
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of report (Date of earliest event reported): **March 2, 2018**

Lifetime Brands, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

0-19254
(Commission File Number)

11-2682486
(IRS Employer Identification No.)

1000 Stewart Avenue, Garden City, New York 11530
(Address of Principal Executive Offices) (Zip Code)

(Registrant's Telephone Number, Including Area Code) **516-683-6000**

(Former Name or Former Address, if Changed Since Last Report) **N/A**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.01 Completion of Acquisition or Disposition of Assets

On March 6, 2018, Lifetime Brands, Inc. filed with the Securities and Exchange Commission (the “SEC”) a Current Report on Form 8-K (the “Original Form 8-K”) disclosing, among other things, that on March 2, 2018, the company completed the acquisition of Taylor Holdco, LLC (“Taylor”), pursuant to the merger agreement by and among the Company, TPP Acquisition I Corp., a Delaware corporation (“Merger Sub”), TPP Acquisition II LLC, a Delaware limited liability company (“Buyer Survivor LLC”), Taylor Parent, LLC, a Delaware limited liability company (“Taylor Parent”), Taylor Holdco, LLC, a Delaware limited liability company (“Taylor”), and solely for purposes of certain sections of the Merger Agreement, CP Taylor GP, LLC, a Delaware limited liability company, providing for the acquisition of Taylor by the Company (the “Acquisition”).

This Current Report on Form 8-K/A is being filed with the SEC to amend the Original Form 8-K in order to provide the disclosures required by Item 9.01 of Form 8-K, including the required historical financial information of Taylor Holdco, LLC and the required pro forma financial statements.

Except as otherwise provided herein, the other disclosures made in the Original Form 8-K remain unchanged.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired.

The audited consolidated financial statements as of March 31, 2017 and March 31, 2016 and for the fiscal years ended March 31, 2017, 2016, and 2015 of Taylor Holdco, LLC and Subsidiaries and the related notes to such audited consolidated financial statements are filed with this Current Report on Form 8-K/A as Exhibit 99.1 and incorporated herein by reference.

The unaudited condensed consolidated financial statements as of December 31, 2017 and for the nine months ended December 31, 2017 and 2016 of Taylor Holdco, LLC and Subsidiaries and the related notes to such unaudited condensed consolidated financial statements are filed with this Current Report on Form 8-K/A as Exhibit 99.2 and incorporated herein by reference.

(b) Pro Forma Financial Information.

The Unaudited Pro Forma Condensed Consolidated Balance Sheet as of December 31, 2017, the related Unaudited Pro Forma Condensed Consolidated Statement of Operations for the twelve months ended December 31, 2017 and the related notes to such unaudited pro forma condensed consolidated financial statements (collectively, the “Unaudited Pro Forma Condensed Consolidated Financial Statements”) are furnished with this Current Report on Form 8-K/A as Exhibit 99.3 and incorporated herein by reference.

The Unaudited Pro Forma Condensed Consolidated Financial Statements are unaudited, are presented for informational purposes only, and are not necessarily indicative of the financial position or results of operations that would have occurred had the Acquisition been completed as of the dates or at the beginning of the period presented. In addition, the Unaudited Pro Forma Condensed Consolidated Financial Statements do not purport to project the future consolidated financial position or operating results of the combined companies.

(d) Exhibits

23.1 [Consent of BDO LLP, Independent accountant.](#)

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- 99.1 [Audited consolidated financial statements as of March 31, 2017 and March 31, 2016 and for the fiscal years ended March 31, 2017, 2016, and 2015 of Taylor Holdco, LLC and Subsidiaries and the related notes to such audited consolidated financial statements.](#)
- 99.2 [Unaudited condensed consolidated financial statements as of December 31, 2017 and for the nine months ended December 31, 2017 and 2016 of Taylor Holdco, LLC and Subsidiaries and the related notes to such unaudited condensed consolidated financial statements.](#)
- 99.3 [Unaudited Pro Forma Condensed Consolidated Balance Sheet as of December 31, 2017, the related Unaudited Pro Forma Condensed Consolidated Statement of Operations for the twelve months ended December 31, 2017 and the related notes to such unaudited pro forma condensed consolidated financial information.](#)

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Lifetime Brands, Inc.

By: /s/ Laurence Winoker

Laurence Winoker
Senior Vice President – Finance, Treasurer and Chief
Financial Officer

Date: May 17, 2018

Consent of Independent Auditor

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. Nos. 333-105382, 333-146017, 333-162734, 333-186208, 333-208961, 333-221613) of Lifetime Brands, Inc. of our report dated December 23, 2017, relating to the consolidated financial statements of Taylor Holdco, LLC and subsidiaries, which appears in this Form 8-K/A.

/s/ BDO USA, LLP
Seattle, Washington

May 17, 2018



Taylor Holdco, LLC and Subsidiaries

Consolidated Financial Statements

As of and for the Fiscal Years Ended March 31, 2017, 2016, and 2015

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



Taylor Holdco, LLC and Subsidiaries

Consolidated Financial Statements

As of and for the Fiscal Years Ended March 31, 2017, 2016, and 2015

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Taylor Holdco, LLC and Subsidiaries

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Independent Auditor's Report

Board of Directors
Taylor Holdco, LLC and Subsidiaries
Seattle, WA

We have audited the accompanying consolidated financial statements of Taylor Holdco, LLC and Subsidiaries, which comprise the consolidated balance sheets as of March 31, 2017, 2016, and 2015, and the related consolidated statements of operations, changes in member's capital, and cash flows for the fiscal years then ended, and the related notes to the consolidated financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Taylor Holdco, LLC and Subsidiaries as of March 31, 2017, 2016, and 2015, and the results of their operations and their cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 23, 2017

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Taylor Holdco, LLC and Subsidiaries**Consolidated Balance Sheets**

(In Thousands)

<i>March 31,</i>	2017	2016	2015
Assets			
Current Assets			
Cash and cash equivalents	\$ 16,937	\$ 7,270	\$ 1,720
Receivables, net	24,774	21,910	27,266
Inventories, net	25,932	25,939	25,248
Current deferred income taxes	2,734	2,419	3,474
Income tax receivable	—	1,176	—
Prepaid expenses and other current assets	762	592	1,591
Total Current Assets	<u>71,139</u>	<u>59,306</u>	<u>59,299</u>
Noncurrent Assets			
Property and equipment, net	2,982	2,775	5,472
Goodwill	70,619	70,619	70,619
Intangible assets, net	144,756	158,459	174,108
Other assets	225	225	552
Total Noncurrent Assets	<u>218,582</u>	<u>232,078</u>	<u>250,751</u>
Total Assets	<u>\$289,721</u>	<u>\$291,384</u>	<u>\$310,050</u>

See accompanying notes to the consolidated financial statements.

<i>March 31,</i>	2017	2016	2015
Liabilities and Member's Capital			
Current Liabilities			
Accounts payable	\$ 14,836	\$ 13,775	\$ 16,038
Accrued liabilities	5,005	5,766	3,241
Current portion of contingent consideration	8,309	—	750
Current portion of long-term debt	3,586	614	2,066
Total Current Liabilities	<u>31,736</u>	<u>20,155</u>	<u>22,095</u>
Long-Term Liabilities			
Contingent consideration	—	7,663	6,540
Deferred income taxes	7,795	8,698	13,057
Long-term debt, net of current portion	180,106	186,006	198,060
Mandatorily redeemable preferred units	24,374	21,036	18,156
Total Long-Term Liabilities	<u>212,275</u>	<u>223,403</u>	<u>235,813</u>
Total Liabilities	<u>244,011</u>	<u>243,558</u>	<u>257,908</u>
Commitments and Contingencies (Note 10)			
Member's Capital	<u>45,710</u>	<u>47,826</u>	<u>52,142</u>
Total Liabilities and Member's Capital	<u>\$289,721</u>	<u>\$291,384</u>	<u>\$310,050</u>

See accompanying notes to the consolidated financial statements.

Taylor Holdco, LLC and Subsidiaries
Consolidated Statements of Operations
(In Thousands)

<i>Year ended March 31,</i>	2017	2016	2015
Net Sales	<u>\$173,706</u>	<u>\$179,689</u>	<u>\$135,010</u>
Cost of Goods Sold	<u>98,987</u>	<u>106,324</u>	<u>76,819</u>
Gross Profit	<u>74,719</u>	<u>73,365</u>	<u>58,191</u>
Operating Expenses			
Selling, general, and administrative expenses	55,897	53,047	39,975
Acquisition-related expenses	—	—	2,444
Impairment charges	2,100	4,300	10,854
Change in fair value of contingent consideration	646	1,123	(4,390)
Gain on sale of China factory	—	—	(715)
Total operating expenses	<u>58,643</u>	<u>58,470</u>	<u>48,168</u>
Income from operations	<u>16,076</u>	<u>14,895</u>	<u>10,023</u>
Other Expense			
Interest expense	(15,487)	(16,475)	(14,134)
Redeemable preferred interest	(3,338)	(2,880)	(2,486)
Other, net	11	(588)	(514)
Total other expense	<u>(18,814)</u>	<u>(19,943)</u>	<u>(17,134)</u>
Loss before income tax benefit	<u>(2,738)</u>	<u>(5,048)</u>	<u>(7,111)</u>
Income Tax Benefit	<u>622</u>	<u>1,652</u>	<u>3,039</u>
Net Loss	<u>\$ (2,116)</u>	<u>\$ (3,396)</u>	<u>\$ (4,072)</u>

See accompanying notes to the consolidated financial statements.

Taylor Holdco, LLC and Subsidiaries
Consolidated Statements of Changes in Member's Capital
(In Thousands, except number of units)

	Common Member Units	Total Member's Capital
Balance, March 31, 2014	<u>52,657</u>	<u>\$ 46,151</u>
Contribution from parent company	—	10,082
Foreign currency translation adjustments	—	(19)
Net loss	—	(4,072)
Balance, March 31, 2015	<u>52,657</u>	<u>52,142</u>
Distribution to parent company	—	(920)
Net loss	—	(3,396)
Balance, March 31, 2016	<u>52,657</u>	<u>47,826</u>
Net loss	—	(2,116)
Balance, March 31, 2017	<u><u>52,657</u></u>	<u><u>\$ 45,710</u></u>

See accompanying notes to the consolidated financial statements.

Taylor Holdco, LLC and Subsidiaries
Consolidated Statements of Cash Flows
(In Thousands)

<i>Year ended March 31,</i>	2017	2016	2015
Cash Flows From Operating Activities			
Net loss	\$ (2,116)	\$ (3,396)	\$ (4,072)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	13,159	15,546	10,222
Impairment charges	2,100	4,300	10,854
Redeemable preferred interest	3,338	2,880	2,486
Change in fair value of contingent consideration	646	1,123	(4,390)
Amortization of debt origination fees	1,038	1,043	705
Gain on sale of China factory	—	—	(715)
Deferred income taxes	(1,218)	(3,304)	(3,370)
Realized foreign currency translation adjustment	—	—	(19)
Changes in operating assets and liabilities:			
Receivables	(2,864)	5,356	(2,041)
Income tax receivable	1,176	(1,176)	—
Inventories	7	(691)	(1,749)
Prepaid expenses and other assets	(170)	1,326	187
Accounts payable	1,061	(2,263)	5,461
Accrued liabilities	(761)	1,775	(1,432)
Net cash provided by operating activities	<u>15,396</u>	<u>22,519</u>	<u>12,127</u>
Cash Flows From Investing Activities			
Cash paid for acquisition of business	—	—	(50,034)
Cash received on sale of China factory	—	—	5,534
Capital expenditures	(1,704)	(1,208)	(1,229)
Acquisition of intangible assets	(59)	(292)	—
Net cash used in investing activities	<u>(1,763)</u>	<u>(1,500)</u>	<u>(45,729)</u>
Cash Flows From Financing Activities			
Borrowings under long-term debt	—	—	48,210
Principal payments of long-term debt	(3,966)	(14,549)	(12,211)
Borrowings on revolver	—	—	4,000
Payments on revolver	—	—	(5,000)
Distribution to parent company	—	(920)	—
Cash paid for debt origination fees	—	—	(776)
Net provided by (used in) financing activities	<u>(3,966)</u>	<u>(15,469)</u>	<u>34,223</u>
Net Change in Cash	9,667	5,550	621
Cash, beginning of year	<u>7,270</u>	<u>1,720</u>	<u>1,099</u>
Cash, end of year	<u>\$16,937</u>	<u>\$ 7,270</u>	<u>\$ 1,720</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for:			
Interest	\$16,148	\$ 14,656	\$ 14,980
Income tax paid (refunded)	23	2,890	(375)
Supplemental Disclosure of Noncash Investing and Financing Activities:			
Capital contribution from parent company in connection with business acquisition	\$ —	\$ —	\$ 10,082

See accompanying notes to the consolidated financial statements.

