JLM COUTURE, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2021

JLM COUTURE, INC. AND SUBSIDIARIES

CONTENTS

GRASSI
ADVISORS & ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
JLM Couture, Inc. and Subsidiaries
New York, NY

We have audited the accompanying consolidated financial statements of JLM Couture, Inc. and Subsidiaries, which comprise the consolidated balance sheet at October 31, 2021, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 JLM Couture, Inc. and Subsidiaries at October 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

Jericho, New York
September 1, 2022

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JLM COUTURE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
OCTOBER 31, 2021

ASSETS

CURRENT ASSETS:		
Cash	$	2,046,284
Marketable securities		80,902
Accounts receivable, less allowance for doubtful accounts of $165,000		1,981,832
Inventories, net		2,194,158
Prepaid expenses and other current assets		456,876
Employee Retention Credit receivable		1,068,142
Income tax receivable		1,118,110
Total Current Assets		8,946,304
PROPERTY AND EQUIPMENT, NET		478,780
OTHER ASSETS:		
Samples, net of accumulated amortization of $52,856		407,837
Other assets		946,912
Total Other Assets		1,354,749
TOTAL ASSETS	$	10,779,833

The accompanying notes are an integral part of these consolidated financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
OCTOBER 31, 2021

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Note payable - bank	$	307,494
Accounts payable		1,957,159
Accrued expenses and other current liabilities		446,685
Deferred rent - short-term		143,062
Contract liabilities		114,003
Total Current Liabilities		2,968,403
LONG-TERM LIABILITIES:		
Long-term debt		150,000
Deferred rent - long-term		31,430
Total Long-Term Liabilities		181,430
Total Liabilities		3,149,833
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock - $0.0001 par value; 1,000,000 shares authorized, no shares issued and outstanding		-
Common stock - $0.0002 par value; 10,000,000 shares authorized; 2,539,480 shares issued; 1,480,979 shares outstanding		559
Additional paid-in capital		4,515,259
Retained earnings		6,109,959
		10,625,777
Less: 1,058,501 shares of treasury stock, at cost		(2,995,777)
Total Stockholders' Equity		7,630,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	10,779,833

The accompanying notes are an integral part of these consolidated financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED OCTOBER 31, 2021

NET SALES	$ 12,919,917
COST OF GOODS SOLD	7,844,570
GROSS PROFIT	5,075,347
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	9,942,112
LOSS FROM OPERATIONS	(4,866,765)
OTHER INCOME (EXPENSE):	
Interest income	2,572
Interest expense	(29,069)
Unrealized holding gain on marketable securities	5,082
Gain on extinguishment of debt	923,822
Government grant income	857,241
Employee Retention Credit income	1,068,142
Other income	2,046
Total Other Income	2,829,836
LOSS BEFORE BENEFIT FROM INCOME TAXES	(2,036,929)
BENEFIT FROM INCOME TAXES	(640,902)
NET LOSS	$ (1,396,027)

The accompanying notes are an integral part of these consolidated financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED OCTOBER 31, 2021

	Common Stock		Additional Paid-in Capital	Retained Earnings	Notes Receivable and Accrued Interest	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
BALANCE AT OCTOBER 31, 2020	2,539,480	$ 559	$ 4,447,544	$ 7,505,986	$ (4,210)	(1,058,501)	$ (2,995,777)	$ 8,954,102
NET LOSS	-	-	-	(1,396,027)	-	-	-	(1,396,027)
WRITE-OFF OF NOTE RECEIVABLE AND ACCRUED INTEREST	-	-	-	-	4,210	-	-	4,210
STOCK-BASED COMPENSATION	-	-	67,715	-	-	-	-	67,715
BALANCE AT OCTOBER 31, 2021	2,539,480	$ 559	$ 4,515,259	$ 6,109,959	$ -	(1,058,501)	$ (2,995,777)	$ 7,630,000

