

- The ability of FirsTime Design Limited and its subsidiaries (Company) to provide the necessary cash to meet operating and working capital requirements;
- Declining demand for the Company’s products;
- Legislative/regulatory changes;
- Changes in trade laws and tariffs;
- 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.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

## **Risk Factors**

In addition to the other information set forth or incorporated by reference in this Reviewed Annual Report, the risk factors described below should be carefully considered. If any of the risk factors actually occur, the Company's financial condition or results of operations could be materially adversely affected. The following list of risk factors may not be exhaustive. Additional risks and uncertainties not presently known or that are currently believed to be immaterial may also adversely affect the Company.

### **The effects of economic cycles, terrorism, acts of war and other related conditions may adversely affect our business.**

Our business is subject to economic cycles and industry conditions. Purchases of discretionary products, such as our products, tend to decline during recessionary periods when disposable income is low and consumers are hesitant to use available funds. In addition, acts of terrorism, acts of war and military action both in the U.S. and abroad can have a significant effect on economic conditions and may negatively affect our ability to procure our products from manufacturers for sale to our customers. Any significant declines in general economic conditions, public safety concerns or uncertainties regarding future economic prospects that affect consumer spending habits could have a material adverse effect on consumer purchases of our products.

### **We may be adversely affected by any disruption in, or breach of, our information technology systems.**

Our operations are dependent to a significant degree upon our information technology systems. A substantial disruption in our information technology systems for a prolonged time period, or a significant breach of our information security, could result in delays in receiving inventory and supplies or filling customer orders, and/or the release of otherwise confidential information, adversely affecting our customer service and relationships as well as our reputation, and could lead to significant remediation expenses and litigation risks. Our systems, and the systems of our service providers or others, could be breached, damaged or interrupted by cyber attacks or other man-made intentional or unintentional events, or by natural disasters or occurrences, many of which may, despite our best efforts, be beyond our ability to effectively detect, anticipate or control. Any such events and the related delays, problems or costs could have a material adverse effect on our business, financial condition, results of operations and reputation.

### **Our success depends upon our ability to continue to develop innovative products.**

Our success also depends upon our ability to continue to develop innovative products in the markets in which we compete. If we are unable to successfully introduce new products, or if our competitors introduce superior products, customers may purchase increasing amounts of products from our competitors, which could adversely affect our sales and results of operations.

### **Our ability to grow our sales is dependent upon the implementation of our growth strategy, which we may not be able to achieve.**

Our ability to continue to grow is dependent on the successful implementation of our business strategy. If we are not successful in effecting our business plan, our results of operations could be negatively impacted.

**Our business could be harmed if we fail to maintain proper inventory levels.**

We may be unable to sell the products we have ordered in advance from manufacturers or that we have in our inventory. Inventory levels in excess of customer demand may result in inventory write-downs or the sale of excess inventory at prices below our standard levels. These events could significantly harm our operating results. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply quality products in a timely manner, we may experience inventory shortages, which might result in unfilled orders, negatively impact customer relationships and result in lost revenues, any of which could harm our business.

**Changes within the retail industry conditions could adversely affect our business.**

Our business is subject to retail industry conditions. The retail industry landscape is changing as large retailers continue to adapt, merge, and adjust. Competition from specialty stores and by online retailers is increasing, with the rise in e-commerce. These changes could adversely affect our sales and results of operations.

**Changes within the trucking industry conditions could adversely affect our business.**

Our business is subject to trucking industry conditions. The trucking industry landscape is changing and evolving. These changes could adversely affect our sales and results of operations.

**We rely on third-party assembly factories and manufacturers and problems with, or loss of, our assembly factories or manufacturing sources could harm our business and results of operations.**

We face the risk that these independent assembly factories or manufacturers may not produce and deliver our products on a timely basis, or at all. As a result, we cannot be certain that these assembly factories or manufacturers will continue to assemble or manufacture products for us or that we will not experience operational difficulties with our manufacturers, such as reductions in the availability of production capacity, errors in complying with product specifications, insufficient quality control, failures to meet production deadlines or increases in manufacturing costs. Our future success will depend upon our ability to maintain close relationships with our current assembly factories and manufacturers and to develop long-term relationships with other manufacturers that satisfy our requirements for price, quality and production flexibility. Our ability to establish new manufacturing relationships involves numerous uncertainties, including those relating to payment terms, costs of manufacturing, adequacy of manufacturing capacity, quality control and timeliness of delivery. Any failure by us to maintain long-term relationships with our current assembly factories and manufacturers or to develop relationships with other manufacturers could have a material adverse effect on our ability to manufacture and distribute our products.