Taylor Holdco, LLC and Subsidiaries
Notes to Consolidated Financial Statements
(In Thousands)

1. Description of Business

Taylor Holdco, LLC and subsidiaries dba Filament Brands (the “Company”) primarily design, market, and distribute consumer and food service precision measurement products, including kitchen scales, thermometers and timers, bath scales, wine accessories, kitchen tools, and select outdoor products to major retailers in the United States, Canada and select distributors throughout Europe and Asia. The Company distributes products under the Taylor, Salter, Springfield, HoMedics, Rabbit, Houdini, Metrokane, EatSmart, TravelWise, Chef’n, Vibe, d.stil, RBT, and private label brand names. The Company is majority owned by Taylor Parent, LLC (“Parent Company”).

Taylor Finance, LLC is a wholly-owned subsidiary of Taylor Holdco, LLC (“Holdco”). Taylor Precision Products, Inc. is a wholly owned subsidiary of Taylor Finance, LLC.

On June 8, 2012, Taylor Acquisition, Inc. was formed and subsequently acquired the net assets of Taylor North American Scales from FKA Distributing Co. d/b/a HoMedics, Inc. Taylor North American Scales was a combination of Taylor Precision Products, the HoMedics USA bath scale business segment, the HoMedics Group Canada measurement products business segment, and Springfield Acquisition Co. LLC intellectual property. Upon formation, Taylor Acquisition, Inc. changed its name to Taylor Precision Products, Inc.

The Company acquired the assets of Health Tools LLC on November 8, 2013 and Metrokane Inc. on November 12, 2013. Health Tools LLC sources and sells precision kitchen and bathroom scales to customers based in the United States and Canada under the “EatSmart” brand name. Metrokane Inc. designs, sources, markets, and distributes high quality wine corkscrews, barware, and wine accessories under the “Rabbit,” “RBT,” “Houdini,” and “Metrokane” brand names.

On February 28, 2014, Taylor Precision Products, Inc. terminated operations at a factory near Shanghai, China and began the process of selling the related assets. The operations were not significant to the Company and the sale was completed in August 2014.

The Company acquired the stock of Chef’n Corporation (“Chef’n”) on December 23, 2014 in a cash and stock transaction. Chef’n designs, sources, markets, and distributes worldwide innovative kitchen tools and hydration products under the Chef’n, Vibe, d.stil and private label brand names.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Taylor Holdco, LLC and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

We have prepared the accompanying consolidated financial statements in accordance with generally accepted accounting principles in the United States (“GAAP”).

Use of Estimates

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

Taylor Holdco, LLC and Subsidiaries
Notes to Consolidated Financial Statements
(In Thousands)

Cash and Cash Equivalents

The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. For the purpose of the consolidated statement of cash flows, the Company considers all deposits with a maturity of three months or less to be cash equivalents.

Trade Receivables

Collateral or other security is generally not required on trade receivables. The Company monitors the credit quality of its customers, and an allowance for doubtful accounts is maintained at a level management believes is sufficient to cover potential credit losses based on historical bad debt write-off experience and specific risks identified for uncollected accounts. Trade receivables are charged off against the allowance when it is determined that the receivable will not be collected. The allowance for doubtful accounts as of March 31, 2017, 2016, and 2015 was \$151, \$282, and \$94 respectively. Trade receivables are presented net of reserves for estimated customer returns and allowances, at net realizable value.

Customer Concentration

One customer accounted for 24% of sales during the fiscal year ended March 31, 2017. As of March 31, 2017, one customer accounted for 38% of accounts receivable.

Two customers accounted for 35% of sales during the fiscal year ended March 31, 2016. As of March 31, 2016, two customers accounted for 46% of accounts receivable.

Two customers accounted for 24% of sales during the fiscal year ended March 31, 2015. As of March 31, 2015, one customer accounted for 38% of accounts receivable.

Inventories

Inventories consist primarily of finished goods and are valued at the lower of cost or market. Cost is determined using the first-in, first-out method. Certain slow-moving items have been reduced to net realizable value based on recent sales activity and management's best estimate of future transactions. The reserve to reduce inventories to net realizable value as of March 31, 2017, 2016, and 2015 was \$329, \$719, and \$754, respectively.

Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over estimated useful lives, which range from two to five years. Upon sale or retirement of property and equipment, the cost and accumulated depreciation are eliminated from the respective accounts, and a gain or loss is recorded. Repair and maintenance costs are expensed as incurred. Expenditures for renewals and betterments are capitalized and depreciated over their estimated useful lives. Assets classified as held for sale are stated at the lower of carrying amount or estimated fair value less cost to sell. Leasehold improvements are depreciated over the lesser of the expected lease term or estimated useful life.

Long-Lived Assets

Long-lived assets and identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable.

Taylor Holdco, LLC and Subsidiaries
Notes to Consolidated Financial Statements
(In Thousands)

Recoverability of long-lived assets or groups of assets is assessed based on a comparison of the carrying amount to the estimated, future net cash flows. If estimated future undiscounted net cash flows are less than the carrying amount, the asset is considered impaired and expense is recorded at an amount required to reduce the carrying amount to fair value.

Intangible assets with finite lives are generally amortized using the straight-line method over their estimated economic useful lives ranging from 5 to 15 years.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for under the acquisition method of accounting. Goodwill is not amortized. We test goodwill annually as of March 31 at the reporting unit level. We have determined the Company has one reporting unit. At each impairment testing date, we perform a quantitative assessment of goodwill and compare the fair value of the reporting unit to its carrying amount. To the extent the carrying amount exceeds its fair value, a second step would be performed to compute the amount of impairment as the difference between the implied fair value of goodwill and the carrying value.

The second impairment assessment, if required, involves allocating the reporting unit's fair value to all of its recognized and unrecognized assets and liabilities in order to determine the implied fair value of the reporting unit's goodwill as of the assessment date. The implied fair value of the reporting unit's goodwill is then compared to the carrying amount of goodwill to quantify an impairment charge as of the assessment date. For the years ended March 31, 2017, 2016 and 2015, based on the results of our quantitative analyses, we determined there was no impairment of goodwill.

Indefinite-lived intangible assets are reviewed for impairment annually as of March 31 and whenever events or circumstances indicate that the carrying value may not be recoverable. The Company recognized impairment of certain indefinite-lived intangible assets during the fiscal years ended March 31, 2017, 2016, and 2015. See Note 6.

Income Taxes

The Company's subsidiary, Taylor Precision Products, Inc., is a corporation formed under Subchapter C of the Internal Revenue Code and is subject to corporate taxes. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax expense is measured by the change in the deferred tax assets or liabilities during the year.

The Company recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Management believes the Company has no unrecognized tax benefits. The Company's policy for recording interest and penalties associated with examinations by tax authorities is to record such items as a component of income tax expense.

The Company and its subsidiaries' tax years ending in 2012 through 2016 remain open to examination by federal and state tax authorities. The Company files state income tax returns in multiple jurisdictions, each with unique laws regarding statutes of limitations.

Taylor Holdco, LLC and Subsidiaries
Notes to Consolidated Financial Statements
(In Thousands)

Fair Value Measurements

The Company follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 820-10, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the most advantageous market for the asset or liability in an orderly transaction. Fair value measurement is based on a hierarchy of observable or unobservable inputs. The standard describes three levels of inputs that may be used to measure fair value.

- Level 1 — Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;
- Level 2 — Inputs to the valuation methodology other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and the fair value can be determined through the use of models or other valuation methodologies; and
- Level 3 — Inputs to valuation methodology are unobservable inputs in situations where there is little or no market activity of the asset and liability and the reporting entity makes estimates or assumptions relating to the pricing of the asset or liability including assumptions regarding risk.

The Company followed purchase accounting conventions as prescribed by ASC 805, *Business Combinations*, to establish the opening balance sheet of the acquired entities for all its acquisitions. The fair value measurement methods used to estimate the fair value of the assets acquired and liabilities assumed at the acquisition date utilized a number of significant unobservable inputs of Level 3 assumptions. These assumptions included, among other things, projections of future operating results, the implied fair value of assets using an income approach by preparing a discounted cash flow analysis, and other subjective assumptions.

The carrying values of financial instruments such as cash, accounts receivable, accounts payable, and accrued expenses are reasonable estimates of their fair value because of the short maturity of these items. The Company believes that the current carrying amount of its long-term debt approximates fair value because the interest rates on these instruments are subject to change with, or approximate, market interest rates.

Revenue Recognition

The Company recognizes revenues when the following criteria are met: persuasive evidence of an agreement exists, upon the later of shipment of product to the customer or when title to the product transfers to the customer per the terms of the sales contract, the Company’s price to the buyer is fixed and determinable, and collectability is reasonably assured. Revenues are recorded net of estimated sales returns and allowances.

Customer Rebates and Consumer Advertising

The Company participates in cooperative advertising and other rebate programs with its customers, including volume rebates. During the fiscal years ended March 31, 2017, 2016, and 2015, \$10,881, \$9,737, and \$8,843 was incurred under these programs, respectively. These amounts are reflected as a reduction to net sales. The Company expenses all consumer advertising costs as incurred.

Taylor Holdco, LLC and Subsidiaries
Notes to Consolidated Financial Statements
(In Thousands)

As of March 31, 2017, 2016, and 2015, the reserves for cooperative advertising and other rebates were \$810, \$1,092, and \$1,354 respectively, which are included in net receivables. Reserves are estimated using historical experience and terms of existing arrangements with customers.

Merchandise Returns

For the fiscal years ended March 31, 2017, 2016, and 2015, sales returns under merchandise return programs were \$4,815, \$4,561, and \$4,379, respectively. Sales returns are reflected in net sales. Reserves for estimated merchandise returns as of March 31, 2017, 2016, and 2015 included in net receivables were \$1,485, \$1,098, and \$1,542, respectively, and are estimated using historical experience.

Shipping and Handling Costs

Shipping and handling costs of \$6,250, \$6,692, and \$6,033 are classified as selling, general, and administrative expenses in the consolidated statements of operations for the fiscal years ended March 31, 2017, 2016, and 2015, respectively. Amounts charged to customers for recovery of shipping and handling costs are included in net sales.

Research and Development

Research and development expenses consist primarily of outside contract costs incurred in the development or testing of prototype products. These costs are expensed as incurred in selling, general and administrative expenses in the consolidated statements of operations.

Employee Benefits

The Company sponsors a 401(k) defined contribution savings plan for its U.S. employees. The Company provides a matching contribution up to a maximum of 3% of a participant's eligible compensation, and employees become immediately vested. The Company made employer contributions of \$198, \$145, and \$102 to the plan for the fiscal years ended March 31, 2017, 2016, and 2015, respectively.

Recently Issued Accounting Standards

In April 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs be presented as a direct deduction from the carrying amount of the related debt liability, consistent with the presentation of debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as deferred charge assets, separate from the related debt liability. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs. The Company has adopted the provisions of this ASU and retrospectively applied to all fiscal year ends included in the consolidated financial statements.

On August 27, 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern*, which added Subtopic 205-40 to the Accounting Standards Codification ("ASC") (the "Subtopic"). This Subtopic requires management to determine whether substantial doubt exists concerning the reporting entity's ability to continue as a going concern, in which case certain disclosures will be required. The Subtopic affects financial statement presentation, but not methods of accounting, and is effective on a prospective basis for annual periods ending after December 2016 and each reporting period thereafter, although early adoption is permitted. The Company has adopted the Subtopic for the year ended March 31, 2017 and identified no matters raising substantial doubt regarding the Company's ability to continue as a going concern

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In May 2014, the FASB issued new authoritative accounting guidance on revenue from contracts with customers. The new standard provides new criteria for recognizing revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. It also requires expanded disclosures to provide greater insight into both revenue that has been recognized and revenue that is expected to be recognized in the future from existing contracts. Quantitative and qualitative information will be provided about the significant judgments and changes in those judgments that management made to determine the revenue that is recorded. In August 2015, the FASB changed the effective date of the new revenue recognition accounting guidance for private companies to be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted for annual periods beginning after the original effective date of December 15, 2016. The Company is in the process of reviewing customer contracts and evaluating the impact of the new standard on the consolidated financial statements and the timing of the adoption.