The accompanying notes are an integral part of these consolidated financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (1,396,027)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	131,047
Amortization of samples	78,216
Stock-based compensation	59,365
Issuance of restricted stock award	8,350
Bad debt expense	459,302
Deferred income taxes	451,000
Deferred rent	(60,770)
Write-off of note receivable and accrued interest	4,210
Unrealized holding gain on marketable securities	5,082
Gain on extinguishment of debt	(923,822)
Government grant income	(857,241)
Employee Retention Credit income	(1,068,142)
(Increase) decrease in assets:	
Accounts receivable	944,566
Inventories	403,795
Prepaid expenses and other current assets	(54,740)
Income tax receivable	(1,118,110)
Other assets	(161,931)
Samples	(107,645)
Increase (decrease) in liabilities:	
Accounts payable	883,342
Accrued expenses and other current liabilities	(358,681)
Contract liabilities	(526,817)
NET CASH USED IN OPERATING ACTIVITIES	(3,205,651)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(7,210)
NET CASH USED IN INVESTING ACTIVITIES	(7,210)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayment of note payable - bank	(22,506)
Proceeds from Paycheck Protection Program loan	857,241
NET CASH PROVIDED BY FINANCING ACTIVITIES	834,735
NET DECREASE IN CASH	(2,378,126)
CASH, BEGINNING OF YEAR	4,424,410
CASH END OF YEAR	$ 2,046,284

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:	
Interest	$ (28,809)

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 - Nature of Operations

JLM Couture, Inc. and Subsidiaries (the "Company") is engaged in the design and manufacture of traditional, high-quality bridal wear and related accessories, including bridesmaid gowns. Products are sold to specialty bridal shops located throughout the continental United States and Europe. The Company has one retail location in California.

Liquidity, Financial Condition, and Management's Plans

As shown in the accompanying consolidated financial statements for the year ended October 31, 2021, the Company had a net loss of approximately $1,396,000, which was caused in part by the COVID-19 pandemic and disruptions to the supply chain. Additionally, the Company experienced a loss of sales and profits related to ongoing litigation and actions pursued by a former designer. As of October 31, 2021, the Company had approximately $307,000 outstanding under its revolving credit facility (see Note 7), which expired in October 2020 with no additional availability on the line, negative operating cash flows of approximately $3,206,000, and recurring net losses of approximately $843,000 and $1,002,000 for the years ended October 31, 2020 and 2019, respectively.

While the recurring net losses combined with the lack of availability on the Company's revolving credit facility initially raised doubt as to the Company's ability to continue as a going concern for the next year, management believes its plans to grow operations, reduce overhead and operating costs, expand the current product line, offer new products to customers, and increase its profitability will alleviate substantial doubt as to its ability to continue for the next year. Additionally, as part of the Company's cost reduction initiatives, the California Flagship retail store closed on May 31, 2022.

The Company's primary growth strategy is to increase revenues and improve gross profit by focusing its strategies on the products that are both profitable and in high demand, in addition to continuing to supply both new and existing customers with products. In addition, the Company has working capital of approximately $5,978,000 and stockholders' equity of approximately $7,630,000 at October 31, 2021.

The Company applied for the Employee Retention Credit ("ERC") under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. The Company applied for the program to receive refundable tax credits against certain qualified wages and employment taxes and was approved for ERCs in the amount of $1,068,142, of which $228,522 was received in May 2022, with the remainder expected to be received by the end of the year ending October 31, 2022. Additionally, the Company is due to receive approximately $1,118,000 as a refundable income tax credit related to prior year carryback allowances. Further, management has implemented significant cost saving strategies, dedicate resources to collect outstanding receivables on a timely basis, and is working with vendors to term out outstanding accounts payable to increase working capital.

Note 1 - Nature of Operations (cont'd.)

Liquidity, Financial Condition, and Management's Plans (cont'd.)

Management believes the implementation of the operational strategies above along with the renewal of the revolving credit facility through October 19, 2022, additional borrowing availability subject to eligible collateral, and its plans to negotiate a longer maturity term will be sufficient to sustain operations through August 29, 2023. However, there can be no assurances that the plans and actions proposed by management will be successful, that the Company will generate anticipated revenues, or that unforeseen circumstances will not require additional funding sources in the future.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of JLM Couture, Inc. and its wholly-owned subsidiaries, JLM Europe, Ltd., and JLM North America, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes its revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). The guidance affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards.

ASC 606 provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. An entity should apply the following five-step process to recognize revenue:

Step 1: Identify the contract with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Revenue Recognition (cont'd.)

