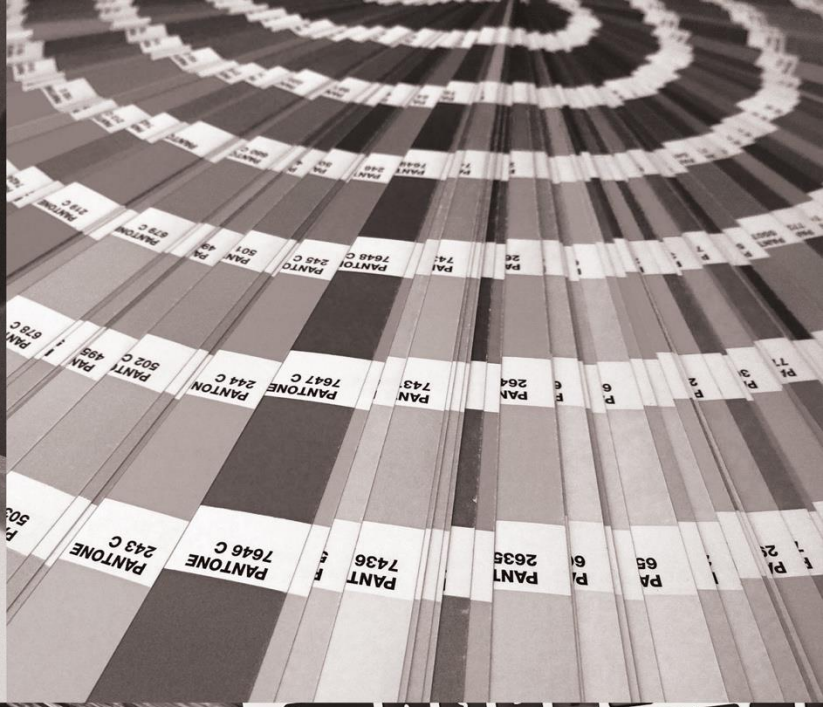
FirsTime Design Limited®

— AMERICAN DESIGNED —

REVIEWED ANNUAL 2016 REPORT


PANTONE 7646 C
PANTONE 243 C


caps lock
shift
fn
control
option
command
FirsTime Design Limited®
An American Holding Company

LETTER to our SHAREHOLDERS 2016

"Our ability to generate cash, year over year, has us in an excellent position to capitalize on strategic partnerships, mergers, acquisitions and alternative investments in 2017, supporting our aim to shore up the tides of the shifting retail environment. "

Christopher D. Bering
President and CEO

Shareholders,

2016 presented another year of challenges for retailers nationwide. As large retailers continue to adapt to meet the demands of an uncertain future, we have seen many being bought out, merging with other brands or shutting down entirely. This past year, The Harvard Business Review published an article on the state of the big-box landscape shift, explaining that these retailers need to offer big experiences or big discounts if they are to survive. Wholesalers, collectively, felt the effects of the retail crunch in 2016 with downward pressure, as evidenced by both our sales and profits after a record setting 2015. While we are glad to see 2016 behind us, we are working diligently to position our organization for success on the path ahead.

The company's overall condition remains strong with $3.8 million of cash, no debt, strong gross profits and a flexible operating structure. We are happy to report that regardless of declines in revenue and profits, the Company remains a cash generator. Additionally, we remain nimble and opportunistic as we continue to evaluate potential opportunities to maximize per share value for shareholders over multi-year market cycles.

2017 is expected to be another year of disruption in retail, affecting in-store brands with more pressure than ever before. The ever evolving big-box landscape continues to experience direct competition from specialty stores and online retailers, with the ongoing explosive rise in e-commerce. Both of these sales outlets present new and ongoing challenges for our corporate partners and in turn, will continue to impact FirsTime. With that said, we're implementing strategies to not only negate the bumps, but more importantly, react to create unforeseen and untapped opportunities. We will focus on brand building and brand differentiation as we aggressively seek customer diversification through new and unexplored partnerships and opportunities. The contraction in the big-box arena will likely open new doors and allow smaller regional players to emerge as winners. Our dedication to research and development in front-end design, when combined with service and our opportunistic approach, provides us a competitive advantage. Most importantly, FirsTime is committed to inline and online expansion of both capabilities and product channel alternatives. We believe strategic growth in our e-commerce platform has the potential to open up significant and sustainable opportunities for many years ahead.