In November 2015, the FASB issued new authoritative accounting guidance on simplifying the presentation of deferred income taxes, which requires that deferred income tax liabilities and assets be presented as a net non-current deferred tax asset or liability by jurisdiction on the balance sheet. The current requirement that deferred tax assets and liabilities of a tax-paying component of an entity be offset and presented as a single amount is unchanged. This guidance is effective for periods beginning after December 15, 2017; however, earlier adoption is permitted for all entities for any interim or annual statements that have not been issued. The Company is in the process of evaluating the impact of the new standard on the consolidated financial statements and the timing of adoption.

In February 2016, the FASB issued new authoritative accounting guidance on leases which increases transparency and comparability for lease transactions. The new standard brings substantially all leases on the balance sheets for operating lease arrangements with lease terms greater than 12 months for lessees. This update will require a modified retrospective application, which includes a number of optional practical expedients related to the identification and classification of leases commenced before the effective date. The new standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is in the process of assessing the impact of the new standard on the consolidated financial statements and the timing of adoption.

In July 2015, the FASB issued Accounting Standards Update (“ASU”) 2015-11, *Simplifying the Measurement of Inventory*. ASU 2015-11 requires that an entity measure inventory at the lower of cost and net realizable value. This ASU does not apply to inventory measured using the last-in, first-out method. ASU 2015-11 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is in the process of assessing the impact of the new standard on the consolidated financial statements upon adoption.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. ASU 2017-04 simplifies how entities assess goodwill for impairment by eliminating Step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The ASU is effective for the Company’s fiscal year ended March 31, 2023. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is in the process of assessing the impact of the new standard on the consolidated financial statements upon adoption.

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3. Acquisitions***Acquisition of Chef'n Corporation***

During December 2014, the Company acquired the stock of Chef'n Corporation ("Chef'n") for \$66,656. The Company acquired the business to continue to expand the product offerings and brands to the retail trade and expansion of the Company's internet channel. The following table summarizes the allocation of the consideration transferred to assets acquired and liabilities assumed:

Accounts receivable	\$ 11,597
Inventories	4,976
Property, plant and equipment	3,974
Goodwill	26,225
Intangible assets	40,900
Other assets	833
Total Assets	88,505
Accounts payable	6,145
Accrued expenses and other liabilities	1,131
Deferred tax liabilities	14,573
Total Liabilities	21,849
Total purchase price	66,656
Less: Contingent consideration	(6,540)
Less: Stock Issued to former owners	(10,082)
Total Cash Paid for Acquisition	<u>\$ 50,034</u>

Consideration paid for the Chef'n acquisition includes an estimate of contingent consideration payable in cash to the former owners should certain gross profit targets be met in the future. The fair value of the contingent consideration was determined using Level 3 inputs. At the acquisition date, the Company estimated the fair value was \$6,540, determined using the probability of potential payout. In addition, the former owners of Chef'n were granted 5,041 shares of Class C units of the Parent Company which approximated a share price of \$2 per share for a total consideration of \$10,082. The units issued of the Parent Company are reflected as contributed capital within the statements of changes in member's capital and cash flows.

As of March 31, 2016 and 2017, the Company revalued the contingent consideration payable to \$7,663 and \$8,309, respectively. The fair value of the contingent consideration is determined based on a discounted cash flow analysis using market and operating performance projections available at the balance sheet dates, a risk free interest rate of approximately 1%, and discounted over the remaining months until expiration of the agreement on December 23, 2017. For the years ended March 31, 2016 and 2017, the change in estimated fair value of \$1,123 and \$646, respectively, is presented as change in fair value of contingent consideration on the statement of operations. The contingent consideration payable is due within 60 days of the expiration of the agreement.

The Company attributes the goodwill arising from the acquisition to its ability to scale operations, expand product offerings, and increase market share. Goodwill recorded in connection with the acquisition is not deductible for tax purposes.

Other than goodwill, the acquired intangible assets primarily consist of trade names, technology, non-compete agreements, and customer relationships. The weighted-average amortization period for the acquired finite-lived

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intangible assets is 13 years. The fair values of the acquired intangible assets and goodwill were determined using a combination of the income, market, and cost approaches, using Level 3 inputs.

In connection with the acquisition of Chef'n, certain expenses were incurred in completing the transaction. Expenses of \$2,444 incurred were primarily related to legal and accounting fees, agent fees, and closing fees paid to the parties involved in the transaction. These costs are reflected in the consolidated statements of operations as acquisition-related expenses.

Prior Period Acquisition of Heath Tools, LLC and Metrokane, Inc.

During November 2013, the Company acquired the net assets of Heath Tools, LLC ("Heath Tools") and Metrokane, Inc. ("Metrokane") for \$21,771 and \$74,866, respectively. The Company acquired the businesses to continue to expand the product offerings and brands to the retail trade and expansion of the Company's internet channel. Consideration paid for the Metrokane acquisition included a \$1,000 deferred fee, payable in installments over the 15 month period post-acquisition, which was paid in full with no amount remaining payable as of March 31, 2015. Consideration paid for the Heath Tools acquisition included an estimate of contingent consideration payable to the former owners, should certain EBITDA targets be met. The fair value of the contingent consideration was determined using Level 3 inputs. At the acquisition date, the Company estimated the fair value was \$5,890, determined using the probability of potential payout. During the year ended March 31, 2015, contingent consideration of \$715 was paid and \$4,390 was reversed into income and recorded as a change in fair value of contingent consideration in the consolidated statements of operations.

4. Related-Party Transactions

The management fee incurred under the arrangement with the majority unitholder of the Parent Company was \$710, \$500, and \$500 for the fiscal years ended March 31, 2017, 2016, and 2015, respectively, and is included within selling, general, and administrative expenses in the consolidated statements of operations.

5. Property and Equipment

Property and equipment at March 31, 2017, 2016, and 2015 consist of the following:

<i>March 31,</i>	<u>2017</u>	<u>2016</u>	<u>2015</u>	Useful Life in Years
Machinery, molds, and equipment	\$ 3,827	\$ 7,454	\$ 8,968	2-3
Computers, furniture and fixtures	2,917	1,715	2,627	2-5
Leasehold improvements	758	758	1,325	Lease life
Construction in process	352	457	385	
Total property and equipment	<u>7,854</u>	<u>10,384</u>	<u>13,305</u>	
Less accumulated depreciation	<u>(4,872)</u>	<u>(7,609)</u>	<u>(7,833)</u>	
Total Property and Equipment, net	<u>\$ 2,982</u>	<u>\$ 2,775</u>	<u>\$ 5,472</u>	

Change in accounting estimate

During the fiscal year ended March 31, 2016, the Company implemented a change in estimate in connection with the economic useful lives of certain mold and tooling equipment assets. In prior years, the assets were

Taylor Holdco, LLC and Subsidiaries
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depreciated over their estimated economic useful lives of ten years. However, due to the forecasted remaining lifecycle of the product produced by the molds and tooling equipment, the estimated economic useful lives of the assets were reduced to three years. The change in estimate resulted in additional depreciation of \$2,374 for the fiscal year ended March 31, 2016.

Depreciation expense totaled approximately \$1,496, \$3,905, and \$780 for the fiscal years ended March 31, 2017, 2016, and 2015, respectively.

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6. Goodwill and Other Intangible Assets

The changes in carrying amounts of goodwill during the years ended March 31, 2017, 2016, and 2015 are as follows:

<i>March 31,</i>	Goodwill	Accumulated Impairment Losses	Balance
Balance, March 31, 2014	\$44,394	\$ —	\$44,394
Acquisition	26,225	—	26,225
Balance, March 31, 2015	<u>70,619</u>	<u>—</u>	<u>70,619</u>
Balance, March 31, 2016	70,619	—	70,619
Balance, March 31, 2017	<u>\$70,619</u>	<u>\$ —</u>	<u>\$70,619</u>

At March 31, 2017, 2016, and 2015, the net book value of intangible assets is as follows:

<i>March 31, 2017</i>	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Average Life in Years
Manufacturer representative relationships	\$ 41,700	\$ (12,549)	\$ 29,151	15
Technology	26,786	(11,268)	15,518	10
Customer relationships	42,000	(7,997)	34,003	15
Noncompete agreement	14,400	(12,909)	1,491	5
Patents	353	(50)	303	15
Order backlog	230	(230)	—	
Total amortizable intangible assets	<u>125,469</u>	<u>(45,003)</u>	<u>80,466</u>	
Indefinite-lived trade names	64,290	—	64,290	
Total intangible assets	<u>\$189,759</u>	<u>\$ (45,003)</u>	<u>\$ 144,756</u>	

<i>March 31, 2016</i>	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Average Life in Years
Manufacturer representative relationships	\$ 41,700	\$ (9,769)	\$ 31,931	15
Technology	26,786	(8,589)	18,197	10
Customer relationships	42,000	(5,197)	36,803	15
Noncompete agreement	14,400	(9,536)	4,864	5
Patents	294	(20)	274	15
Order backlog	230	(230)	—	
Total amortizable intangible assets	<u>125,410</u>	<u>(33,341)</u>	<u>92,069</u>	
Indefinite-lived trade names	66,390	—	66,390	
Total intangible assets	<u>\$191,800</u>	<u>\$ (33,341)</u>	<u>\$ 158,459</u>	

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<i>March 31, 2015</i>	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Average Life in Years
Manufacturer representative relationships	\$ 41,700	\$ (6,988)	\$ 34,712	15
Technology	26,786	(6,084)	20,702	10
Customer relationships	42,000	(2,303)	39,697	15
Noncompete agreement	14,400	(6,093)	8,307	5
Order backlog	230	(230)	—	
Total amortizable intangible assets	<u>125,116</u>	<u>(21,698)</u>	<u>103,418</u>	
Indefinite-lived trade names	<u>70,690</u>	<u>—</u>	<u>70,690</u>	
Total intangible assets	<u>\$195,806</u>	<u>\$ (21,698)</u>	<u>\$ 174,108</u>	

During the fiscal year ended March 31, 2017, the Company evaluated its indefinite-lived trade names for impairment. The fair value of the Rabbit, Houdini, and Metrokane trade names were lower than the carrying values and, therefore, the Company recognized impairment charges of \$800, \$1,200, and \$100 related to these trade names, respectively.

Lower than expected sales from these brands led to the decrease in fair value. The total impairment charge of \$2,100 is included in income from operations on the consolidated statements of operations. The fair values were determined using an income approach and Level 3 inputs.

During the fiscal year ended March 31, 2016, the Company evaluated its indefinite-lived trade names for impairment. The fair value of the Houdini and Metrokane trade names were lower than the carrying values and, therefore, the Company recognized impairment charges of \$700 and \$3,600 related to these trade names, respectively.

Lower than expected sales from these brands led to the decrease in fair value. The total impairment charge of \$4,300 is included in income from operations on the consolidated statements of operations. The fair values were determined using an income approach and Level 3 inputs.

During the fiscal year ended March 31, 2015, the Company evaluated its indefinite-lived trade names for impairment. The fair value of the Rabbit, Houdini, and Metrokane trade names were lower than the carrying values and, therefore, the Company recognized impairment charges of \$5,600, \$3,500, and \$100 related to these trade names, respectively. As a result of impairment recorded to the Rabbit, Houdini, and Metrokane trade names, the Company also evaluated the technology definite-lived intangible assets for impairment. The fair value of the technology definite-lived intangible asset was lower than the carrying value and, therefore, the Company recognized an impairment charge of \$1,654.

Lower than expected sales from these brands led to the decrease in fair value. The total impairment charge of \$10,854 is included in income from operations on the consolidated statements of operations. The fair values were determined using an income approach and Level 3 inputs.

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Amortization expense was \$11,663, \$11,641, and \$9,442 for the fiscal years ended March 31, 2017, 2016, and 2015, respectively, and is included in selling, general, and administrative expenses in the consolidated statements of operations. A summary of estimated future amortization of intangible assets for the next five fiscal years and thereafter is as follows:

<u>Year ending March 31,</u>	
2018	\$ 9,641
2019	8,407
2020	8,279
2021	8,279
2022	8,279
Thereafter	<u>37,581</u>
Total	<u>\$80,466</u>

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Taylor Holdco, LLC and Subsidiaries
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7. Debt

Total borrowings as of March 31, 2017, 2016, and 2015 consisted of the following:

<i>March 31,</i>	2017	2016	2015
Senior debt	\$133,772	\$137,738	\$152,287
Subordinated debt	51,700	51,700	51,700
Total	185,472	189,438	203,987
Less current portion	(3,586)	(614)	(2,066)
Less unamortized debt issuance costs	(1,780)	(2,818)	(3,861)
Long-term debt, net	<u>\$180,106</u>	<u>\$186,006</u>	<u>\$198,060</u>

In December 2014, the Company amended its Senior Credit Agreement (“Credit Agreement”) dated June 8, 2012, which was previously amended in November 2013. The Credit Agreement consists of a revolving line of credit (the “Revolver”), which was subsequently increased from \$15,000 to \$20,000. As of March 31, 2017, 2016, and 2015, there were no borrowings outstanding on the Revolver. In addition, the original agreement dated June 8, 2012 provided for \$66,600 in term debt, of which \$54,780 was outstanding at the time of amendment (“Senior Debt”). The first amendment provided for an increase in the term loan of \$70,000, for a total of \$124,780. The second amendment provided for supplemental term loans of \$41,310.