The Company is engaged in one major line of business, the sale of traditional, high-quality bridal wear and related accessories, including bridesmaid gowns. Sales are to customers located in the United States and Europe. The Company satisfies its performance obligation at the point of sale when the transfer of control of goods to customers occurs.

Revenue is recognized upon the transfer of control of the promised products to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products. For product sales, the Company typically transfers control at a point in time upon shipment of the product. For product sales at the retail location, the timing of revenue is recognized as a point of sale, at which time the Company has an unconditional right to consideration.

Typically, the timing of revenue recognition coincides with the timing of invoicing to the customers, at which time the Company has an unconditional right to consideration. As such, the Company typically records a receivable when revenue is recognized.

The contract with the customer states the final terms of the sale, including the description, quantity, and price of each product purchased. Payment is typically due within 30 of the delivery date. The Company's contracts with customers generally result in goods transferred at a point in time with a single performance obligation. Shipping and handling activities are performed after a customer obtains control of the goods (traditionally FOB shipping point). The Company has elected as a practical expedient to account for shipping and handling costs as activities to fulfill the promise to transfer goods versus as a separate performance obligation.

The Company also provides sales and promotional discounts to customers, which are recognized as a reduction of sales in the period of recognized revenue. At October 31, 2021, sales and promotional discounts were approximately $1,467,000, or 12% of net revenue.

The Company accepts returns for products and will record customer refunds for other limited circumstances. Estimates for sales returns are based on several factors, including actual returns and expected return data communicated to the Company by its customers. Accordingly, the Company believes that its historical returns analysis is an accurate basis for its allowance for sales returns. Product returns and customer refunds are recognized as a reduction in sales in the period of revenue recognition. At October 31, 2021, sales returns and customer refunds were approximately $166,000, or 1% of net revenue.

Accounts receivable, net balances are summarized as follows:

	November 1, 2020	October 31, 2021
Accounts receivable, net	$ 3,385,700	$ 1,981,832

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Revenue Recognition (cont'd.)

The Company records contract liabilities when cash payments are received in advance of the delivery of product. Changes in the balance of total contract liabilities during the year ended October 31, 2021 are as follows:

	November 1, 2020	October 31, 2021
Contract liabilities	$ 640,820	$ 114,003

The Company has elected the practical expedient to recognize the incremental costs of obtaining a contact with a customer as an expense when the costs are incurred. Additionally, none of the Company's contracts with customers have a significant financing component.

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measurements, a framework for measuring fair value is used which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy under FASB ASC Topic 820, *Fair Value Measurement,* are described as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Valuations based on unobservable inputs reflecting the Company's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

Refer to Note 4 for assets measured at fair value at October 31, 2021 in accordance with FASB ASC Topic 820.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Accounts Receivable

Accounts receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The allowances are determined based upon estimates made by management and are maintained at a level considered adequate to provide for future uncollectible amounts based on collection history, age of receivables, and other factors deemed appropriate. Actual results could differ from these estimates. The Company writes off accounts receivable against the allowance when a balance is determined to be uncollectible.

Marketable Securities

The Company invests in certain readily available marketable equity securities that are carried at fair value. The Company classifies its investments in accordance with FASB Accounting Standards Update (“ASU”) No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. In accordance with ASU No. 2016-01, net unrealized holding gains and losses on those meeting the definition of equity securities are reported as a component of earnings. The Company has $80,902 of investments measured at fair value, which are included in the accompanying consolidated balance sheet at October 31, 2021.

Inventories

Inventories are stated at the lower of cost and net realizable value, with cost being determined under the first-in, first-out method. Net realizable value is the estimated selling prices in the ordinary course of business and includes material, labor, and overhead.

Employee Retention Credit

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was enacted to provide emergency assistance for individuals, families, and organizations affected by the coronavirus pandemic. The ERC is a refundable tax credit against certain qualified wages and employment taxes.

The Company has elected to record its ERC by analogizing the accounting to International Accounting Standards (“IAS”) 20, *Accounting for Government Grants and Disclosures of Government Assistance*, due to U.S. GAAP not recognizing grants or forgivable loans from a government entity to a for-profit company. The Company has elected to recognize this credit by recording it as separate item within other income on the accompanying consolidated statement of operations for the year ended October 31, 2021.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Property and Equipment

Property and equipment is stated at cost. The costs of additions and betterments are capitalized and expenditures for repairs and maintenance are expensed in the period incurred. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets as follows:

Transportation equipment	3 to 7 years
Furniture and equipment	7 years
Computer equipment and software	3 to 5 years

Leasehold improvements are amortized over the shorter of the remaining term of the lease or the useful life of the improvement utilizing the straight-line method.