Our long-term perspective and objectives are to remain cognizant of changes and responsive to the landscape ahead. The Capital Allocation Committee continues to analyze viable strategic target market opportunities that we believe will help us achieve growth and sustainability in turbulent and changing markets. Our ability to generate cash, year over year, has us in an excellent position to capitalize on strategic partnerships, mergers, acquisitions and alternative investments in 2017, supporting our aim to shore up the tides of the shifting retail environment. This vision, creative thinking, and entrepreneurial spirit will likely continue to increase shareholder value through 3 and 5 year cycles. Our goal is to remain a relevant leader in the home goods space.

On behalf of our team at FirsTime Design Limited, I send along my sincere appreciation to all of our hard-working employees, our business partners and my fellow shareholders.

FIRSTIME DESIGN LIMITED AND SUBSIDIARIES

TABLE OF CONTENTS

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" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. 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 the Unaudited Annual Report for the year ended December 31, 2016. Other factors include:

- The ability of FirsTime Design Limited (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.

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 Unaudited 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.

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.

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 manufacturers of the manufacturing of the products sold by the Company could adversely affect inventory levels and reduce profits.

All of the products sold by the Company are manufactured in China. The amount of product to be purchased from Chinese 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 a wholly-owned subsidiary, Lee Middleton Original Dolls, Inc. (LMOD). In turn, LMOD has a wholly-owned subsidiary, FirsTime Manufactory, Inc. (FirsTime).

Overview

FirsTime is headquartered in New Berlin, Wisconsin. The organization designs, imports and distributes decorative timepieces and other home décor products through major, national retailers. The following table summarizes the Company's activity as of December 31 of the past five years:

	2012	2013	2014	2015	2016
Income Statement Data					
Net Sales	$ 7,646	$ 8,199	$ 7,635	$ 9,398	$ 7,274
Net Income	$ 427	$ 749	$ 568	$ 1,749	$ 450
Net Income as % of Sales	5.6%	9.1%	7.4%	18.6%	6.2%
Balance Sheet Data					
Cash Balance	$ 1,493	$ 1,689	$ 2,168	$ 3,042	$ 3,832
Working Capital	$ 3,484	$ 4,117	$ 4,261	$ 5,375	$ 5,730
Shareholders' Equity	$ 3,539	$ 4,212	$ 4,361	$ 6,034	$ 6,204
Per Share Data					
Earnings per Share	$ 0.28	$ 0.49	$ 0.37	$ 1.15	$ 0.30
Book Value per Share	$ 2.32	$ 2.76	$ 2.86	$ 3.98	$ 4.12
Cash per Share	$ 0.98	$ 1.11	$ 1.42	$ 2.01	$ 2.54
Dividend per Share	$ 0.05	$ 0.05	$ 0.25	$ 0.05	$ 0.15
Other Data					
Return on Average Equity	12.6%	19.3%	13.3%	33.7%	7.4%

Amounts presented as of, and for the twelve months ended, December 31, 2012 through 2016 include the consolidation of the Parent, LMOD, and FirsTime. 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. FirsTime achieved profits for 2016 as a direct result of maintaining cost reductions and realizing on an aggressive sales and marketing plan, in spite of some headwinds.

FirsTime imports its finished goods from China and relies on those suppliers to procure sufficient raw materials to be used in production. FirsTime has never 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, or market. FirsTime provides 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, 2016 and December 31, 2015

Net sales decreased by approximately 22.6% to $7,274 for the year ended December 31, 2016 compared to $9,398 for the year ended December 31, 2015. The net sales decrease was driven primarily by a decrease in activity with one current customer, offset by increases from new customers and increased sales to other current customers. Cost of goods sold decreased approximately 24.0%, with total gross profit margin of approximately 32.2% for the year ended December 31, 2016, compared to 30.9% for the same period in the prior year. The gross margin percentage for the year ended December 31, 2016 improved by 130 basis points versus the prior year due to improved terms as well as continued focus on supplier diversification.