The Company is required to make quarterly principal payments, adjusted for any prepayments, on the Senior Debt and the supplemental term loan in the amount of 0.625% of outstanding principal for quarters in fiscal year 2016, and 1.25% of outstanding principal for quarters thereafter, with the remainder due on November 6, 2018, the maturity date. The Company may make prepayments as allowed under the Credit Agreement, which are applied against future principal installments. At the Company’s option, borrowings under the Revolver and Senior Debt are based on London InterBank Offered Rate (LIBOR) plus 4.5% or the base rate, as defined by the terms of the agreement, with a floor of 5.5%. At March 31, 2017, 2016, and 2015, the interest rate for the Senior Debt was based on LIBOR and stated at 5.5%. At March 31, 2017, 2016, and 2015, interest payable of \$1,275, \$1,294, and \$464, respectively, was outstanding and is included within accrued liabilities on the consolidated balance sheets.

In December 2014, the Company amended its Subordinated Credit Agreement (“Subordinated Debt”) dated June 8, 2012, which was previously amended in November 2013. The original agreement dated June 8, 2012 provided \$25,600 in term debt which was outstanding at the time of amendment. The first amendment provided for an increase in the Subordinated Debt of \$19,200, for a total of \$44,800, with the ability to draw additional notes under the amended agreement of up to \$22,100. The second amendment provided for an increase in the Subordinated Debt of \$6,900, for a total of \$51,700.

Subordinated Debt under the amended agreements matures on May 6, 2019. No principal payments are required until maturity. The Subordinated Debt carries cash interest of 13% including, at the option of the Company, payment-in-kind interest of 2% payable quarterly. At March 31, 2017, 2016, and 2015, interest payable of \$0, \$1,680, and \$0, respectively was outstanding and is included within accrued liabilities on the consolidated balance sheets.

The Company capitalized \$232 and \$2,522 of additional debt fees in December 2014 and November 2013, respectively, associated with the amended Senior Credit and amended Subordinated Credit Agreements, which are being amortized on a straight-line basis through the maturity date of the agreements, which does not materially differ from the effective interest rate method.

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The Credit Agreement and Subordinated Debt agreement contain restrictive covenants, including, but not limited to, limitations on capital expenditures and require maintenance of minimum leverage and fixed charge coverage ratios. The outstanding debt is collateralized by substantially all of the Company's assets. The Company was in compliance with all covenants as of March 31, 2017.

Aggregate maturities of long-term debt are as follows:

<i>Year ending March 31,</i>	
2018	\$ 3,586
2019	130,186
2020	51,700
Total	<u>\$ 185,472</u>

8. Income Taxes

The income tax benefit (expense) consists of the following:

<i>Year ended March 31,</i>	2017	2016	2015
Current Income Tax Expense			
Federal	\$ (584)	\$(1,519)	\$ (2)
State and local	(12)	(133)	(329)
Total Current Income Tax Expense	<u>(596)</u>	<u>(1,652)</u>	<u>(331)</u>
Deferred Income Tax (Expense) Benefit			
Federal	1,062	3,581	2,950
State	156	(277)	420
Total Deferred Income Tax Benefit	<u>1,218</u>	<u>3,304</u>	<u>3,370</u>
Total Income Tax Benefit	<u>\$ 622</u>	<u>\$ 1,652</u>	<u>\$3,039</u>

Taylor Holdco, LLC and Subsidiaries
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Significant components of the Company's deferred tax assets (liabilities) at March 31, 2017, 2016, and 2015 are as follows:

	2017	2016	2015
Deferred Tax Assets			
Transaction costs	\$ 2,096	\$ 2,167	\$ 2,427
Inventory capitalization	614	743	388
Net operating loss carryforwards	290	237	306
Reserves and accrued liabilities	2,154	1,790	961
Preferred interest	4,438	3,269	2,378
Total Deferred Tax Assets	<u>9,592</u>	<u>8,206</u>	<u>6,460</u>
Deferred Tax Liabilities			
Prepaid expenses	158	69	227
Depreciation and amortization	14,495	14,371	15,816
Other	—	45	—
Total Deferred Tax Liabilities	<u>14,653</u>	<u>14,485</u>	<u>16,043</u>
Total Net Deferred Tax Liabilities	<u>\$ 5,061</u>	<u>\$ 6,279</u>	<u>\$ 9,583</u>

The difference between the financial statement benefit for income taxes and the amount that would result from applying the statutory federal income tax rate to the Company's loss before income taxes is principally related to state income taxes and the non-deductible portion of meals and entertainment expenses.

9. Mandatorily Redeemable Preferred Units

The Company has authorized and issued 12,000 Mandatorily Redeemable Preferred Units ("Redeemable Preferred Units"). Each Redeemable Preferred Unit accrues an annual yield of 15% on the sum of (i) the unreturned capital value, which was \$12 million upon formation of the Company, plus (ii) the unpaid yield for all quarterly periods ("Liquidation Value").

The Company is obligated to purchase all of the Redeemable Preferred Units by June 8, 2018 ("Mandatory Redemption Date"). At the Mandatory Redemption Date the Liquidation Value of Redeemable Preferred Units will approximate \$29,000. The Company may also purchase the Redeemable Preferred Units prior to the Mandatory Redemption Date on or any time after the second anniversary of the closing date, which was June 8, 2012, or upon a change in control of the Company, at a redemption price equal to the Liquidation Value at the date of redemption payable in cash.

The Redeemable Preferred Units are accounted for under ASC Topic 480-10, *Accounting for Redeemable Equity Instruments*. As of March 31, 2017, 2016, and 2015, there are 12,000 Redeemable Preferred Units outstanding with a Liquidation Value of \$24,374, \$21,036, and \$18,156, respectively, presented as mandatorily redeemable preferred units as a noncurrent liability on the consolidated balance sheets.

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(In Thousands)

10. Commitments and Contingencies

The Company leases buildings and equipment under various operating leases expiring through 2022. Total rent expense under these operating leases was \$828, \$1,061, and \$777 for the fiscal years ended March 31, 2017, 2016, and 2015, respectively. Future lease payments under all operating leases in effect at March 31, 2017, that have initial or remaining lease terms in excess of one year are as follows:

<i>Year ending March 31,</i>	
2018	\$1,040
2019	985
2020	590
2021	206
2022	116
Total	<u>\$2,937</u>

Periodically, the Company is subject to lawsuits and other claims. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. Based on the facts and circumstances of such matters and, where necessary, advice of legal counsel, no matters currently pending will have a material impact on the Company's consolidated financial position or results of operations.

11. Subsequent Events

Subsequent events are events or transactions that occur after the consolidated balance sheet date but before the consolidated financial statements are issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before the consolidated financial statements are available to be issued.

On December 1, 2017, the Company acquired 100% of the outstanding shares of PlanetBox, LLC, a privately owned company that designs, markets, and distributes high quality food containment solutions, focused primarily on the school lunch market. The acquisition included a cash payment of \$9 million plus an additional \$4 million in potential earn-out payments based on future performance. The identifiable assets included in the purchase primarily relate to inventory, with the majority of the purchase price expected to be allocated to intangible assets. As of December 23, 2017, the Company had not completed the allocation of the purchase price to the net assets acquired. The purchase price allocation will be completed within twelve months of the date of acquisition.

On December 22, 2017, the Company entered into an agreement with Lifetime Brands (NasdaqGS:LCUT), a leading global provider of branded kitchenware, tableware and other products used in the home, under which Lifetime will acquire the Company in a cash and stock transaction. Based on the closing price of Lifetime common stock on December, 21, 2017, the transaction values the Company at approximately \$313 million. Lifetime will issue to the Company's equity holders at closing newly-issued shares representing 27 percent of Lifetime Brands common stock and will also pay an agreed amount of cash, which is expected to be used to repay preferred equity holders, fund other transaction related obligations, and repay certain outstanding debt. The transaction is expected to close in the first half of calendar 2018.

The Company has evaluated subsequent events through December 23, 2017, which is the date the consolidated financial statements are available to be issued.

Taylor Holdco, LLC and Subsidiaries

Condensed Consolidated Financial Statements (unaudited)

As of December 31, 2017 and for the Nine Months Ended December 31, 2017 and 2016

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Taylor Holdco, LLC and Subsidiaries
Condensed Consolidated Balance Sheet (unaudited)
(In Thousands)

<i>December 31,</i>	2017
Assets	
Current Assets	
Cash and cash equivalents	\$ 7,652
Receivables, net	27,505
Inventories, net	29,108
Current deferred income taxes	2,066
Prepaid expenses and other current assets	779
Total Current Assets	67,110
Noncurrent Assets	
Property and equipment, net	3,010
Goodwill	75,439
Intangible assets, net	142,431
Other assets	225
Total Noncurrent Assets	221,105
Total Assets	\$ 288,215

See accompanying notes to the consolidated financial statements.

Taylor Holdco, LLC and Subsidiaries
Condensed Consolidated Balance Sheet (unaudited)
(In Thousands)

<i>December 31,</i>	2017
Liabilities and Member's Capital	
Current Liabilities	
Accounts payable	\$ 13,851
Accrued liabilities	6,950
Current portion of contingent consideration	8,352
Mandatorily redeemable preferred units	27,220
Current portion of long-term debt	128,459
Total Current Liabilities	184,832
Long-Term Liabilities	
Contingent consideration	1,795
Deferred income taxes	4,760
Long-term debt, net of current portion and debt issuance costs	50,698
Total Long-Term Liabilities	57,253
Total Liabilities	242,085
Commitments and Contingencies (Note 10)	
Member's Capital	46,130
Total Liabilities and Member's Capital	\$ 288,215

See accompanying notes to the consolidated financial statements.

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Taylor Holdco, LLC and Subsidiaries
Condensed Consolidated Statements of Operations (unaudited)
(In Thousands)

<i>Nine months ended December 31,</i>	<u>2017</u>	<u>2016</u>
Net Sales	\$123,159	\$128,619
Cost of Goods Sold	71,867	72,521
Gross Profit	51,292	56,098
Operating Expenses		
Selling, general, and administrative expenses	38,511	40,871
Change in fair value of contingent consideration	63	—
Total operating expenses	38,574	40,871
Income from operations	12,718	15,227
Other Expense		
Interest expense	(11,576)	(11,743)
Redeemable preferred interest	(2,846)	(2,456)
Other, net	(75)	(86)
Total other expense	(14,497)	(14,285)
Income/(Loss) before income tax benefit	(1,779)	942
Income Tax Benefit (Expense)	2,198	(960)
Net Income/(Loss)	\$ 419	\$ (18)

See accompanying notes to the consolidated financial statements.

Taylor Holdco, LLC and Subsidiaries
Condensed Consolidated Statements of Cash Flows (unaudited)
(In Thousands)

<i>Nine Months ended December 31,</i>	2017	2016
Cash Flows From Operating Activities		
Net Income/(Loss)	\$ 419	\$ (18)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	8,913	9,775
Redeemable preferred interest	2,846	2,457
Change in fair value of contingent consideration	63	—
Amortization of debt origination fees	779	778
Deferred income taxes	(2,367)	(283)
Changes in operating assets and liabilities:		
Receivables	(2,679)	(9,793)
Income tax receivable	—	1,176
Inventories	(1,240)	(4,077)
Prepaid expenses and other assets	(17)	(103)
Accounts payable	(2,285)	2,872
Accrued liabilities	1,946	1,270
Net cash provided by operating activities	<u>6,378</u>	<u>4,054</u>
Cash Flows From Investing Activities		
Cash paid for acquisition of business	(9,002)	—
Capital expenditures	(1,321)	(600)
Acquisition of intangible assets	(28)	—
Net cash used in investing activities	<u>(10,351)</u>	<u>(600)</u>
Cash Flows From Financing Activities		
Principal payments of long-term debt	(5,312)	(3,966)
Net cash used in financing activities	<u>(5,312)</u>	<u>(3,966)</u>
Net change in cash and cash equivalents	(9,285)	(512)
Cash and equivalents, beginning of period	16,937	7,270
Cash and equivalents, end of period	<u>\$ 7,652</u>	<u>\$ 6,758</u>
Supplemental Disclosures of Cash Flow Information		
Net cash used during the period for:		
Interest	\$ 11,390	\$13,211

See accompanying notes to the consolidated financial statements.