**Outsourcing to Chinese and Italian manufacturers of the manufacturing of the products sold by the Company could adversely affect inventory levels and reduce profits.**

A large portion of the products sold by the Company are manufactured in China, with some in Italy and some made in the USA. The amount of product to be purchased from Chinese and Italian manufacturers must be ordered several months in advance to allow for manufacturing and shipping time and must be paid for prior to delivery. If the amount of product ordered exceeds future sales, inventories will increase which will reduce profits and/or increase losses. On the other hand, if sales were to exceed the amount of product ordered, then inventory would be insufficient to meet customer demand.

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

(US Dollars in thousands except per share data)

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).

### Overview

FirsTime is located in Pewaukee, Wisconsin and designs, imports, and distributes decorative timepieces and other home décor products through major, national retailers and direct to consumers.

InnerSpace is located in Dalton, Georgia. The organization distributes commercial and residential mattresses.

The following table summarizes the Company's financial condition and results of operations as of and for the last five years ended December 31:

	2014	2015	2016	2017	2018
<b><u>Income Statement Data</u></b>					
Net Sales	\$ 7,635	\$ 9,398	\$ 7,274	\$ 10,920	\$ 14,213
Net Income	\$ 568	\$ 1,749	\$ 450	\$ 131	\$ (132)
Net Income as % of Sales	7.4%	18.6%	6.2%	1.2%	-0.9%
<b><u>Balance Sheet Data</u></b>					
Cash Balance	\$ 2,168	\$ 3,042	\$ 3,832	\$ 1,915	\$ -
Working Capital	\$ 4,261	\$ 5,375	\$ 5,730	\$ 6,266	\$ 2,161
Shareholders' Equity	\$ 4,361	\$ 6,034	\$ 6,204	\$ 8,455	\$ 3,554
<b><u>Per Share Data</u></b>					
Earnings per Share	\$ 0.37	\$ 1.15	\$ 0.30	\$ 0.08	\$ (0.09)
Book Value per Share	\$ 2.86	\$ 3.98	\$ 4.12	\$ 5.00	\$ 2.48
Cash per Share	\$ 1.42	\$ 2.01	\$ 2.54	\$ 1.13	\$ -
Dividend per Share	\$ 0.25	\$ 0.05	\$ 0.15	\$ -	\$ -
<b><u>Other Data</u></b>					
Return on Average Equity	13.3%	33.7%	7.4%	1.8%	-2.2%

Amounts presented as of, and for the years ended December 31, 2014 through 2018 include the consolidation of the Parent, LMOD, FirsTime, and effective June 16, 2017, InnerSpace. All significant intercompany accounts and transactions have been eliminated in the unaudited consolidated financial statements.

FirsTime has experienced success at expanding its customer base and continues to introduce new and updated styles of clocks and home décor items that have resulted in increased sales to many customers, as well as new customer acquisition. In 2018, FirsTime maintained cost reductions and realized aggressive sales and marketing plans, in spite of some headwinds.

FirsTime imports finished goods from China and relies on those suppliers to procure sufficient raw materials to be used in production. InnerSpace imports finished goods from Italy. FirsTime and InnerSpace have not experienced any significant problems due to the lack of, or availability of, materials or products.

### **Critical Accounting Policies**

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following areas require management to make estimates that are susceptible to significant change in the near term.

***Inventory and allowance for obsolete and excess inventory.*** Inventories are valued at the lower of cost, determined by the average cost method, and net realizable value. FirsTime and Innerspace provide an allowance for obsolete inventory items based on management's estimate. Management reviews all excess quantities, slow-moving or obsolete inventory items in order to determine the appropriate allowance for obsolete inventory. The inventory allowance reflects the estimated markdown necessary to liquidate the slow-moving inventory items.

***Deferred income tax assets and liabilities.*** Amounts provided for income tax expense are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. As changes in tax laws or rates are enacted, deferred income tax assets and liabilities are adjusted through the provision for income taxes. The differences relate principally to different methods used for depreciation for income tax purposes, deferred revenue, legacy net operating losses, capitalization requirements of the Internal Revenue Code, allowances for doubtful accounts and obsolete inventory, and other carryforwards. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized.

### **Results of Operations for the years ended December 31, 2018 and December 31, 2017**

Net sales increased by approximately 30.4% to \$14,213 for the year ended December 31, 2018 compared to \$10,920 for the year ended December 31, 2017. The net sales increase was driven primarily by a full years' worth of InnerSpace activity, as well as increases from new customers and increased sales to other current customers. Cost of goods sold increased approximately 36.4%, with total gross profit margin of approximately 29.1% for the year ended December 31, 2018, compared to 32.3% for the same period in the prior year.