Total operating expenses for the year ended December 31, 2016, were approximately $1,693 compared to approximately $1,681 for the year ended December 31, 2015, an increase of approximately $12. Sales and marketing expenses decreased by $54 from the prior year in the areas of commissions and payroll. General and administrative expenses increased by approximately $74 primarily due to an increase in corporate level expenses and health insurance, offset by administrative payroll and customer processing fees.

The Company's total net income applicable to common stock shareholders for the year ended December 31, 2016 was $450, or $0.30 per common share, as compared to a net income of $1,749, or $1.15 per common share, for the year ended December 31, 2015. Net income included non-recurring (expense)/income of ($157) and $589 related to deferred taxes for the year ended December 31, 2016 and 2015, respectively. Excluding the impact of the non-recurring (expense)/income, the 2016 net income decreased 48.4% for the full year over the same period last year. The decrease in profitability can be attributed to a decrease in sales.

Corporate

On June 22, 2016, the Board of Directors declared a cash dividend of $0.15 per share, totaling approximately $225, on the Company's common stock, payable July 29, 2016 to shareholders of record at the close of business on July 15, 2016.

During 2016, the Company purchased 12,244 shares of common stock from shareholders at $4.50/share, for a total cost of $55. These shares are being held in treasury at December 31, 2016.

On June 25, 2015, the Board of Directors declared a cash dividend of $0.05 per share, totaling approximately $76, on the Company's common stock, payable July 31, 2015 to shareholders of record at the close of business on July 15, 2015.

Liquidity and Capital Resources

Along with a cash balance of $3,832 as of December 31, 2016, the Company also has a $1,500 line of credit with Town Bank (See Note 5) which can be used to meet the capital needs of the Company.

Consolidated Balance Sheets at December 31, 2016 and 2015

At December 31, 2016, the Company had cash of $3,832 that are available to meet its working capital needs.

Accounts receivable decreased to approximately $1,370 at December 31, 2016, from approximately $1,796 at December 31, 2015, due primarily to the decreased level of fourth quarter sales activity. At December 31, 2016 and 2015, FirsTime did not have any material past-due accounts.

Inventory and prepaid inventory, net of the allowance for obsolete and excess inventory of approximately $60 and $78 at December 31, 2016 and 2015 respectively, decreased to approximately $1,236 at December 31, 2016, from approximately $1,565 at December 31, 2015. FirsTime's net inventory decreased related to significant effort placed during 2016 in the area of moving non-allocated inventory as well as the timing of containers in transit. Inventories are valued using the lower of cost, determined by the average cost method, or market.

Property and equipment, net of accumulated depreciation, totaled $42 at December 31, 2016, as compared to $70 at December 31, 2015. Property and equipment expenditures were approximately $9, with depreciation expense was approximately $36 and a loss on disposal of $1 for the year ended December 31, 2016.

Deferred tax assets, net, was $432 as of December 31, 2016, compared to $589 at December 31, 2015. The deferred tax assets represent a portion of the valuation allowance the Company keeps on its legacy net operating loss carryforward, and the reduction in 2016 relates to a more conservative approach taken in the current year.

Current liabilities were approximately $785 at December 31, 2016 as compared to approximately $1,086 at December 31, 2015, with the decrease due primarily to timing of inventory payments, administrative payroll, and corporate expenses.