Long-Lived Assets

Long-lived assets are reviewed for impairment periodically or whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with FASB ASC Topic 360, *Property, Plant and Equipment*. When an evaluation is required, the projected future undiscounted cash flows to be generated from the long-lived assets are compared to the carrying value of the long-lived assets to determine if a write-down to fair value is required. Cash flows from long-lived assets vary on a year-to-year basis. The Company records losses on asset impairments as a component of operating expenses. No impairment was deemed to exist at October 31, 2021.

Samples

The Company produces trunk show samples of each dress line to be used for display at trunk shows (fashion shows in customers' stores). These dresses are shipped from customer to customer to be used at numerous trunk shows throughout the year. These dresses are amortized over a one-year period.

In addition, the Company produces production samples that are used by contractors in manufacturing dresses as they are ordered by customers. These production samples are amortized over their useful life of three years. Based on historical sales patterns, a dress style is typically sold for approximately three years after its introduction. Sample costs include all costs of manufacturing the samples, which consist primary of fabric and trim, as well as contract labor and allocated overhead. The Company reviews its samples on a regular basis for any styles that have been discontinued. Discontinued samples are written off and charged to operations in the period in which they are discontinued.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Deferred Rent

In accordance with FASB ASC Topic 840, *Accounting for Leases*, the noncontingent rent increases are being amortized over the lives of the leases on a straight-line basis (see Note 12).

Shipping and Handling Costs

Shipping and handling costs (freight-out) incurred during the year are included in selling, general, and administrative expenses and amounted to $347,726 for the year ended October 31, 2021.

Advertising and Marketing Expense

The Company expenses advertising and marketing costs as they are incurred. Advertising and marketing expenses are charged to selling, general, and administrative expenses and amounted to $744,853 for the year ended October 31, 2021.

Foreign Currency Translation

All assets and liabilities denominated in foreign currencies are translated into U.S. dollars at fiscal year-end exchange rates. Gains and losses from foreign currency transactions are recorded in selling, general, and administrative expenses on the accompanying consolidated statement of operations.

Employee Benefit Plan

The Company has a defined contribution plan under Section 401(k) of the Internal Revenue Code (“IRC”) covering all qualified employees. Participants may elect to defer a percentage of their pretax annual compensation, subject to an annual limitation as provided by the IRC. The Company’s contribution to the defined contribution plan was $59,605 for the year ended October 31, 2021.

Stock-Based Compensation

The Company accounts for stock-based compensation to employees in accordance with FASB ASC Topic 718, *Compensation - Stock Compensation*, which requires the recognition of compensation expense for employee stock options and other stock-based payments. Under FASB ASC Topic 718, expense related to employee stock options and other stock-based payments is recognized over the relevant service period based on the fair value of each stock option grant. In addition, the Company recognizes in its consolidated statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees. Stock-based compensation expense is included as a component of stockholders’ equity for the year ended October 31, 2021.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Income Taxes

The Company is a C Corporation for federal income tax purposes. Income taxes include U.S. federal, state, and local taxes, and deferred taxes arising from temporary differences between income for financial reporting and income tax purposes. These differences are primarily related to the allowance for doubtful accounts, inventories, prepaid expenses, and various accruals. Deferred tax assets and liabilities are determined based on the difference between the consolidated financial statement balances and the tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the years that include the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to amounts expected to be realized. Deferred tax assets and liabilities are aggregated and shown as a net non-current amount on the accompanying consolidated balance sheet.

An uncertain tax position in a tax return is recognized in the consolidated financial statements when it is more likely than not that the position would be sustained upon examination by taxing authorities. A recognized tax position is then measured at the largest amount of benefit that has greater than a 50% likelihood of being realized upon ultimate settlement. Accounting provisions also require that a change in judgment that results in subsequent recognition, derecognition, or change in a measurement of a tax position taken in a prior annual period (including any related interest and penalties) be recognized as a discrete item in the period in which the change occurs. The Company regularly evaluates the likelihood of recognizing the benefit from income tax positions taken in various federal and state filings by considering all relevant facts, circumstances, and information available.