Total operating expenses for the year ended December 31, 2018, were approximately \$4,683 compared to approximately \$3,539 for the year ended December 31, 2017, an increase of approximately \$1,144. New product development expenses increased by \$62 from the prior year related to additional tradeshow and travel in the current year as well as a full year of InnerSpace activity. Warehouse expenses increased by \$651 from the prior year related to the integration of InnerSpace as well as relocating our facilities.

General and administrative expenses increased by approximately \$287 primarily due to the write off uncollectable accounts totaling \$306 in the current year, legal fees related to litigation of \$100 and a full year of InnerSpace activity.

The Company's total net income applicable to common stock shareholders for the year ended December 31, 2018 was (\$132) or (\$0.09) per common share, as compared to a net income of \$131, or \$0.08 per common share, for the year ended December 31, 2017.

## **Corporate**

In May 2018, the Company purchased 717,027 shares of common stock from shareholders at a net cost of \$4,769. These shares were retired during 2018.

During June 2017, the Company issued 369,559 shares of restricted common stock. These securities were issued pursuant to an exemption from registration under federal securities laws are subject to a six-month transfer restriction.

## **Liquidity and Capital Resources**

As of December 31, 2018, the Company had a \$2,500 revolving credit agreement and a \$1,500 bank term note with Town Bank (See Note 7 and 8) 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.

### **Consolidated Balance Sheets at December 31, 2018 and 2017**

Accounts receivable decreased to approximately \$2,415 at December 31, 2018, from approximately \$2,874 at December 31, 2017, due primarily to decreased December sales activity year over year. Included in Other Assets at December 31, 2017 is \$232 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 (See Note 1). The balance as of December 31, 2018 is \$0, as the remaining outstanding receivable was written off during 2018.

Inventory and prepaid inventory, net of the allowance for obsolete and excess inventory of approximately \$147 and \$146 at December 31, 2018 and 2017 respectively, increased to approximately \$2,554 at December 31, 2018, from approximately \$2,582 at December 31, 2017. FirstTime's net ending inventory levels remained consistent year over year. Inventories are valued using the lower of cost, determined by the average cost method, or market.

Property and equipment, net of accumulated depreciation, totaled \$111 at December 31, 2018, as compared to \$122 at December 31, 2017. Property and equipment expenditures were approximately \$61, with depreciation expense of approximately \$31, disposals of approximately \$48, and proceeds from sale of assets of \$31 for the year ended December 31, 2018.

Deferred tax assets, net, was \$694 as of December 31, 2018, compared to \$171 at December 31, 2017. The deferred tax assets represent a portion of the valuation allowance the Company keeps on its legacy net operating loss carryforward, and the change in corporate tax rates.

Current liabilities were approximately \$2,908 at December 31, 2018 as compared to approximately \$1,268 at December 31, 2017, with the increase due primarily to the short term loan payable and line of credit outstanding at year end.

**FIRSTIME DESIGN LIMITED AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

Years Ended December 31, 2018 and 2017



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## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

Board of Directors  
FirsTime Design Limited and Subsidiaries  
Pewaukee, Wisconsin

We have reviewed the accompanying consolidated financial statements of FirsTime Design Limited and Subsidiaries, which comprises the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

### ***Accountant's Responsibility***

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### ***Accountant's Conclusion***

Based on our review, we are not aware of any material modifications that should be made to the accompanying 2018 consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Board of Directors  
FirsTime Design Limited and Subsidiaries

***Report on 2017 Consolidated Financial Statements***

The 2017 consolidated financial statements of FirsTime Design Limited and Subsidiaries were reviewed by Schenck SC, whose practice became a part of CliftonLarsonAllen LLP effective January 1, 2019, and whose report dated May 18, 2018, stated that based on their review, they were not aware of any material modifications that should be made to the 2017 consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Milwaukee, Wisconsin  
March 25, 2019

**FIRSTIME DESIGN LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2018 and 2017  
(Dollars in Thousands Except Shares and Per Share Amounts)  
See Independent Accountants' Review Report