FIRSTIME DESIGN LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2016 and 2015

Schenck
ADVISORY | TAX | ASSURANCE

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
FirsTime Design Limited
New Berlin, Wisconsin

We have reviewed the accompanying consolidated financial statements of FirsTime Design Limited, which comprises the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, shareholders' equity and cash flows for the years 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 AICPA. 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 reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Schenck SC
Certified Public Accountants

Milwaukee, Wisconsin
March 4, 2017

FIRSTIME DESIGN LIMITED

CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015
(Dollars in Thousands Except Shares and Per Share Amounts)
See Independent Accountants' Review Report

ASSETS

	2016	2015
Current assets		
Cash	$ 3,832	$ 3,042
Accounts receivable, net	1,370	1,796
Inventory, net	1,122	1,367
Prepaid inventory	114	198
Other prepaid expenses	77	58
Deferred income taxes	-	222
Total current assets	6,515	6,683
Other assets		
Property and equipment, net	42	70
Deferred income taxes	432	367
Total other assets	474	437
TOTAL ASSETS	$ 6,989	$ 7,120

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities		
Accounts payable	$ 32	$ 119
Accounts payable - inventory	143	130
Accrued liabilities	610	837
Total current liabilities	785	1,086
Shareholders' equity		
Common stock, $0.06667 par value, 15,000,000 shares authorized, 1,592,877 shares issued and 1,502,119 (2016) and 1,514,363 (2015) shares outstanding	106	106
Additional paid-in capital	23,358	23,358
Accumulated deficit	(10,441)	(10,666)
Treasury stock, 90,758 (2016) and 78,514 (2015) shares, at cost	(6,819)	(6,764)
Total shareholders' equity	6,204	6,034
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 6,989	$ 7,120

See accompanying notes to consolidated financial statements.

FIRSTIME DESIGN LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2016 and 2015
(Dollars in Thousands Except Shares and Per Share Amounts)
See Independent Accountants' Review Report

	2016	2015
Net sales	$ 7,274	$ 9,398
Cost of goods sold	4,935	6,495
Gross profit	2,339	2,903
Operating expenses		
Sales and marketing	152	206
New product development	119	134
Warehouse	501	494
General and administrative	921	847
Total operating expenses	1,693	1,681
Operating income	646	1,222
Non-operating income (expense)		
Other (expense), net	(36)	(39)
Income before provision (benefit) for income taxes	610	1,183
Provision (benefit) for income taxes	160	(566)
Net income	$ 450	$ 1,749
Earnings per share	$ 0.30	$ 1.15
Weighted average shares outstanding	1,506,782	1,514,363

See accompanying notes to consolidated financial statements.

FIRSTIME DESIGN LIMITED

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2016 and 2015
(Dollars in Thousands Except Per Share Amounts)
See Independent Accountants' Review Report

	Common Stock	Additional Paid-In Captial	Accumulated Deficit	Treasury Stock	Total
Balances - December 31, 2014	$ 106	$ 23,358	$ (12,339)	$ (6,764)	$ 4,361
Net income	-	-	1,749	-	1,749
Common stock dividend paid, $.05 per share	-	-	(76)	-	(76)
Balances - December 31, 2015	106	23,358	(10,666)	(6,764)	6,034
Net income	-	-	450	-	450
Common stock dividend paid, $.15 per share	-	-	(225)	-	(225)
Treasury stock purchase	-	-	-	(55)	(55)
Balances - December 31, 2016	$ 106	$ 23,358	$ (10,441)	$ (6,819)	$ 6,204

See accompanying notes to consolidated financial statements.

FIRSTIME DESIGN LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015
(Dollars in Thousands)
See Independent Accountants' Review Report

	2016	2015
Cash flows from operating activities		
Net income	$ 450	$ 1,749
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	36	39
Deferred income tax expense (benefit)	157	(589)
Loss on disposal of property and equipment	1	1
Changes in operating assets and liabilities:		
Accounts receivable, net	426	(341)
Inventory, net including prepaid inventory	329	189
Other prepaid expenses	(19)	8
Accounts payable, including accounts payable - inventory	(74)	(224)
Accrued liabilities	(227)	128
Net cash provided by operating activities	1,079	960
Cash flows from investing activities		
Property and equipment expenditures	(9)	(10)
Cash flows from financing activities		
Common stock dividend paid	(225)	(76)
Purchase of treasury stock	(55)	-
Net cash used in financing activities	(280)	(76)
Net change in cash	790	874
Cash - beginning of the year	3,042	2,168
Cash - end of the year	$ 3,832	$ 3,042
Supplemental disclosure of cash flow information		
Cash payments for income taxes	$ 29	$ 2

See accompanying notes to consolidated financial statements.