Paycheck Protection Program

U.S. GAAP does not contain authoritative accounting standards for forgivable loans provided by governmental entities to a for-profit entity. Absent authoritative accounting standards, interpretative guidance issued and commonly applied by financial statement preparers allows for the selection of accounting policies amongst acceptable alternatives. Based on the facts and circumstances, the Company determined it most appropriate to account for the Paycheck Protection Program (“PPP”) loan proceeds as an in-substance government grant by analogy to IAS 20. Under the provisions of IAS 20, “a forgivable loan from government is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.” IAS 20 does not define “reasonable assurance”; however, based on certain interpretations, it is analogous to “probable” as defined in FASB ASC Subtopic 450-20-20 under U.S. GAAP, which is the definition the Company has applied to its expectations of PPP loan forgiveness. Under IAS 20, government grants are recognized in earnings on a systematic basis over the periods in which the Company recognizes costs for which the grant is intended to compensate (i.e., qualified expenses). Further, IAS 20 permits for the recognition in earnings either (1) separately under a general heading such as other income, or (2) as a reduction of the related expenses. The Company has elected to recognize government grant income separately within other income to present a clearer distinction in its financial statements between its operating income and the amount of net income resulting from the PPP loans and subsequent expected forgiveness.

Note 2 - Summary of Significant Accounting Policies (cont'd.)

New Accounting Pronouncement

ASU No. 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU is the result of a joint project of the FASB and the International Accounting Standards Board ("IASB") to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements for U.S. GAAP and International Financial Reporting Standards ("IFRS"). The guidance in this ASU affects any entity that enters into a lease (as that term is defined in this ASU), with some specified scope exemptions. The guidance in this ASU will supersede FASB ASC Topic 840, *Leases*.

The ASU provides that lessees should recognize lease assets and lease liabilities on the balance sheet for leases previously classified as operating leases that exceed 12 months, including leases existing prior to the effective date of this ASU. It also calls for enhanced leasing arrangement disclosures.

For nonpublic entities, the amendments of ASU No. 2016-02 are effective for annual reporting periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022, based on the decision in ASU No. 2020-05 to defer the implementation dates. Early application is permitted for all entities.

The Company has not yet determined if this ASU will have a material effect on its consolidated financial statements.

Note 3 - Concentration of Credit Risk

The Company maintains cash balances in several financial institutions. Such balances are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to $250,000 per institution. From time to time, the Company's balances may exceed these limits.

Note 4 - Fair Value Measurement

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at October 31, 2021.

Equity Securities: Consists of common stock, which is valued at the closing price reported on the active market on which the individual securities are traded. These funds are required to publish their daily net asset value ("NAV") and to transact at that price.

The following table presents the Company's assets that are measured at fair value on a recurring basis at October 31, 2021:

	Total	Level 1	Level 2	Level 3
Marketable securities:				
Equity securities	$ 80,902	$ 80,902	$ -	$ -

The Company recorded an unrealized holding gain on marketable securities in the amount of $5,082, which is included in the accompanying consolidated statement of operations for the year ended October 31, 2021.

Note 5 - Inventories

Inventories consisted of the following at October 31, 2021:

Finished goods	$ 1,177,210
Raw materials	958,160
Work-in-process	229,091
In-transit	7,839
	2,372,300
Less: Inventory reserve	178,142
	$ 2,194,158

Note 6 - Property and Equipment

Property and equipment, net, consisted of the following at October 31, 2021:

Transportation equipment	$ 64,288
Furniture and equipment	58,775
Computer equipment and software	675,506
Leasehold improvements	827,030
	1,625,599
Less: Accumulated depreciation and amortization	1,146,819
	$ 478,780

Depreciation and amortization expense related to property and equipment amounted to $131,047 for the year ended October 31, 2021.

Note 7 - Note Payable - Bank

The Company has a revolving credit facility with a lending institution. Borrowings under this agreement may not exceed the lesser of $1,600,000 or 80% of eligible accounts receivable, as defined. The Company also has availability to open $500,000 of letters of credit, which is a sublimit of the credit facility. Interest on the line accrues at the bank's prime rate plus 2.5% per annum (5.75% at October 31, 2021). The line of credit also requires the Company to comply with certain nonfinancial and financial covenants as defined in the agreement. Borrowings under the line are secured by substantially all of the assets of the Company and a personal guarantee of the Company's majority stockholder. At October 31, 2021, there was $307,494 outstanding on the line of credit. There was no letter of credit outstanding at October 31, 2021.