ASSETS

	2018	2017
<u>Current assets</u>		
Cash	\$ -	\$ 1,915
Accounts receivable, net	2,415	2,874
Inventory, net	2,144	1,978
Prepaid inventory	410	604
Other prepaid expenses	100	163
	5,069	7,534
<u>Total current assets</u>		
<u>Other assets</u>		
Long-term accounts receivable	-	232
Property and equipment, net	111	122
Goodwill	668	668
Intangible assets, net	908	1,006
Deferred income taxes	694	171
	2,381	2,199
<u>Total other assets</u>		
<b>TOTAL ASSETS</b>	<b>\$ 7,450</b>	<b>\$ 9,733</b>

LIABILITIES AND SHAREHOLDERS' EQUITY

<u>Current liabilities</u>		
Checks issued in excess of bank balance	\$ 39	\$ -
Current maturities of capital lease obligation	-	4
Current maturities of long-term debt	300	-
Line of credit	1,143	-
Accounts payable	580	201
Accounts payable - inventory	241	406
Accrued liabilities	605	657
	2,908	1,268
<u>Total current liabilities</u>		
<u>Long-term liabilities</u>		
Capital lease obligation, less current maturities	-	10
Long-term debt, less current maturities	988	-
	988	10
<u>Total long-term liabilities</u>		
<u>Total liabilities</u>	3,896	1,278
<u>Shareholders' equity</u>		
Common stock	83	131
Additional paid-in capital	20,732	25,453
Accumulated deficit	(10,442)	(10,310)
Treasury stock, at cost	(6,819)	(6,819)
	3,554	8,455
<u>Total shareholders' equity</u>		
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 7,450</b>	<b>\$ 9,733</b>

See accompanying notes to consolidated financial statements.

**FIRSTIME DESIGN LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
Years Ended December 31, 2018 and 2017  
(Dollars in Thousands Except Shares and Per Share Amounts)  
See Independent Accountants' Review Report

	2018	2017
Net sales	\$ 14,213	\$ 10,920
Cost of goods sold	10,081	7,391
Gross profit	4,132	3,529
<u>Operating expenses</u>		
Sales and marketing	434	438
New product development	209	147
Warehouse	1,681	1,030
General and administrative	2,230	1,843
Depreciation and amortization	129	81
Total operating expenses	4,683	3,539
Operating loss	(551)	(10)
<u>Non-operating income (expense)</u>		
Interest expense	(102)	-
Other income (expense), net	1	(23)
Total non-operating income (expense)	(101)	(23)
Loss before benefit for income taxes	(652)	(33)
Benefit for income taxes	(520)	(164)
Net income (loss)	\$ (132)	\$ 131
Earnings (loss) per share	\$ (0.09)	\$ 0.08
Weighted average shares outstanding	1,431,640	1,689,430

See accompanying notes to consolidated financial statements.

**FIRSTIME DESIGN LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
Years Ended December 31, 2018 and 2017  
(Dollars in Thousands Except Per Share Amounts)  
See Independent Accountants' Review Report

	<u>Common Stock</u>	<u>Additional Paid- In Capital</u>	<u>Accumulated Deficit</u>	<u>Treasury Stock</u>	<u>Total</u>
Balances - December 31, 2016	\$ 106	\$ 23,358	\$ (10,441)	\$ (6,819)	\$ 6,204
Net income	-	-	131	-	131
Common stock issuance	<u>25</u>	<u>2,095</u>	<u>-</u>	<u>-</u>	<u>2,120</u>
Balances - December 31, 2017	131	25,453	(10,310)	(6,819)	8,455
Net loss	-	-	(132)	-	(132)
Purchase and retirement of common stock	<u>(48)</u>	<u>(4,721)</u>	<u>-</u>	<u>-</u>	<u>(4,769)</u>
Balances - December 31, 2018	<u>\$ 83</u>	<u>\$ 20,732</u>	<u>\$ (10,442)</u>	<u>\$ (6,819)</u>	<u>\$ 3,554</u>

See accompanying notes to consolidated financial statements.

**FIRSTIME DESIGN LIMITED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2018 and 2017

(Dollars in Thousands)