FIRSTIME DESIGN LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Dollars In Thousands Except Shares and Per Share Amounts)
See Independent Accountant's Review Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business activity**:** FirsTime Design Limited (Company) is located in New Berlin, Wisconsin and designs, imports, and distributes decorative timepieces and other home décor products through major, national retailers.

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

Use of estimates: Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

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.

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. Accounts receivable are net of an allowance for doubtful accounts of $2 at December 31, 2016 and 2015.

Inventory: Inventories are comprised entirely of goods purchased for sale and are valued at the lower of cost, determined by the average cost method, or market. Inventories are net of an allowance for obsolete and excess inventory of $60 and $78 at December 31, 2016 and 2015, respectively.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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.

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, 2016 and 2015, 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 consequence believes that its trade accounts receivable credit risk exposure is extremely limited.

The Company imports substantially all finished goods inventory from suppliers in China, who invoice the Company in U.S. dollars thus eliminating currency adjustments on transactions with the Company. As of December 31, 2016 and 2015, $143 and $130 were included in accounts payable due to these suppliers, respectively.

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.

Adoption of new accounting guidance: In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires an entity to classify deferred tax assets and deferred tax liabilities as non-current within a classified balance sheet. ASU No. 2015-17 is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The amendments in this Update may be applied either prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. To simplify its presentation of deferred income taxes, the Company elected to early adopt this ASU during the year ended December 31, 2016 on a prospective basis and therefore prior periods were not retrospectively adjusted.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently issued accounting standards: In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330), Simplifying the Measurement of Inventory.* ASU 2015-11 is part of the FASB's initiative to simplify accounting standards. The guidance requires an entity to recognize inventory within the scope of the Update at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The Company will be required to adopt ASU 2015-11 as of December 31, 2017, with early adoption permitted. Adoption is to be applied prospectively. The Company is currently evaluating the impact of ASU 2015-11 on its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the calendar year ending December 31, 2019. The Company is currently in the process of evaluating the impact of adoption of this ASU on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the calendar year ending December 31, 2020. The Company is currently in the process of evaluating the impact of adoption of this ASU on its financial statements.

Subsequent events: The Company has evaluated events and transactions for potential recognition or disclosure in the financial statements through March 4, 2017, the date on which the financial statements were available to be issued.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2016	2015
Leasehold improvements	$ 10	$ 9
Machinery and equipment	97	97
Office equipment	16	15
Computer equipment	73	83
Office furniture	33	30
Computer software	70	71
Molds and tooling	50	50
	349	355
Accumulated depreciation	(307)	(285)
	$ 42	$ 70

Depreciation expense for the years ended December 31, 2016 and 2015 was $36 and $39, respectively.

NOTE 3 - OPERATING LEASE COMMITMENTS

The Company leases its facility from an unrelated party under an operating lease which expires July 31, 2018. The Company is responsible for taxes, utilities, insurance and common area maintenance. The Company recognizes rent expense on a straight-line basis over the term of the lease. Since their lease agreement contains rent holiday and escalation clauses, the Company has recorded an accrued rent liability as of December 31, 2016 and 2015 of $30 and $44, 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 facility was $112 for each of the years ended December 31, 2016 and 2015.

Future minimum lease payments related to its facility are as follows for the years ending December 31:

2018	$ 131
2019	77
Total future minimum lease payments	$ 208

NOTE 4 - 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, 2016 and 2015 was $14 and $9, respectively.

NOTE 5 - REVOLVING CREDIT AGREEMENT

The Company has an available $1,500 revolving credit agreement (Agreement) with a bank which expires July 1, 2017. Interest is payable monthly at a variable rate, which is set at the Wall Street Journal Prime Rate. The interest rate in effect at December 31, 2016 and 2015 was 3.75% and 3.50%, respectively. Borrowings under this Agreement are secured by substantially all of the Company's assets. The Agreement contains certain financial and restrictive covenants that must be met on a regular basis. There were no borrowings outstanding on the Agreement at December 31, 2016 or 2015.