Taylor Holdco, LLC and Subsidiaries

**Notes to Condensed Consolidated Financial Statements (unaudited)
(In Thousands)**

1. Description of Business

Taylor Holdco, LLC and subsidiaries dba Filament Brands (the “Company”) primarily design, market, and distribute consumer and food service precision measurement products, including kitchen scales, thermometers and timers, bath scales, wine accessories, kitchen tools, food and beverage containers, and select outdoor products to major retailers in the United States, Canada and select distributors throughout Europe and Asia. The Company distributes products under the Taylor, Salter, Springfield, HoMedics, Rabbit, Houdini, Metrokane, EatSmart, TravelWise, Chef’n, Vibe, d.stil, RBT, PlanetBox, and private label brand names. The Company is majority owned by Taylor Parent, LLC (“Parent Company”).

Taylor Finance, LLC is a wholly-owned subsidiary of Taylor Holdco, LLC (“Holdco”). Taylor Precision Products, Inc. is a wholly owned subsidiary of Taylor Finance, LLC.

On June 8, 2012, Taylor Acquisition, Inc. was formed and subsequently acquired the net assets of Taylor North American Scales from FKA Distributing Co. d/b/a HoMedics, Inc. Taylor North American Scales was a combination of Taylor Precision Products, the HoMedics USA bath scale business segment, the HoMedics Group Canada measurement products business segment, and Springfield Acquisition Co. LLC intellectual property. Upon formation, Taylor Acquisition, Inc. changed its name to Taylor Precision Products, Inc.

The Company acquired the assets of Health Tools LLC on November 8, 2013 and Metrokane Inc. on November 12, 2013. Health Tools LLC sources and sells precision kitchen and bathroom scales to customers based in the United States and Canada under the “EatSmart” brand name. Metrokane Inc. designs, sources, markets, and distributes high quality wine corkscrews, barware, and wine accessories under the “Rabbit,” “RBT,” “Houdini,” and “Metrokane” brand names.

The Company acquired the stock of Chef’n Corporation (“Chef’n”) on December 23, 2014 in a cash and stock transaction. Chef’n designs, sources, markets, and distributes worldwide innovative kitchen tools and hydration products under the Chef’n, Vibe, d.stil and private label brand names.

On December 1, 2017, the Company acquired 100% of the outstanding shares of PlanetBox, LLC, a privately owned company that designs, markets, and distributes high quality food containment solutions, focused primarily on the school lunch market. The acquisition included a cash payment plus additional potential earn-out payments based on future performance.

2. Summary of Significant Accounting Policies

Basis for Presentation

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and include the accounts of Taylor Holdco, LLC and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Our unaudited condensed consolidated financial statements reflect all adjustments, which only include normal recurring adjustments, and are in the opinion of management, necessary for a fair statement of the Company’s financial position, results of operations and cash flows for the interim periods and are not necessarily indicative of results to be expected for the full fiscal year or for any other future annual or interim periods. The unaudited condensed consolidated financial statements should be read in conjunction with the audited condensed consolidated financial statements and notes thereto for the fiscal year ended March 31, 2017.

Taylor Holdco, LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
(In Thousands)

Use of Estimates

The preparation of Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Trade Receivables

Collateral or other security is generally not required on trade receivables. The Company monitors the credit quality of its customers, and an allowance for doubtful accounts is maintained at a level management believes is sufficient to cover potential credit losses based on historical bad debt write-off experience and specific risks identified for uncollected accounts. Trade receivables are charged off against the allowance when it is determined that the receivable will not be collected. The allowance for doubtful accounts as of December 31, 2017 was \$333. Trade receivables are presented net of reserves for estimated customer returns and allowances, at net realizable value.

Customer Concentration

One customer accounted for 21% of sales during the nine months ended December 31, 2017. As of December 31, 2017, one customer accounted for 36% of accounts receivable.

One customer accounted for 29% of sales during the nine months ended December 31, 2016.

Inventories

Inventories consist primarily of finished goods and are valued at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method. Certain slow-moving items have been reduced to net realizable value based on recent sales activity and management's best estimate of future transactions. The reserve to reduce inventories to net realizable value as of December 31, 2017 was \$375.

Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over estimated useful lives, which range from two to five years. Upon sale or retirement of property and equipment, the cost and accumulated depreciation are eliminated from the respective accounts, and a gain or loss is recorded. Normal repair and maintenance costs are expensed as incurred. Expenditures for renewals and betterments are capitalized and depreciated over their estimated

Taylor Holdco, LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
(In Thousands)

useful lives. Assets classified as held for sale are stated at the lower of carrying amount or estimated fair value less cost to sell. Leasehold improvements are depreciated over the lesser of the expected lease term or estimated useful life.

Long-Lived Assets

Long-lived assets and identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Recoverability of long-lived assets or groups of assets is assessed based on a comparison of the carrying amount to the estimated, future net cash flows. If estimated future undiscounted net cash flows are less than the carrying amount, the asset is considered impaired and expense is recorded at an amount required to reduce the carrying amount to fair value.

Intangible assets with finite lives are generally amortized using the straight-line method over their estimated economic useful lives ranging from 5 to 15 years.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for under the acquisition method of accounting. Goodwill is not amortized. We test goodwill annually as of March 31 at the reporting unit level. We have determined the Company has one reporting unit. At each impairment testing date, we perform a quantitative assessment of goodwill and compare the fair value of the reporting unit to its carrying amount. To the extent the carrying amount exceeds its fair value, a second step would be performed to compute the amount of impairment as the difference between the implied fair value of goodwill and the carrying value.

The second impairment assessment, if required, involves allocating the reporting unit's fair value to all of its recognized and unrecognized assets and liabilities in order to determine the implied fair value of the reporting unit's goodwill as of the assessment date. The implied fair value of the reporting unit's goodwill is then compared to the carrying amount of goodwill to quantify an impairment charge as of the assessment date. There are no circumstances or events that have occurred during the period which would indicate goodwill is impaired as of December 31, 2017.

Indefinite-lived intangible assets are reviewed for impairment annually as of March 31 and whenever events or circumstances indicate that the carrying value may not be recoverable. There are no circumstances or events that have occurred during the period which would indicate the carrying value of indefinite-lived intangible assets are not recoverable as of December 31, 2017.

Income Taxes

The Company's subsidiary, Taylor Precision Products, Inc., is a corporation formed under Subchapter C of the Internal Revenue Code and is subject to corporate taxes. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax expense is measured by the change in the deferred tax assets or liabilities during the year.

Taylor Holdco, LLC and Subsidiaries

**Notes to Condensed Consolidated Financial Statements (unaudited)
(In Thousands)**

On December 22, 2017, the legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”) was enacted. The Tax Act revises the U.S. corporate income tax by, among other things, lowering the corporate income tax rate from 35% to 21%, adopting a quasi-territorial income tax system and imposing a one-time transition tax on foreign unremitted earnings, and setting limitations on deductibility of certain costs (e.g., interest expense) among other changes.

The Securities and Exchange Commission issued Staff Accounting Bulletin (“SAB”) 118 to provide guidance to companies that have not yet completed their accounting for the Tax Act in the period of enactment. SAB 118 provides that the Company include in its financial statements a reasonable estimate of the impact of the Tax Act on earnings to the extent such estimate has been determined.

As of December 31, 2017, the Company has not completed its assessment of the accounting impact of the tax effects of the Tax Act. The Company recorded a provisional income tax expense of \$1.7 million for the nine months ended December 31, 2017 associated with the re-measurement of the Company’s deferred tax assets and liabilities stemming from the reduction of the U.S. federal income tax rate based on the reasonable estimate guidance provided by SAB 118.

The Company recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Management believes the Company has no unrecognized tax benefits. The Company’s policy for recording interest and penalties associated with examinations by tax authorities is to record such items as a component of income tax expense.

The Company and its subsidiaries’ tax years ending in 2013 through 2017 remain open to examination by federal and state tax authorities. The Company files state income tax returns in multiple jurisdictions, each with unique laws regarding statutes of limitations.

Fair Value Measurements

The Company follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 820-10, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the most advantageous market for the asset or liability in an orderly transaction. Fair value measurement is based on a hierarchy of observable or unobservable inputs. The standard describes three levels of inputs that may be used to measure fair value.

- Level 1 — Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;
- Level 2 — Inputs to the valuation methodology other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and the fair value can be determined through the use of models or other valuation methodologies; and
- Level 3 — Inputs to valuation methodology are unobservable inputs in situations where there is little or no market activity of the asset and liability and the reporting entity makes estimates or assumptions relating to the pricing of the asset or liability including assumptions regarding risk.

Taylor Holdco, LLC and Subsidiaries

**Notes to Condensed Consolidated Financial Statements (unaudited)
(In Thousands)**

The Company followed purchase accounting conventions as prescribed by ASC 805, *Business Combinations*, to establish the opening balance sheet of the acquired entities for all its acquisitions. The fair value measurement methods used to estimate the fair value of the assets acquired and liabilities assumed at the acquisition date utilized a number of significant unobservable inputs of Level 3 assumptions. These assumptions included projections of future operating results, the implied fair value of assets using an income approach by preparing a discounted cash flow analysis, and other subjective assumptions.

The carrying values of financial instruments such as cash, accounts receivable, accounts payable, and accrued expenses are reasonable estimates of their fair value because of the short maturity of these items. The Company believes that the current carrying amount of its long-term debt approximates fair value because the interest rates on these instruments are subject to change with, or approximate, market interest rates.

Revenue Recognition

The Company recognizes revenues when the following criteria are met: persuasive evidence of an agreement exists, upon the later of shipment of product to the customer or when title to the product transfers to the customer per the terms of the sales contract, the Company's price to the buyer is fixed and determinable, and collectability is reasonably assured. Revenues are recorded net of estimated sales returns and allowances.

Customer Rebates and Consumer Advertising

The Company participates in cooperative advertising and other rebate programs with its customers, including volume rebates. During the nine months ended December 31, 2017 and 2016, \$4,078 and \$4,795 was incurred under these programs, respectively. These amounts are reflected as a reduction to net sales. The Company expenses all consumer advertising costs as incurred.

As of December 31, 2017, the reserves for cooperative advertising and other rebates were \$1,041, which are included in net receivables. Reserves are estimated using historical experience and terms of existing arrangements with customers.

Merchandise Returns

For the nine months ended December 31, 2017 and 2016, sales returns under merchandise returns programs were \$3,301 and \$3,030, respectively. Sales returns are reflected in the calculation of net sales. Reserves for estimated merchandise returns as of December 31, 2017 included in net receivables were \$1,185 and are estimated using historical experience.

Shipping and Handling Costs

Shipping and handling costs of \$1,588 and \$1,648 are classified as selling, general, and administrative expenses in the consolidated statements of operations for the nine months ended December 31, 2017 and 2016, respectively. Amounts charged to customers for recovery of shipping and handling costs are included in net sales.

Taylor Holdco, LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
(In Thousands)

Research and Development

Research and development expenses consist primarily of outside contract costs incurred in the development or testing of prototype products. These costs are expensed as incurred in selling, general and administrative expenses in the consolidated statements of operations.

Employee Benefits

The Company sponsors a 401(k) defined contribution savings plan for its U.S. employees. The Company provides a matching contribution up to a maximum of 3% of a participant's eligible compensation, and employees become immediately vested. The Company made employer contributions of \$185 and \$108 to the plan for the nine months ended December 31, 2017 and 2016, respectively.

Recently Adopted Accounting Standards

In April 2017, the Company adopted ASU 2015-11, *Simplifying the Measurement of Inventory*. ASU 2015-11 requires that an entity measure inventory at the lower of cost and net realizable value. The adoption of this standard did not have a material impact on the consolidated financial statements.