See Independent Accountants' Review Report

	<u>2018</u>	<u>2017</u>
<u>Cash flows from operating activities</u>		
Net income (loss)	\$ (132)	\$ 131
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	31	28
Amortization	98	53
Deferred income tax benefit	(523)	(166)
Loss on disposal of property and equipment	10	3
Provision for losses on accounts receivable	311	-
Provision for obsolete and excess inventory	10	-
Changes in operating assets and liabilities:		
Accounts receivable	380	(880)
Inventory including prepaid inventory	18	509
Other prepaid expenses	63	(66)
Checks issued in excess of bank balance	39	-
Accounts payable, including accounts payable - inventory	214	144
Accrued liabilities	(52)	(21)
	<u>467</u>	<u>(265)</u>
<u>Cash flows from investing activities</u>		
Property and equipment expenditures	(61)	(59)
Proceeds from sale of property and equipment	31	-
Acquisition of InnerSpace Luxury Products, LLC, net of cash acquired of \$48	-	(3,261)
	<u>(30)</u>	<u>(3,320)</u>
<u>Cash flows from financing activities</u>		
Net proceeds from (payments on) line of credit	1,143	(450)
Payments on capital lease obligation	(14)	(2)
Proceeds from long-term debt	1,500	-
Payments of long-term debt	(212)	-
Common stock issuance (purchase)	(4,769)	2,120
	<u>(2,352)</u>	<u>1,668</u>
Net cash provided by (used in) financing activities		
Net change in cash	(1,915)	(1,917)
Cash - beginning of the year	<u>1,915</u>	<u>3,832</u>
Cash - end of the year	<u>\$ -</u>	<u>\$ 1,915</u>
<u>Supplemental disclosure of cash flow information</u>		
Cash payments for income taxes	<u>\$ 3</u>	<u>\$ 1</u>
Cash payments for interest	<u>\$ 89</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

**FIRSTIME DESIGN LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018 and 2017  
(Dollars In Thousands Except Shares and Per Share Amounts)  
See Independent Accountant's Review Report

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Business activity

FirsTime Design Limited and Subsidiaries (Company) is headquartered in Pewaukee, Wisconsin and designs, imports, and distributes decorative home décor products through major, national retailers. The Company also distributes commercial and residential mattresses in Dalton, Georgia as of June 16, 2017.

B. Basis of presentation

The accompanying consolidated financial statements of FirsTime Design Limited and Subsidiaries include the accounts of FirsTime Design Limited and Subsidiaries and its wholly-owned subsidiaries Lee Middleton Original Dolls, Inc. (LMOD) and InnerSpace Luxury Products, LLC (InnerSpace) and LMOD's wholly-owned subsidiary FirsTime Manufactory, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

C. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Significant estimates include the collectability of accounts receivable and the related valuation allowance for uncollectible accounts, the reserve for obsolete and excess inventory and various accrued liabilities. It is at least reasonably possible that the actual results may differ from these estimates within the near term, and the resulting change could be material to the financial statements.

D. Cash

For purposes of the Consolidated Statements of Cash Flows, the Company considers all checking accounts, money market accounts and balances in interest bearing investments with a maturity of three months or less to be cash.

E. Accounts receivable

Accounts receivable are stated at the amount the Company expects to collect from outstanding balances. The Company extends unsecured trade credit to its customers in the ordinary course of business, but mitigates the associated credit risk by performing credit checks, establishing credit limits and actively pursuing past due accounts. Trade credit is generally extended on a short-term basis. Thus, trade accounts receivable do not bear interest or a finance charge. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts giving consideration to historical experience and existing economic conditions. Balances that are still outstanding after the Company has used reasonable collection efforts are written-off through a charge to the valuation allowance and a credit to accounts receivable.

**FIRSTIME DESIGN LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018 and 2017  
(Dollars In Thousands Except Shares and Per Share Amounts)  
See Independent Accountant's Review Report

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

E. Accounts receivable, continued

Accounts receivable are net of an allowance for doubtful accounts of \$95 and \$6 at December 31, 2018 and 2017, respectively.

Included in other assets at December 31, 2017 is \$232 of accounts receivables from a customer as collection was likely to occur beyond one year of December 31, 2017. The customer filed for bankruptcy in 2018 and it was determined that the outstanding balance was no longer collectible and, therefore, the remaining unpaid balance of \$215 was written-off and charged to operations during 2018.

F. 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. Inventories are net of an allowance for obsolete and excess inventory of \$147 and \$146 at December 31, 2018 and 2017, respectively.

G. Property and equipment

Property and equipment are recorded at cost. Maintenance and repairs are charged to operations as incurred while all major acquisitions and improvements are capitalized. Depreciation is calculated using the straight-line method of depreciation over the estimated useful lives of the assets. Estimated useful lives range from 3 years for computer software, 5 years for office equipment, computer equipment and molds and tooling and 7 years for leasehold improvements, machinery and equipment and office furniture. Gains or losses on property and equipment sold or otherwise disposed of are credited or charged to the results of operations.

H. Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset grouping may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset grouping to future undiscounted cash flows expected to be generated by the asset grouping. If the carrying amount of an asset grouping exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset grouping exceeds the fair value of the asset grouping. There was no impairment of long-lived assets recognized in 2018 or 2017.