NOTE 6 – SHAREHOLDERS' EQUITY

On June 22, 2016, the Board of Directors declared a cash dividend of $0.15 per share, totaling approximately $225, on the Company's common stock, payable July 29, 2016 to shareholders of record at the close of business on July 15, 2016.

During 2016, the Company purchased 12,224 shares of common stock from shareholders at $4.50/share, for a total cost of $55. These shares are being held in treasury at December 31, 2016.

On June 25, 2015, the Board of Directors declared a cash dividend of $0.05 per share, totaling approximately $76, on the Company's common stock, payable July 31, 2015 to shareholders of record at the close of business on July 15, 2015.

NOTE 7 – INCOME TAXES

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

	2016	2015
Deferred income tax asset (liability) - current		
Accounts receivable	$ -	$ 1
Inventory	-	31
Accrued commissions	-	1
Accrued discounts	-	97
Accrued vacation pay/payroll	-	2
Loan reserve	-	73
Accrued rent	-	17
	-	222
Less: valuation allowance	-	-
Net deferred income tax asset - current	$ -	$ 222
Deferred income tax asset (liability) - noncurrent		
Accounts receivable	$ 1	$ -
Inventory	23	-
Accrued commissions	-	-
Accrued discounts	48	-
Accrued vacation pay/payroll	4	-
Loan reserve	36	-
Accrued rent	12	-
Property and equipment	(4)	(10)
Minimum tax credit carryforward	23	-
Net operating loss carryforward	5,722	5,816
	5,865	5,806
Less: valuation allowance	(5,433)	(5,439)
Net deferred income tax asset - noncurrent	$ 432	$ 367

NOTE 7 – INCOME TAXES (CONTINUED)

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

	2016	2015
Current	$ 3	$ 23
Deferred	163	483
	166	506
Change in valuation allowance:		
Current years use of NOL	(163)	(483)
Future years use of NOL	157	(589)
	(6)	(1,072)
Provision (benefit) for income taxes	$ 160	$ (566)

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. Based on the Company's analysis, the Company reduced its benefit from income tax through the recognition of a full valuation allowance through December 31, 2014.

In the fourth quarter of 2015, the Company concluded that it was more likely than not that a portion of the Company's deferred tax assets would be realizable and therefore a portion of the valuation allowance was no longer necessary. Significant weight was given to the Company's most recent operating results and their ability to sustain them, which is a critically important factor for the recognition or reversal of a valuation allowance. There is no specific requirement that indicates the time span for this evaluation. The Company used a three year period, which is commonly used by many publicly held entities. Prior to calendar year 2015, cumulative evidence supported the recognition of a full valuation allowance. However, in the fourth quarter of 2015, the recent history of positive earnings trends, coupled with a conservative forecast for the next three year period, indicates the Company will utilize a portion of the net operating losses (NOL) before they expire and therefore a portion of the valuation allowance was no longer deemed necessary. The reversal of a portion of the Company's valuation allowance against their net deferred tax assets resulted in a $1,072 benefit in the Company's provision for income taxes for the year ended December 31, 2015, comprised of $483 from the current year use of the NOL and $589 from the future years use of the NOL. During 2016, the Company updated its forecast for the next three year period to reflect reduced future taxable income during the carryforward period, which resulted in an increase of its net deferred tax asset valuation allowance of $157 arising from the future years use of its NOL. Realization, 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 that it 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.

NOTE 7 – INCOME TAXES (CONTINUED)

As of December 31, 2016, the Company has federal and state NOL carryforwards of approximately $15,900 and $6,300, respectively, to reduce future years' taxable income, with varying expiration dates through December 31, 2034.

FIRSTIME DESIGN LIMITED
SHAREHOLDER INFORMATION

Company Directors
Pete Wierenga
Chairman of the Board

Andrew Bass
Director

Jeffery Cowie
Director

Christopher Bering
Director

Executive Management
Christopher Bering
President and Chief Executive Officer

Julie Kren
Chief Financial Officer and Secretary

Stock
FirsTime Design Ltd., stock is listed 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
2350 S. 170th Street
New Berlin, WI 53151
262-364-5200
www.firstime.com