Recently Issued Accounting Standards

In May 2014, the FASB issued new authoritative accounting guidance on revenue from contracts with customers. The new standard provides new criteria for recognizing revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. It also requires expanded disclosures to provide greater insight into both revenue that has been recognized and revenue that is expected to be recognized in the future from existing contracts. Quantitative and qualitative information will be provided about the significant judgments and changes in those judgments that management made to determine the revenue that is recorded. In August 2015, the FASB changed the effective date of the new revenue recognition accounting guidance for private companies to be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted for annual periods beginning after the original effective date of December 15, 2016. The Company is in the process of reviewing customer contracts and evaluating the impact of the new standard on the Condensed Consolidated Financial Statements and the timing of the adoption.

In November 2015, the FASB issued new authoritative accounting guidance on simplifying the presentation of deferred income taxes, which requires that deferred income tax liabilities and assets be presented as a net non-current deferred tax asset or liability by jurisdiction on the balance sheet. The current requirement that deferred tax assets and liabilities of a tax-paying component of an entity be offset and presented as a single amount is unchanged. This guidance is effective for periods beginning after December 15, 2017; however, earlier adoption is permitted for all entities for any interim or annual statements that have not been issued. The Company is in the process of evaluating the impact of the new standard on the Condensed Consolidated Financial Statements and the timing of adoption.

In February 2016, the FASB issued new authoritative accounting guidance on leases which increases transparency and comparability for lease transactions. The new standard brings substantially all leases on the balance sheets for operating lease arrangements with lease terms greater than 12 months for lessees. This update will require a modified retrospective application, which includes a number of optional practical expedients related to the identification and classification of leases commenced before the effective date. The new standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is in the process of assessing the impact of the new standard on the Condensed Consolidated Financial Statements and the timing of adoption.

Taylor Holdco, LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
(In Thousands)

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. ASU 2017-04 simplifies how entities assess goodwill for impairment by eliminating Step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The ASU is effective for the Company's fiscal year ended March 31, 2023. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is in the process of assessing the impact of the new standard on the Condensed Consolidated Financial Statements upon adoption.

3. Acquisitions

During December 2014, the Company acquired the stock of Chef'n Corporation ("Chef'n") for \$66,656. Consideration paid for the Chef'n acquisition included an estimate of contingent consideration payable in cash to the former owners should certain gross profit targets be met in the future. The fair value of the contingent consideration was determined using Level 3 inputs. At the acquisition date, the Company estimated the fair value was \$6,540, determined using the probability of potential payout.

As of December 31, 2017, the Company revalued the contingent consideration payable to \$8,352. The fair value of the contingent consideration is determined based on a discounted cash flow analysis using market and operating performance projections available at the balance sheet dates, a risk free interest rate of approximately 1%, and discounted over the remaining months until expiration of the agreement on December 23, 2017. For the nine months ended December 31, 2017 and 2016, there was a change in the estimated fair value of the contingent consideration of \$63 and \$0, respectively. The contingent consideration payable is due within 60 days of the expiration of the agreement. The contingent consideration has been paid in full subsequent to December 31, 2017.

Acquisition of PlanetBox LLC

On December 1, 2017, the Company acquired 100% of the outstanding shares of PlanetBox, LLC, for \$10,776, including transaction costs of \$537. The Company acquired the business to continue to expand the product offerings and brands to the retail trade and expansion of the Company's internet channel. The following table summarizes the allocation of the consideration transferred to assets acquired and liabilities assumed:

Taylor Holdco, LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
(In Thousands)

Receivables, net	\$ 52
Inventories, net	636
Property and equipment, net	68
Goodwill	4,820
Intangible assets, net	<u>5,200</u>
Total Assets	<u>10,776</u>
Total purchase price	10,776
Less: Contingent consideration	<u>(1,774)</u>
Total Cash Paid for Acquisition	<u>\$ 9,002</u>

Consideration paid for the PlanetBox acquisition includes an estimate of contingent consideration payable in cash to the former owners should certain profitability and gross profit targets be met in the future. The fair value of the contingent consideration was determined based on a discounted cash flow analysis using market and operating performance projections available at the acquisition date, a risk free interest rate of approximately 1%, and discounted over the remaining months until the date of expected payment. At the acquisition date, the Company estimated the fair value was \$1,774, based on the probability of potential payout.

Other than goodwill, the acquired intangible assets primarily consist of trade names, technology, non-compete agreements, and customer relationships. The weighted-average amortization period for the acquired finite-lived intangible assets is 13 years. The fair value measurement methods used to estimate the fair value of the finite-lived assets at the acquisition date utilized a number of significant unobservable inputs of Level 3 assumptions. These assumptions included, among other things, projections of future operating results, the implied fair value of assets using an income approach by preparing a discounted cash flow analysis, and other subjective assumptions.

The goodwill recognized in connection with the acquisition is deductible for tax purposes.

4. Related-Party Transactions

The management fee incurred under the arrangement with the majority unitholder of Parent Company was \$567 and \$449 for the nine months ended December 31, 2017 and 2016, respectively, and is included within selling, general, and administrative expenses in the consolidated statements of operations.

Taylor Holdco, LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
(In Thousands)

5. Property and Equipment

Property and equipment at December 31, 2017 consist of the following:

<u>Description</u>	<u>2017</u>	<u>Useful Life</u> <u>In Years</u>
Leasehold improvements	\$ 764	Lease life
Machinery, molds, and equipment	5,014	2-3
Computers, furniture and fixtures	3,375	3-5
Construction in process	89	
Total property and equipment	9,242	
Less accumulated depreciation	(6,232)	
Total Property and Equipment, net	\$ 3,010	

Depreciation expense totaled approximately \$1,360 and \$1,104 for the nine months ended December 31, 2017 and 2016, respectively.

6. Goodwill and Other Intangible Assets

During the nine months ending December 31, 2017 \$4,820 of goodwill was booked related to the acquisition of PlanetBox LLC. There were no changes in carrying amounts of goodwill during the nine months ended December 31, 2016.

At December 31, 2017, the net book value of intangible assets is as follows:

<u>December 31, 2017</u>	<u>Gross</u> <u>Carrying</u> <u>Amount</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Net Book</u> <u>Value</u>	<u>Average</u> <u>Life in</u> <u>Years</u>
Manufacturer representative relationships	\$ 41,700	\$ (14,634)	\$ 27,066	15
Technology	26,886	(13,277)	13,609	10
Customer relationships	45,200	(10,119)	35,081	15
Noncompete agreement	14,500	(14,218)	282	5
Patents	382	(79)	303	15
Order backlog	230	(230)	—	
Total amortizable intangible assets	128,898	(52,557)	76,341	
Indefinite-lived trade names	66,090	—	66,090	
Total intangible assets	<u>\$194,988</u>	<u>\$ (52,557)</u>	<u>\$142,431</u>	

No impairments were recorded during the nine months ended December 31, 2017 and 2016.

Amortization expense totaled approximately \$7,553 and \$8,671 for the nine months ended December 31, 2017 and 2016, respectively.

Taylor Holdco, LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
(In Thousands)

A summary of estimated future amortization of intangible assets is as follows:

<i>Years ending March 31,</i>	
2018 (Less amortization from April 1, 2017 to December 31, 2017)	\$ 2,423
2019	8,684
2020	8,555
2021	8,555
2022	8,555
Thereafter	39,569
Total future amortization	<u>\$76,341</u>

7. Debt

Total borrowings as of December 31, 2017 consist of the following:

<i>December 31,</i>	2017
Senior debt	\$ 128,459
Subordinated debt	51,700
Total	180,159
Less current portion of above	(128,459)
Less unamortized debt issuance costs	(1,002)
Long-term debt, net	<u>\$ 50,698</u>

In December 2014, the Company amended its Senior Credit Agreement (“Credit Agreement”) dated June 8, 2012, which was previously amended in November 2013. The Credit Agreement consists of a revolving line of credit (the “Revolver”), which was subsequently increased from \$15,000 to \$20,000. As of December 31, 2017, there were no borrowings outstanding on the Revolver. In addition, the original agreement dated June 8, 2012 provided for \$66,600 in term debt, of which \$54,780 was outstanding at the time of amendment (“Senior Debt”). The first amendment provided for an increase in the term loan of \$70,000, for a total of \$124,780. The second amendment provided for supplemental term loans of \$41,310.

The Company is required to make quarterly principal payments, adjusted for any prepayments, on the Senior Debt and the supplemental term loan in the amount of 0.625% of outstanding principal for quarters in fiscal year 2016, and 1.25% of outstanding principal for quarters thereafter, with the remainder due on November 6, 2018, the maturity date. The Company may make prepayments

Taylor Holdco, LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
(In Thousands)

as allowed under the Credit Agreement, which are applied against future principal installments. At the Company's option, borrowings under the Revolver and Senior Debt are based on London InterBank Offered Rate (LIBOR) plus 4.5% or the base rate, as defined by the terms of the agreement, with a floor of 5.5%. At December 31, 2017 and 2016, the interest rate for the Senior Debt was based on LIBOR and stated at 5.5%. At December 31, 2017, interest payable of \$1,461 as outstanding and is included within accrued liabilities on the consolidated balance sheets.

In December 2014, the Company amended its Subordinated Credit Agreement ("Subordinated Debt") dated June 8, 2012, which was previously amended in November 2013. The original agreement dated June 8, 2012 provided \$25,600 in term debt which was outstanding at the time of amendment. The first amendment provided for an increase in the Subordinated Debt of \$19,200, for a total of \$44,800, with the ability to draw additional notes under the amended agreement of up to \$22,100. The second amendment provided for an increase in the Subordinated Debt of \$6,900, for a total of \$51,700.

Subordinated Debt under the amended agreements matures on May 6, 2019. No principal payments are required until maturity. The Subordinated Debt carries cash interest of 13% including, at the option of the Company, payment-in-kind interest of 2% payable quarterly. At December 31, 2017, there was no interest payable outstanding.

The Company capitalized \$232 and \$2,522 of additional debt fees in December 2014 and November 2013, respectively, associated with the amended Senior Credit and amended Subordinated Credit Agreements, which are being amortized on a straight-line basis through the maturity date of the agreements, which does not materially differ from the effective interest rate.

The Credit Agreement and Subordinated Debt agreement contain restrictive covenants, including, but not limited to, limitations on capital expenditures and require maintenance of minimum leverage and fixed charge coverage ratios. The outstanding debt is collateralized by substantially all of the Company's assets. The Company was in compliance with all covenants as of December 31, 2017.

Aggregate maturities of long-term debt are as follows:

<i>Year ending March 31,</i>	
2018 (three months from December 31, 2017 to March 31, 2018)	\$ 1,911
2019	128,459
2020	49,789
Total	<u>\$ 180,159</u>

Taylor Holdco, LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
(In Thousands)

8. Income Taxes

The income tax benefit consists of the following:

<i>For 9 months ended December 31,</i>	<u>2017</u>	<u>2016</u>
Current Income Tax Expense		
Federal	\$ 169	1,144
State and local	—	40
Total Current Income Tax Expense	<u>169</u>	<u>1,184</u>
Deferred Income Tax (Benefit) Expense		
Federal	(2,328)	(421)
State	(39)	197
Total Deferred Income Tax Benefit	<u>(2,367)</u>	<u>(224)</u>
Total Income Tax (Benefit) Expense	<u><u>\$(2,198)</u></u>	<u><u>960</u></u>

Significant components of the Company's deferred tax assets and liabilities at December 31, 2017 are as follows:

	<u>2017</u>
Deferred Tax Assets	
Transaction costs	\$ 1,305
Inventory capitalization	465
Net operating loss carryforwards	300
Reserves and accrued liabilities	1,621
PIK Interest Liability	3,465
Total Deferred Tax Assets	<u>7,156</u>
Deferred Tax Liabilities	
Prepaid expenses	143
Depreciation and amortization	9,707
Total Deferred Tax Liabilities	<u>9,850</u>
Total Net Deferred Tax Liabilities	<u><u>\$(2,694)</u></u>

The difference between the financial statement benefit for income taxes and the amount derived by applying the statutory federal income tax rate to loss before income taxes is principally related to state income taxes and the nondeductible portion of meals and entertainment expenses.

Taylor Holdco, LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)
(In Thousands)

9. Mandatorily Redeemable Preferred Units

The Company has authorized and issued 12,000 Mandatorily Redeemable Preferred Units (“Redeemable Preferred Units”). Each Redeemable Preferred Unit accrues an annual yield of 15% on the sum of (i) the unreturned capital value, which was \$12 million upon formation of the Company, plus (ii) the unpaid yield for all quarterly periods (“Liquidation Value”).