**FIRSTIME DESIGN LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018 and 2017  
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

I. Goodwill

Goodwill represents the excess of the purchase price of the net assets acquired (including identified intangible assets) in a business combination over the fair value of the net assets at the date of acquisition. Goodwill is not amortized, but is assessed for impairment at least annually. 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, including goodwill. If management concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management conducts a two-step quantitative goodwill impairment test. The amount, by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss. The Company's evaluation of goodwill completed during 2018 and 2017 resulted in no impairment losses.

J. Intangible assets

Intangible assets consist of trade names and customer relationships, which are recorded at their fair value at the date of acquisition and are amortized on a straight-line basis over the estimated useful lives of the assets (5 to 20 years for trade names and 10 years for customer relationships). The Company assesses purchased intangible assets deemed to have finite lives for impairment in a manner consistent with its assessment of the impairment of long-lived assets. There was no impairment of intangible assets recognized in 2018 or 2017.

K. Revenue recognition

Revenues are recognized as products are sold and delivered to the customer.

L. Shipping and handling costs

Shipping and handling costs are expensed as incurred and are included in cost of goods sold.

M. Vendor allowances

Vendor allowances are negotiated by the Company and are generally based on a percentage of orders placed for purchases with specific vendors. Vendor allowances for purchases by the Company are recognized upon the vendor's shipment of the goods and are recorded as a reduction of cost of goods sold.

N. Debt issuance costs

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.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

O. Concentrations

The Company maintains its cash in bank deposits which at times may exceed federally insured limits. The Company has not experienced any losses with the bank accounts that are maintained. Management believes the Company is not exposed to any significant credit risk on cash.

The Company's customers are not concentrated in any specific geographic region. For the years ended December 31, 2018 and 2017, two customers individually accounted for 10% or more of net sales, as can be common in the consumer products industry. The Company routinely assesses the financial strength of its customers and as a result believes that its trade accounts receivable credit risk exposure is extremely limited.

The Company imports a significant portion of finished goods inventory from suppliers in China who invoice the Company in U.S. dollars thus eliminating currency adjustments on transactions with the Company. The Company also has finished goods produced in the USA and imports a smaller portion of finished goods from suppliers in Italy, who invoice the Company in Euros. The currency adjustments related to these transactions is immaterial. As of December 31, 2018 and 2017, \$241 and \$406, respectively, were included in accounts payable due to these suppliers.

P. Income taxes

The Company accounts for income taxes according to the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates in effect for the years in which the temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets and liabilities to the amounts more likely than not to be realized. Current income taxes are based on the year's income taxable for federal and state income tax reporting purposes.

Q. Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which clarifies the principles for recognizing revenue. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard supersedes all existing U.S. GAAP guidance on revenue recognition and is expected to require the use of more judgment and result in additional disclosures. The FASB has issued several amendments to the original standard, which is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. Adoption is to be applied retrospectively. The Company is currently evaluating the impact of ASU 2014-09 on the Company's financial statements and has not yet determined its method of adoption.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Q. Recent accounting pronouncements, continued

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which is expected to increase transparency and comparability among organizations. The core principle of this guidance is that a lessee should recognize the assets and liabilities that arise from leases. The standard requires lessees to reflect most leases on their balance sheet as lease liabilities with a corresponding right-of-use asset, while leaving presentation of lease expense in the statement of income largely unchanged. The standard also eliminates the real-estate specific provisions that exist under current U.S. GAAP and modifies the classification criteria and accounting which lessors must apply to sales-type and direct financing leases. The standard is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of ASU 2016-02 on the Company's financial statements.

R. Subsequent events

The Company has evaluated events and transactions for potential recognition or disclosure in the consolidated financial statements through March 25, 2019, the date on which the financial statements were available to be issued.

NOTE 2 – ACQUISITION OF INNERSPACE

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

The Company paid \$3,300 in cash at closing to InnerSpace's prior owners to complete the acquisition. Included in general and administrative operating expenses for the year ended December 31, 2017 are transaction fees and expenses of \$285. 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:

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NOTE 2 – ACQUISITION OF INNERSPACE, CONTINUED

Accounts receivable	\$	856
Inventory		1,814
Prepaid inventory		41
Other prepaid expenses		20
Property and equipment		36
Goodwill and other intangible assets		<u>1,727</u>
 Total assets acquired	 \$	 <u>4,494</u>
 Accounts payable	 \$	 63
Accounts payable - inventory		225
Accrued liabilities		52
Capital lease obligation		16
Deferred income taxes		427
Revolving line of credit		<u>450</u>
 Total liabilities assumed	 \$	 <u>1,233</u>
 Cash paid for acquisition, net of cash acquired of \$48	 \$	 <u><u>3,261</u></u>