Subsequently, the Company's line of credit was extended through October 19, 2022 by the lending institution.

Note 8 - Long-Term Debt

Long-term debt is summarized as follows:

On July 23, 2020, the Company received a $150,000 loan under the Economic Injury Disaster Loan ("EIDL") program established by the Small Business Administration ("SBA"). Effective March 15, 2022, the loan has a deferment period wherein no payments are due for 30 months from the date of the disbursement. Interest will continue to accrue during this deferment period. After the deferment period, the loan is payable in equal monthly installments of $731, including principal and interest at a fixed rate of 3.75%, through the maturity date of July 22, 2050. The loan is secured by substantially all of the assets of the Company and is personally guaranteed by a stockholder.	$	150,000
Less: Current maturities		-
Long-Term Debt	$	150,000

Note 8 - Long-Term Debt (cont'd.)

Aggregate maturities of long-term debt are as follows:

Years Ending October 31:		
2022	$	-
2023		8,772
2024		8,772
2025		8,772
2026		8,772
Thereafter		114,912
	$	150,000

Note 9 - Income Taxes

The benefit from income taxes consists of the following for the year ended October 31, 2021:

Current:		
Federal	$	637,784
State and local		3,118
	$	640,902

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at October 31, 2021 are as follows:

Deferred tax assets:		
Inventories	$	139,397
Allowance for doubtful accounts		30,873
Other liabilities and accruals		6,861
Stock-based compensation		22,144
Interest		29,415
Deferred rent		39,905
Total deferred tax assets		268,595
Deferred tax liabilities:		
Property and equipment		(29,208)
Less: valuation allowance		(239,387)
Net deferred tax asset	$	-

Note 9 - Income Taxes (cont'd.)

At October 31, 2021, the Company recorded a full valuation to the extent of its net deferred tax assets since the likelihood of realization of the benefit does not meet the more-likely-than-not threshold. The tax years subject to examination by the federal and state taxing authorities are the years ended October 31, 2019 to October 31, 2021.

Note 10 - Stockholders' Equity

On August 17, 2016, the Company adopted the 2016 Stock Incentive Plan (the "2016 Plan"). The 2016 Plan authorizes the grant of incentive options, nonqualified options, stock appreciation rights, restricted awards, and performance awards. Incentive options may only be granted to employees of the Company. The option price at which an option may be exercised must be at least 100% of the fair market value per share of the common stock on the date of the grant (or 110% of the fair market value with respect to incentive options granted to an employee who owns stock possessing more than 10% of the total voting power of all classes of stock of the Company).

The maximum number of shares that may be issued pursuant to awards granted under the 2016 Plan may not exceed the sum of (a) 500,000 shares, plus (b) any shares of common stock remaining available for issuance as of the effective date of the 2003 Plan.

Stock-based compensation expense for the year ended October 31, 2021 was $67,715.

The Company estimated the fair value of the option awards on the date of grant using the Black-Scholes option-pricing model ("BSM"). The Company has estimated expected volatility based on the historical volatility of certain companies engaged in the same or similar lines of business as determined by management. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of the Company's employee and executive stock options. The expected terms are based on the contractual terms of the agreements noted above. The dividend yield assumption is based on the Company's intent not to issue a dividend under its dividend policy.

The Company issued 100,000 options under the 2016 Plan to certain employees in 2020 with expirations between April and July 2025. No other options were issued or outstanding in 2021. The options were valued using a BSM with the following inputs: exercise price of $1.40 to $1.55, term of 3.5 to 4 years, dividend rate of 0%, a risk-free interest rate of 1.38% to 1.41%, and a volatility rate of 72%. At October 31, 2021, there is approximately $67,000 of unrecognized stock-based compensation expense related to nonvested stock options in which the Company expects to vest and recognize over a weighted-average period of three to four years.