The Company is obligated to purchase all of the Redeemable Preferred Units by June 8, 2018 (“Mandatory Redemption Date”). At the Mandatory Redemption Date the Liquidation Value of Redeemable Preferred Units will approximate \$29,000. The Company may also purchase the Redeemable Preferred Units prior to the Mandatory Redemption Date on or any time after the second anniversary of the closing date, which was June 8, 2012, or upon a change in control of the Company, at a redemption price equal to the Liquidation Value at the date of redemption payable in cash.

The Redeemable Preferred Units are accounted for under ASC Topic 480-10 *Accounting for Redeemable Equity Instruments*. As of December 31, 2017, there are 12,000 Redeemable Preferred Units outstanding with a Liquidation Value of \$27,220 presented as mandatorily redeemable preferred units as a current liability on the consolidated balance sheets.

10. Commitments and Contingencies

The Company leases buildings and equipment under various operating leases expiring through 2022. Total rent expense under these operating leases was \$806 and \$688 for the nine months ended December 31, 2017 and 2016, respectively. Future lease payments under all operating leases in effect at December 31, 2017, that have initial or remaining lease terms in excess of one year are as follows:

<i>Year ending March 31,</i>	
2018 (three months from January 1, 2018 to March 31, 2018)	\$ 279
2019	985
2020	590
2021	206
2022	116
Total	<u>\$2,176</u>

Periodically, the Company is subject to lawsuits and other claims. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. Based on the facts and circumstances of such matters and, where necessary, advice of legal counsel, no matters currently pending will have a material impact on the Company’s consolidated financial position or results of operations.

Taylor Holdco, LLC and Subsidiaries

**Notes to Condensed Consolidated Financial Statements (unaudited)
(In Thousands)**

11. Subsequent Events

Subsequent events are events or transactions that occur after the consolidated balance sheet date but before the Condensed Consolidated Financial Statements are issued. The Company recognizes in the Condensed Consolidated Financial Statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the Condensed Consolidated Financial Statements. The Company's Condensed Consolidated Financial Statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before the Condensed Consolidated Financial Statements are available to be issued.

On December 22, 2017, the Company entered into an agreement with Lifetime Brands (NasdaqGS:LCUT) ("Lifetime"), a leading global provider of branded kitchenware, tableware and other products used in the home, under which Lifetime will acquire the Company in a cash and stock transaction. The transaction closed on March 2, 2018. The aggregate consideration was approximately \$295.8 million, \$218.9 million of cash consideration and 5,593,116 newly issued shares of Lifetime's common stock, with a value equal to \$76.9 million, based on the market value of Lifetime's common stock as of March 2, 2018. Consideration was used to repay certain indebtedness of the Company.

The Company has evaluated subsequent events through May 17, 2018, which is the date the Condensed Consolidated Financial Statements were available to be issued.

Unaudited Pro Forma Condensed Combined Financial Information

On December 22, 2017, Lifetime Brands, Inc. (the “Company” or “Lifetime Brands”), entered into a merger agreement (the “Merger Agreement”) by and among the Company, certain of the Company’s wholly-owned subsidiaries created for the purpose of entering into the Merger Agreement and performing the transactions contemplated thereby, Taylor Parent, LLC, a Delaware limited liability company (“Taylor Parent”) and Taylor Holdco, LLC, a Delaware limited liability company (“Taylor” or “Filament”), providing for the acquisition of Filament by the Company. At a special meeting of stockholders held on February 28, 2018, stockholders approved the issuance of shares of common stock of the Company pursuant to the Merger Agreement and the acquisition was completed on March 2, 2018 (the “Acquisition”).

The following unaudited pro forma condensed combined financial statements and explanatory notes are presented to illustrate the effects of the Acquisition on the historical financial position and results of operations of the Company.

The unaudited pro forma condensed combined balance sheet gives effect to the Acquisition as if it had occurred on December 31, 2017 and the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2017 is presented as if the Acquisition had occurred on January 1, 2017. The unaudited pro forma combined statement of operations for the year ended December 31, 2017 combines the Company’s audited consolidated statement of operations for the year ended December 31, 2017 with Filament’s unaudited consolidated statement of operations for the twelve months ended December 31, 2017 (comprised of the nine months ended December 31, 2017 and the three months ended March 31, 2017).

The Acquisition will be accounted for under the acquisition method of accounting, whereby the assets acquired and liabilities assumed will be measured at their respective fair values with any excess reflected as goodwill. The determination of the fair values of the net assets acquired, including intangible and net tangible assets, is based upon certain valuations that have not been finalized, and, accordingly, the adjustments to record the assets acquired and liabilities assumed at fair value reflect Lifetime Brands’ preliminary estimate and are subject to change once the detailed analyses are completed. These adjustments may be material.

The unaudited pro forma condensed consolidated financial information is presented for informational and illustrative purposes in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”), including Article 11 of Regulation S-X promulgated thereby. Such information is preliminary and based on currently available information, assumptions and adjustments that the Company believes are reasonable, however the ultimate amounts recorded may be different. The Company’s historical condensed consolidated financial information has been adjusted in the unaudited pro forma condensed financial information to give effect to pro forma events that are (1) directly attributable to the Acquisition (2) factually supportable and (3) with respect to the statement of operations, expected to have a continuing impact on the consolidated results.

The Unaudited Pro Forma Condensed Consolidated Statement of Operations does not include: (1) any revenue or cost saving synergies that may be achieved subsequent to the completion of the business combination; or (2) the impact of non-recurring items directly related to the business combination.

The pro forma condensed consolidated financial information is unaudited, is presented for informational purposes only, and is not necessarily indicative of the financial position or results of operations that would have occurred had the Acquisition been completed as of the dates or at the beginning of the periods presented. In addition, the unaudited pro forma condensed consolidated financial information does not purport to project the future consolidated financial position or operating results of the consolidated companies. The unaudited pro forma condensed consolidated financial information and the accompanying notes should be read together with:

- the separate audited historical consolidated financial statements of Lifetime Brands, Inc. for the year ended December 31, 2017 (as contained in Lifetime Brands' Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on March 16, 2018);
- the separate audited consolidated financial statements as of March 31, 2017 and March 31, 2016 and for the fiscal years ended March 31, 2017, 2016, and 2015 of Taylor Holdco, LLC and Subsidiaries and the related notes to such audited consolidated financial statements (included as Exhibit 99.1 to the Form 8-K/A to which these Unaudited Pro Forma Condensed Combined Financial Statements are Exhibit 99.3);
- the separate unaudited consolidated financial statements as of December 31, 2017 and for the nine months ended December 31, 2017 and 2016 of Taylor Holdco, LLC and Subsidiaries and the related notes to such unaudited consolidated financial statements (included as Exhibit 99.2 to the Form 8-K/A to which these Unaudited Pro Forma Condensed Combined Financial Statements are Exhibit 99.3).

Lifetime Brands, Inc.
Unaudited Pro Forma Condensed Combined Balance Sheet
December 31, 2017
(in thousands)

	Historical		Pro Forma Adjustments	Notes	Pro Forma Combined
	Lifetime Brands, Inc.	Taylor Holdco, LLC			
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 7,600	\$ 7,652	\$ (7,652)	4 (a)	\$ 7,600
Accounts receivable	108,033	27,505	—		135,538
Inventory	132,436	29,108	1,455	4 (b)	162,999
Prepaid expenses and other current assets	10,354	779	—		11,133
TOTAL CURRENT ASSETS	258,423	65,044	(6,197)		317,270
PROPERTY AND EQUIPMENT, net	23,065	3,010	—		26,075
INVESTMENTS	23,978	—	—		23,978
INTANGIBLE ASSETS, net	88,479	217,870	62,237	4 (c)	368,586
DEFERRED INCOME TAXES	5,826	2,066	—		7,892
OTHER ASSETS	1,750	225	718	4 (d)	2,693
TOTAL ASSETS	\$ 401,521	\$ 288,215	\$ 56,758		\$746,494
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES					
Short term loan	\$ 69	\$ —	\$ —		\$ 69
Accounts payable	25,461	13,851	—		39,312
Accrued expenses	44,121	6,950	4,054	4 (e), 4 (h)	55,125
Income taxes payable	1,864	—	3,541	4 (h)	5,405
Current portion of contingent consideration	—	8,352	(8,352)	4 (f)	—
Mandatorily redeemable preferred units	—	27,220	(27,220)	4 (g)	—
Current portion of long-term debt	—	128,459	(127,174)	4 (d)	1,285
TOTAL CURRENT LIABILITIES	71,515	184,832	(155,151)		101,196
DEFERRED RENT & OTHER LONG-TERM LIABILITIES	20,249	1,795	—		22,044
DEFERRED INCOME TAXES	4,423	4,760	21,938	4 (i)	31,121
INCOME TAXES PAYABLE, LONG-TERM	311	—	—		311
REVOLVING CREDIT FACILITY	94,744	—	(52,684)	4 (d)	42,060
LONG-TERM DEBT	—	50,698	212,761	4 (d)	263,459
STOCKHOLDERS' EQUITY					
Preferred stock, \$1.00 par value	—	—	—		—
Common stock, \$.01 par value	149	—	56	4 (j)	205
Other stockholders' equity	210,130	46,130	29,838	4 (j)	286,098
TOTAL STOCKHOLDERS' EQUITY	210,279	46,130	29,894		286,303
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 401,521	\$ 288,215	\$ 56,758		\$746,494

Lifetime Brands, Inc.
Unaudited Pro Forma Condensed Combined Statement of Operations
Year ended December 31, 2017
(in thousands except per share amounts)

	Historical		Pro Forma Adjustments	Notes	Pro Forma Combined
	Lifetime Brands, Inc.	Taylor Holdco, LLC			
Net sales	\$ 579,476	\$ 168,073	\$ —		\$747,549
Cost of sales	364,319	98,159	—		462,478
Gross margin	215,157	69,914	—		285,071
Distribution expenses	58,050	8,107	—		66,157
Selling, general and administrative expenses	140,903	45,948	(2,162)	4 (k)	184,689
Intangible asset impairment	—	2,100	—		2,100
Restructuring expenses	1,024	—	—		1,024
Income from operations	15,180	13,759	2,162		31,101
Interest expense	(4,291)	(15,319)	2,435	4 (d)	(17,175)
Loss on early retirement of debt	(110)	—	—		(110)
Redeemable preferred interest	—	(3,760)	3,760	4 (g)	—
Other income (expense)	—	(131)	—		(131)
Income (loss) before income taxes and equity in earnings	10,779	(5,451)	8,357		13,685
Income tax (provision) benefit	(9,032)	3,621	(3,176)	4 (l)	(8,587)
Equity in earnings, net of taxes	407	—	—		407
NET INCOME (LOSS)	\$ 2,154	\$ (1,830)	\$ 5,181		\$ 5,505
BASIC INCOME PER COMMON SHARE	\$ 0.15				\$ 0.27
DILUTED INCOME PER COMMON SHARE	\$ 0.14				\$ 0.27
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING					
Basic	14,505		5,593	4 (m)	20,098
Diluted	14,955		5,593	4 (m)	20,548

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Note 1. Description of the Transactions

On December 22, 2017, the Company entered into a merger agreement (the “Merger Agreement”) by and among the Company, certain of the Company’s wholly-owned subsidiaries created for the purpose of entering into the Merger Agreement and performing the transactions contemplated thereby, Taylor Parent, LLC, a Delaware limited liability company (“Taylor Parent”) and Taylor Holdco, LLC, a Delaware limited liability company (“Taylor” or “Filament”), providing for the acquisition of Taylor by the Company. At a special meeting of stockholders held on February 28, 2018, stockholders approved the issuance of shares of common stock of the Company pursuant to the Merger Agreement and the acquisition was completed on March 2, 2018 (the “Acquisition”).

In connection with the Acquisition, on March 2, 2018 (1) the Company entered into a new credit agreement (the “ABL Agreement”), in the maximum aggregate principal amount of \$150.0 million, which will mature on March 2, 2023, and (2) the Company entered into a new loan agreement (the “Term Loan” and together with the ABL Agreement, the “Debt Agreements”), providing for a senior secured term loan credit facility to the Company in the principal amount of \$275.0 million, which will mature on February 28, 2025. The Company utilized the proceeds of borrowings under the Debt Agreements (i) to repay in full all existing indebtedness for borrowed money under its former Credit Agreement and (ii) to finance the Acquisition, the refinancing of certain indebtedness of Filament, and the payment of fees and expenses in connection with the foregoing.

Note 2. Basis of presentation

The accompanying unaudited pro forma financial statements are intended to reflect the impact of the Acquisition on the Company’s historical financial statements and present the pro forma condensed combined financial position and results of operations of the Company based on the historical financial statements of the Company and Filament after giving effect to the Acquisition and after applying the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements.