The valuation of intangible assets determined by an independent appraisal are as follows:

InnerSpace trade name	\$	95
Mobile InnerSpace trade name		357
Customer relationships		607
Goodwill		<u>668</u>
 Goodwill and other intangible assets	 \$	 <u><u>1,727</u></u>

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

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NOTE 3 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following at December 31:

	2018	2017
Leasehold improvements	\$ 44	\$ 17
Machinery and equipment	5	126
Office equipment	3	17
Computer equipment	83	87
Office furniture	19	33
Computer software	100	104
Molds and tooling	-	50
	\$ 254	\$ 434
Accumulated depreciation	\$ (143)	\$ (312)
Property and equipment, net	\$ 111	\$ 122

Depreciation expense for the years ended December 31, 2018 and 2017 was \$31 and \$28, respectively.

NOTE 4 – INTANGIBLE ASSETS, NET

The carrying amount and accumulated amortization of intangible assets consists of the following at December 31:

	2018	2017
Gross carrying amount:		
InnerSpace trade name	\$ 95	\$ 95
Mobile InnerSpace trade name	357	357
Customer relationships	607	607
Total gross carrying amount	\$ 1,059	\$ 1,059
Accumulated amortization:		
InnerSpace trade name	\$ 28	\$ 10
Mobile InnerSpace trade name	29	10
Customer relationships	94	33
Total accumulated amortization	\$ 151	\$ 53
Intangible assets, net	\$ 908	\$ 1,006

Amortization expense for the years ended December 31, 2018 and 2017 was \$98 and \$53, respectively.

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NOTE 4 – INTANGIBLE ASSETS, NET, CONTINUED

Estimated future amortization expense for intangible assets is as follows for the years ending December 31:

2019	\$	98
2020		98
2021		98
2022		87
2023		78

NOTE 5 – LEASE COMMITMENTS

Operating leases: The Company leases its facilities under operating leases through July 2023. The Company is responsible for utilities and insurance. The Company recognizes rent expense on a straight-line basis over the term of the lease. Since the lease agreements contain rent holiday and escalation clauses, the Company has recorded an accrued rent liability as of December 31, 2018 and 2017 of \$11 and \$12, respectively, to recognize the accumulated difference between the lease payments and lease expense recorded on a straight-line basis. Total rent expense related to its facilities was \$194 and \$218 for the years ended December 31, 2018 and 2017, respectively.

Total future minimum lease payments related to its operating leases are as follows for the years ending December 31:

2019	\$	72
2020		65
2021		67
2022		68
2023		40

Capital lease: Upon acquisition of InnerSpace (see Note 2), the Company acquired a forklift under an agreement classified as a capital lease with annual rental payments of approximately \$4 through November 2021. The equipment and associated lease obligation have been capitalized using the implicit borrowing rate at the inception of the lease. The following is a summary of the leased equipment costs as of December 31, 2017 included in property and equipment:

Equipment	\$	28
Accumulated depreciation		4
		<hr/>
Net equipment under capital lease	\$	<u>24</u>

There are no future minimum lease payments on its capital lease at December 31, 2018 as the forklift was disposed of during 2018.

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NOTE 6 - 401(K) RETIREMENT PLAN

The Company sponsors a 401(k) retirement plan which covers all eligible employees who meet certain age and service requirements. The Company matches 50% of the first 5% of an employee's elective contributions. The Company's 401(k) match charged to operations for the years ended December 31, 2018 and 2017 was \$20 and \$15, respectively.

NOTE 7 – REVOLVING CREDIT AGREEMENTS

The Company has an available \$2,500 revolving credit agreement (Agreement) with a bank which expires July 1, 2019, of which \$1,143 was outstanding at December 31, 2018. Interest is payable monthly at LIBOR plus 2.50% (4.85% at December 31, 2018). 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 the \$2,500 revolving credit agreement described above.

NOTE 8 – LONG-TERM DEBT

Long-term debt consists of the following at December 31:	2018	2017
Bank term note, payable in monthly principal installments of \$25,000 plus interest at the LIBOR rate plus 3.00% (5.35% at December 31, 2018), due May 22, 2023, secured by all Company assets.	\$ 1,325	\$ -
Less unamortized debt issuance costs	(37)	-
Less current maturities of long-term debt	(300)	-
Long-term debt, less current maturities	\$ 988	\$ -

Principal maturities of long-term debt for each of the five years succeeding December 31, 2018 are as follows:

2019	\$ 300
2020	300
2021	300
2022	300
2023	125

The Agreement described in Note 7 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 year ended December 31, 2018.