Stock-Based Compensation

On July 15, 2021, the Company issued 5,000 restricted stock units to an employee pursuant to the 2016 Plan, at an exercise price of $1.67 per share, and recorded total stock compensation expense of $8,350 related to the issuance of the restricted stock award, which is included in selling, general, and administrative expenses in the accompanying consolidated statement of operations.

Note 11 - Paycheck Protection Program Loans

On May 1, 2020 and July 30, 2020, the Company entered into loans with a bank with aggregate principal amounts of $857,242 and $66,580, respectively, pursuant to the PPP under the CARES Act. The PPP loans are evidenced by promissory notes. Subject to the terms of the notes, the PPP loans bear interest at a fixed rate of 1% per annum, with payments deferred for the first ten months. The notes have terms of five years, are unsecured and are guaranteed by the SBA. The Company received notices from the SBA during May 2021 and July 2021 that it was approved for forgiveness and recorded the full amount as government grant income in the accompanying consolidated statement of operations for the year ended October 31, 2021.

On May 15, 2021, the Company entered into a second loan with a bank in an aggregate principal amount of $857,241 pursuant to the PPP under the CARES Act. The PPP loan is evidenced by a promissory note. Subject to the terms of the note, the PPP loan bears interest at a fixed rate of 1% per annum, with payments deferred for the first ten months. The note has a term of five years, is unsecured and is guaranteed by the SBA. The Company received notice from the SBA during April 2022 that it has been approved for forgiveness and has recorded the full amount as a gain on extinguishment of debt in the accompanying consolidated statement of operations for the year ended October 31, 2021.

Note 12 - Commitments and Contingencies

Rental Commitments

The Company has noncancellable operating leases expiring through February 2023 for office and warehouse space and equipment. The leases require future minimum rental payments as follows:

Years Ending October 31:		
2022	$	552,585
2023		112,421
	$	665,006

The terms of the Company’s lease obligations provide for scheduled escalations in the monthly rent. In accordance with FASB ASC Topic 840, *Leases*, the noncontingent rent increases are being amortized over the lives of leases on a straight-line basis. Deferred rent of $174,492 at October 31, 2021 represents the unamortized rent adjustment at that date. Rent expense under all operating leases, including month-to-month leases, amounted to $754,933 for the year ended October 31, 2021 and is included in selling, general, and administrative expenses in the accompanying consolidated statement of operations.

Note 12 - Commitments and Contingencies (cont'd.)

Employment Agreements

The Company has employment agreements with an executive and two designers with expirations between June and December 2023. Future minimum commitments under these agreements are as follows:

Years Ending October 31:		
2022	$	511,335
2023		112,421
	$	623,756

Contingencies

The Company is involved in various legal proceedings and litigation arising in the ordinary course of business. Management believes it is too early to determine whether the outcome of such proceedings and litigation will have a material adverse effect on the Company's consolidated financial statements.

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings. Although temporary disruptions can be expected, significant uncertainty exists concerning the magnitude and duration of the COVID-19 pandemic's impact on the Company's customers, labor sources, supply chains, and demand for the Company's services. The potential financial impact cannot be reasonably estimated at this time.

The SBA may elect to undertake an audit of the Company's PPP loans.

Note 13 - Write-Off of Note Receivable and Accrued Interest

On October 15, 1990, the Company's former president exercised a stock option to purchase 36,458 shares of common stock at a purchase price of $0.96 per share. A note was received for the purchase in the amount of $36,710. In 2016, the Company determined that $32,500 of the note receivable, including accrued interest, was uncollectible and reduced the outstanding balance to $4,210. In 2021, the Company determined that the remaining balance of $4,210 related to the note receivable and accrued interest was uncollectible and recorded a write-off of the balance in the accompanying consolidated statement of operations.

Note 14 - Employee Retention Credit

The Company has applied for ERCs in the amount of $1,068,142, which are recorded as a current asset on the accompanying consolidated balance sheet. In May 2022, the Company received $228,522 in accordance with the second and third quarter of the 2020 ERC tax credit. The Company expects to receive the payments for the first, second, and third quarter of the 2021 ERC tax credit within one year. The total amount of $1,068,142 is shown within other income on the accompanying consolidated statement of operations.

Note 15 - Subsequent Events

The Company has evaluated all events or transactions that occurred after October 31, 2021 through September 1, 2022, which is the date that these consolidated financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure, except for those disclosed in Notes 7, 11 and 14.