The Company’s underlying financial information has been derived from the consolidated financial statements and notes thereto of the Company, which are included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Filament’s underlying financial information has been derived from its unaudited financial statements for the twelve months ended December 31, 2017.

The unaudited pro forma condensed combined balance sheet combines the unaudited historical condensed consolidated balance sheets of the Company and Filament as of December 31, 2017, giving effect to the Acquisition as if it had occurred on December 31, 2017.

The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2017 assume the Acquisition took place on January 1, 2017, the beginning of the Company’s most recently completed fiscal year. The Company’s audited consolidated statement

of operations for the fiscal year ended December 31, 2017 has been combined with Filament's unaudited consolidated statement of operations for the twelve months ended December 31, 2017 (comprised of the nine months ended December 31, 2017 and the three months ended March 31, 2017).

Note 3. Consideration and preliminary purchase price allocation

Consideration

The aggregate consideration for the Acquisition is approximately \$295.8 million, consisting of \$218.9 million of cash consideration and 5.6 million newly issued shares of the Company's common stock, with a value equal to \$76.9 million, based on the market value of the Company's common stock as of March 2, 2018 (collectively, the "consideration"). The following table sets forth the components of the total consideration (in thousands).

Cash consideration	\$218,918
Consideration common shares issued	5,593
Company's share price	\$ 13.75
Equity consideration	\$ 76,904
Total consideration	<u>\$295,822</u>

The cash portion of the consideration was subject to adjustments as defined in the Merger Agreement. Funded Debt (as defined in the Merger Agreement) was paid by the Company on behalf of Filament at the closing and is included in the calculation of the cash portion of the consideration.

Preliminary purchase price allocation

The Acquisition will be accounted for as a business combination using the acquisition method of accounting in accordance with Financial Accounting Standards Board, Accounting Standard Codification Topic 805, which will establish a new basis of accounting for all identifiable assets acquired and liabilities assumed at fair value. Accordingly, the costs to acquire such interests will be allocated to the underlying net assets based on their respective fair values. Any excess of the purchase price over the estimated fair value of the net assets acquired will be recorded as goodwill.

The following table summarizes the preliminary allocation of the purchase price as of December 31, 2017 (in thousands):

Net assets acquired	\$ 42,989
Fair value adjustment to inventory	1,455
Intangible assets	201,000
Deferred income tax adjustment	(21,938)
Other liabilities	(6,791)
Goodwill	79,107
Total consideration	<u>\$295,822</u>

The fair values of net assets acquired are based on management's preliminary estimate of the respective fair values. The final valuation of net assets may result in material adjustments to the respective fair values and resulting goodwill. The final valuation of net assets will be completed as soon as possible but no later than one year from the acquisition date.

The unaudited pro forma financial statements do not reflect all reclassifications or adjustments to conform Filament's financial statement presentation or accounting policies to those adopted by the Company. The Company has made estimates based on the best available information and is not aware of any material impacts that are not reflected. The unaudited pro forma financial statements also do not reflect potential fair value adjustments for certain tax assets and liabilities.

Note 4. Pro forma adjustments

(a) Cash and cash equivalents

Reflects adjustments to cash and cash equivalents for the impacts of cash proceeds and expenditures directly attributable to the Acquisition as follows (in thousands).

Proceeds from Term Loan	\$ 275,000
Proceeds from ABL Agreement	42,060
Repayment of former credit facility	(94,744)
Debt issuance costs related to Debt Agreements	(11,050)
Cash consideration paid at closing	<u>(218,918)</u>
Pro forma adjustment to cash and cash equivalents	<u>\$ (7,652)</u>

(b) Inventory

Reflects a preliminary estimate of the step-up in fair value of Filament's inventory to reflect the estimated selling price of the inventory, less the remaining selling costs and normal profit margin on the selling efforts. The increase is not reflected in the unaudited pro forma condensed combined statement of operations because it does not have a continuing impact.

(c) Intangible assets, net and amortization

Reflects \$62.2 million net increase to intangible assets to reflect the preliminary allocation of the purchase price to the fair value of Filament's intangible assets. A preliminary estimate of amortization for these intangibles is reflected in the unaudited pro forma condensed combined statement of operations using the straight-line amortization method as noted below (in thousands, except years).

<u>Acquired Intangible Assets:</u>	<u>Estimated Fair Value</u>	<u>Estimated Useful Life</u>	<u>Estimated Amortization Expense</u>
Customer relationships- 15 year	\$ 88,000	15	\$ 5,867
Customer relationships- 12 year	51,200	12	4,267
Technology	4,500	10	450
Other	100	5	20
Total finite-lived acquired intangible assets	143,800	Total amortization expense	\$ 10,604
Indefinite-lived intangible assets	57,200		
Total identified intangible assets	201,000		
Goodwill	79,107		
Historical intangible assets	(217,870)	Historical amortization expense	(10,449)
Pro forma intangible adjustment	\$ 62,237	Pro forma amortization adjustment	\$ 155

The detailed valuation studies necessary to arrive at the required estimates of the fair values for these assets and useful lives are not yet complete. Changes to the fair values of these assets could have a material impact on the accompanying unaudited pro forma financial statements and will also result in changes to goodwill and deferred tax liabilities.

(d) Debt and interest expense

Reflects the change in financing as a result of the Acquisition.

The pro forma financial statements give effect to financing the Acquisition by executing the Term Loan and ABL Agreement. The Company incurred approximately \$11.0 million in debt issuance costs. The Term Loan has a term of 7 years and the interest rate on borrowings calculated below is based on one-month LIBOR and a margin of 3.5%, or 5.17%. The ABL Agreement has a term of 5 years and the interest rate on borrowings calculated below is based on one-month LIBOR and a margin of 1.5%, or 3.17%.

Filament's current and long-term debt and certain other debt obligations were repaid by the Company upon completion of the Acquisition as a portion of the cash consideration.

Pro forma debt increases (decreases) are as follows (in thousands):

Repayment of the current portion of Filament's long-term debt	\$(128,459)
Current portion of Term Loan	2,750
Current portion of debt issuance cost related to the Term Loan	<u>(1,465)</u>
Pro forma current portion of long-term debt adjustment	<u>\$(127,174)</u>
Repayment of Filament's long-term debt, net of issuance costs	\$ (50,698)
Long-term portion of Term Loan	272,250
Debt issuance costs related to the Term Loan	<u>(8,791)</u>
Pro forma long-term debt adjustment	<u>\$ 212,761</u>
ABL Agreement borrowings	\$ 42,060
Repayment of the Company's former credit facility	<u>(94,744)</u>
Pro forma adjustment to revolving credit facility	<u>\$ (52,684)</u>

When the Acquisition was completed, the Company's borrowings under the ABL Agreement were approximately \$34.7 million. Pro forma adjustment represents borrowings under the ABL Agreement as of December 31, 2017.

Debt issuance costs associated with the Term Loan are presented net of the borrowings and debt issuance costs associated with the ABL Agreement are presented as a non-current asset. A pro forma adjustment to other assets for the debt issuance costs related to the ABL Agreement is as follows (in thousands):

Debt issuance costs related to the ABL Agreement	\$794
Write-off of the Company's former credit facility's unamortized debt issuance costs	<u>(76)</u>
Pro forma other asset adjustment	<u>\$718</u>

Pro forma interest expense increases (decreases) for the year ended December 31, 2017 is as follows (in thousands):

Interest expense on Term Loan	\$ 14,218
Amortization of Term Loan debt issuance costs	1,465
Interest expense on ABL Agreement	1,333
Amortization of ABL Agreement debt issuance costs	159
Elimination of the Company's historical interest expense	<u>(4,291)</u>
Elimination of Taylor's historical interest expense	<u>(15,319)</u>
Pro forma interest expense adjustment	<u>\$ (2,435)</u>

(e) Accrued expenses

Includes acquisition related costs incurred by the Company during the year ended December 31, 2017 of \$1.5 million, which were unpaid and accrued as of December 31, 2017. In addition, approximately \$0.8 million of additional Acquisition related costs were incurred on the acquisition date. The \$0.8 million of Acquisition related costs that were not incurred as of December 31, 2017 are included as a pro forma adjustment to accrued expenses and to stockholders equity (see Note 4 (j) below).

(f) Contingent consideration

Reflects elimination of the current portion of contingent consideration of \$8.4 million. Filament's historical current liabilities includes contingent consideration which was repaid prior to the Acquisition.

(g) Redeemable preferred units

Reflects adjustments to eliminate Filament's historical outstanding preferred units held by an unaffiliated third party, which were redeemed by Filament and repaid by the Company as a portion of the cash consideration.

Reflects adjustments to eliminate Filament's preferred interest expense on outstanding preferred units held by an unaffiliated third party as if such preferred units had been redeemed on January 1, 2017.

(h) Other liabilities

Reflects the preliminary estimate of the fair value of uncertain tax positions and contingent liabilities.

(i) Deferred income taxes

Represents an adjustment to deferred income taxes, which was calculated using a blended 24.75% U.S. federal, state and local statutory tax rate, net of federal tax benefit, multiplied by the fair value adjustments made to assets acquired and liabilities assumed, excluding goodwill, as calculated below (in thousands):

Intangible assets identified	\$ 201,000
Historic tax basis of intangible assets	(113,816)
Increase in intangible assets not deductible	87,184
Increase in fair value of inventory acquired	1,455
Total fair value adjustment	88,639
Blended U.S. federal, state and local statutory tax rate, net of federal tax benefit	24.8%
Pro forma deferred income tax adjustment	\$ 21,938

(j) Equity

Reflects adjustments to eliminate Filament's historical equity balances, record estimated equity consideration at fair value and eliminate historical assets for the Acquisition (in thousands).

Par value of shares issued as consideration	\$ 56
Pro forma common stock adjustment, at par value	<u>\$ 56</u>
Additional paid-in capital for shares issued as consideration	\$ 76,848
Acquisition expenses incurred at closing	(804)
Elimination of Filament's historical members' equity	(46,130)
Elimination of the Company's historical debt issuance costs	<u>(76)</u>
Pro forma other equity adjustment	<u>\$ 29,838</u>

(k) Selling, general and administrative expenses

Reflects adjustments to selling, general and administrative expenses for the year ended December 31, 2017 (in thousands).

Pro forma amortization expense adjustments shown in 4(c) above	\$ 155
Pro forma compensation expense adjustment	768
Elimination of Acquisition related expenses	(2,351)
Elimination of Filament's management fee expenses	<u>(734)</u>
Pro forma selling, general and administrative expense adjustment	<u>\$ (2,162)</u>

The Company entered into a new employment agreement with a key executive in connection with the Acquisition, resulting in a \$0.3 million increase in the annual compensation for this executive from his previous compensation and a \$0.5 million increase in annual equity compensation.

The Company incurred \$2.4 million of Acquisition related expenses, which primarily include legal and advisory fees, in the year ended December 31, 2017. These expenses are reversed as they represent non-recurring charges directly related to the Acquisition.

(l) Provision for income taxes

Reflects the income tax effect of the pro forma adjustments for the year ended December 31, 2017, which was calculated using a blended 38% U.S. federal, state and local statutory tax rate, net of federal tax benefit. The effective tax rate of the combined company could be significantly different from what is presented in these unaudited pro forma financial statements for a variety of reasons, including post Acquisition activities (in thousands).

Pro forma selling, general and administrative expense adjustment	\$(2,162)
Pro forma interest expense adjustment	(2,435)
Pro forma redeemable preferred interest adjustment	<u>(3,760)</u>
Pro forma adjustments	(8,357)
Estimated effective tax rate	<u>38.0%</u>
Pro forma income tax provision adjustment	<u><u>\$(3,176)</u></u>

(m) Income per common share

For the year ended December 31, 2017, pro forma combined basic and diluted net income per common share is calculated using the Company's historical basic and diluted weighted average shares outstanding during the period plus the issuance of 5.6 million shares of the Company's common stock.

The pro forma combined earnings per basic and diluted share outstanding was calculated as follows (in thousands, except per share amounts).

Pro forma net income	\$ 5,505
Weighted average shares outstanding- basic	14,505
Common shares issued as equity consideration	<u>5,593</u>
Pro forma combined weighted average shares outstanding- basic	20,098
Weighted average shares outstanding- diluted	14,955
Common shares issued as equity consideration	<u>5,593</u>
Pro forma combined weighted average shares outstanding- diluted	20,548
Pro forma combined basic income per common share	<u>\$ 0.27</u>
Pro forma combined diluted income per common share	<u><u>\$ 0.27</u></u>