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NOTE 9 – SHAREHOLDERS' EQUITY

During 2018, the Company purchased 717,027 shares of common stock from shareholders at a net cost of \$4,769. These shares were retired during 2018.

In June 2017, the Company issued 369,559 shares of common stock at \$5.75 per share, totaling \$2,120, which is net of \$5 in direct legal costs incurred. All securities issued are subject to a six-month transfer restriction.

The number of shares of \$.06667 par value common stock of the Company is as follows at December 31:

	2018	2017
Authorized	15,000,000	15,000,000
Issued	1,245,409	1,962,436
Outstanding	1,154,651	1,871,678
Treasury	90,758	90,758

NOTE 10 – INCOME TAXES

The deferred income tax asset (liability) consists of the following at December 31:

	2018	2017
<u>Deferred income tax asset (liability)</u>		
Accounts receivable	\$ 26	\$ 1
Inventory	40	40
Accrued discounts	66	50
Accrued vacation pay/payroll	6	6
Loan reserve	25	25
Accrued rent	3	3
Property and equipment	(11)	(19)
Intangible assets	(247)	(273)
Minimum tax credit carryforward	25	25
Net operating loss carryforward	3,707	3,610
	3,640	3,468
Less valuation allowance	(2,946)	(3,297)
Deferred income tax asset	\$ 694	\$ 171

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NOTE 10 – INCOME TAXES, CONTINUED

The benefit for income taxes consists of the following for the years ended December 31:

	2018	2017
Current	\$ 3	\$ 2
Deferred	(172)	107
	(169)	109
Adjustment of deferred taxes for enacted changes in tax laws or rates	-	1,863
Change in valuation allowance	(351)	(2,136)
	\$ (520)	\$ (164)

The adjustment of deferred taxes for enacted changes in tax laws or rates noted above relates to the December 22, 2017 enactment of the federal Tax Cuts and Jobs Act (the Act). The tax law changes in the Act include a new 21% federal income tax rate for corporations beginning in 2018. Historically, the Company has used a 34% federal income tax rate to calculate its deferred tax assets and liabilities. As a result of the enactment of the Act, the Company revalued its December 31, 2017 deferred tax assets and liabilities at the new 21% federal income tax rate to better reflect the rate at which the Company's deferred tax assets and liabilities are expected to reverse in the future.

The Company reviews the need to maintain a deferred tax asset valuation allowance on an on-going basis. The Company analyzes many factors, including the size and frequency of operating losses, the existence and current amount of taxable income, operating results on a three year cumulative basis, the expected occurrence of future income or loss, the expiration dates of the loss carryforwards including its ability to carryback losses, and available tax planning strategies. Realization of its deferred tax asset, however, is ultimately dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not guaranteed, nor is any assurance to that effect given, management believes it is more likely than not the amount of net deferred tax assets in excess of the valuation allowance will be realized. The amount of deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

As of December 31, 2018, the Company has federal and state NOL carryforwards of approximately \$15,788 and \$6,278, respectively, to reduce future years' taxable income, with varying expiration dates through December 31, 2036.

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NOTE 11 – CONTINGENCIES

From time to time, the Company is involved in various claims and lawsuits, both for and against the Company, arising in the normal course of business. When claims are probable, reserves are established based on estimates from available information. Although no reserves have been established as of December 31, 2018 and 2017, there is inherent uncertainty as to the eventual resolution of unsettled claims and lawsuits. Management believes that any uninsured financial responsibility that may be incurred in settlement of such claims and lawsuits would not have a material effect on the Company's financial condition, results of operations or cash flows.

**FIRSTIME DESIGN LIMITED AND SUBSIDIARIES**  
**SHAREHOLDER INFORMATION**

**Company Directors**

Christopher Bering  
*Chairman of the Board*

Andrew Bass  
*Director*

Jeffrey Cowie  
*Director*

**Executive Management**

Christopher Bering  
*President and Chief Executive Officer*

Nicole Van Den Heuvel  
*Chief Financial Officer*

**Stock**

FirsTime Design Ltd., stock is quoted on the OTC Market-Pink under FTDL

**Shareholder Communications**

Stockholders can get quarterly financial results, stock price information, and other investor information by visiting the following investor page at:  
<http://www.otcmarkets.com/stock/FTDL/quote>

**Transfer Agent(s)**

Computershare Limited

**Corporate Headquarters**

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