JLM Couture, Inc.
and Subsidiaries

Consolidated Financial Report
October 31, 2016

Contents

Independent Auditor's Report

Board of Directors
JLM Couture, Inc.

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of JLM Couture, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of October 31, 2016 and 2015, the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of JLM Couture, Inc. and its subsidiaries as of October 31, 2016 and 2015, and the results of their consolidated operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

New York, New York
May 24, 2017

JLM Couture, Inc. and Subsidiaries

Consolidated Balance Sheets
October 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash	$ 1,831,700	$ 1,953,143
Accounts receivable, less allowance for uncollectible amounts of $300,000 and $250,000 at 2016 and 2015, respectively	4,429,824	3,714,640
Inventories	4,473,593	5,641,637
Prepaid expenses and other current assets	453,057	355,880
Income tax receivable	529,668	-
Deferred income taxes	318,000	335,000
Total current assets	12,035,842	12,000,300
Equipment and leasehold improvements, at cost, net of accumulated depreciation and amortization of $1,451,154 and $1,328,145 at 2016 and 2015, respectively	874,581	854,242
Goodwill	211,272	211,272
Samples, net of accumulated depreciation of $170,378 and $720,259 at 2016 and 2015, respectively	596,622	660,343
Deferred income taxes	34,000	33,000
Other assets	583,186	661,371
Total assets	$ 14,335,503	$ 14,420,528
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 2,050,831	$ 1,711,027
Line of credit	400,000	200,000
Accrued expenses and other current liabilities	738,668	694,176
Income taxes payable	-	303,008
Customer deposits	651,126	355,494
Total current liabilities	3,840,625	3,263,705
Deferred rent	318,525	295,137
Total liabilities	4,159,150	3,558,842
Commitments and contingencies		
Shareholders' equity:		
Preferred stock - $.0001 par value, authorized 1,000,000 shares; issued and outstanding - none	-	-
Common stock - $.0002 par value, authorized 10,000,000 shares; issued 2,534,480 and 2,464,480, respectively ; outstanding 1,845,168 and 1,775,168 at 2016 and 2015, respectively	559	489
Additional paid-in capital	4,418,432	4,331,002
Retained earnings	7,280,097	8,052,930
	11,699,088	12,384,421
Less:		
Notes receivable and accrued interest	(36,710)	(36,710)
Treasury stock at cost: 689,312 shares at 2016 and 2015, respectively	(1,486,025)	(1,486,025)
Total shareholders' equity	10,176,353	10,861,686
Total liabilities and shareholders' equity	$ 14,335,503	$ 14,420,528

See notes to consolidated financial statements.

JLM Couture, Inc. and Subsidiaries

Consolidated Statements of Operations
Years Ended October 31, 2016 and 2015

		2016		2015
Net sales	**$**	**28,526,475**	$	29,006,484
Cost of goods sold		**16,971,551**		16,576,242
Restructuring expense		**944,862**		-
Gross profit		**10,610,062**		12,430,242
Selling, general and administrative expenses		**11,579,332**		11,670,860
Operating (loss) income		**(969,270)**		759,382
Other income (expense):				
Interest expense		**(41,895)**		(31,455)
Foreign currency translation adjustment		**(224,308)**		(1,312)
Total other income (expense)		**(266,203)**		(32,767)
(Loss) income before income taxes		**(1,235,473)**		726,615
Income tax benefit (expense)		**462,640**		(222,559)
Net (loss) income	**$**	**(772,833)**	$	504,056

See notes to consolidated financial statements.

JLM Couture, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity
Years Ended October 31, 2016 and 2015

	Common Stock		Additional	Retained	Notes Receivable and Accrued	Treasury Stock		Total Shareholders'
	Shares	Amount	Paid-In Capital	Earnings	Interest	Shares	Amount	Equity
Balance, November 1, 2014	2,464,480	$ 489	$ 4,331,002	$ 7,548,874	$ (36,710)	(673,489)	$ (1,443,932)	$ 10,399,723
Net income	-	-	-	504,056	-	-	-	504,056
Repurchase of shares	-	-	-	-	-	(15,823)	(42,093)	(42,093)
Balance, October 31, 2015	2,464,480	489	4,331,002	8,052,930	(36,710)	(689,312)	(1,486,025)	10,861,686
Net loss	-	-	-	(772,833)	-	-	-	(772,833)
Exercise of options	70,000	70	87,430	-	-	-	-	87,500
Balance, October 31, 2016	**2,534,480**	**$ 559**	**$ 4,418,432**	**$ 7,280,097**	**$ (36,710)**	**(689,312)**	**$ (1,486,025)**	**$ 10,176,353**

See notes to consolidated financial statements.

JLM Couture, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended October 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Net (loss) income	$ (772,833)	$ 504,056
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	123,009	205,995
Amortization of samples	219,727	483,157
Provision for uncollectible accounts	50,000	28,449
Deferred income taxes	16,000	179,000
Deferred rent	1,323	(20,089)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(765,184)	860,508
Inventories	1,168,044	311,826
Prepaid expenses and other current assets	(97,177)	(64,131)
Samples and other assets	(77,821)	(664,443)
Increase (decrease) in:		
Accounts payable	339,804	(1,204,779)
Accrued expenses and other current liabilities	66,557	92,045
Income taxes receivable/payable	(832,676)	(292,990)
Customer deposits	295,632	(119,188)
Net cash (used in) provided by operating activities	(265,595)	299,416
Cash flows from investing activities:		
Purchase of property and equipment	(143,348)	(192,959)
Net cash used in investing activities	(143,348)	(192,959)
Cash flows from financing activities:		
Net borrowings under revolving credit line	200,000	-
Purchase of treasury stock	-	(42,093)
Exercise of stock options	87,500	-
Net cash provided by (used in) financing activities	287,500	(42,093)
Net (decrease) increase in cash	(121,443)	64,364
Cash:		
Beginning	1,953,143	1,888,779
Ending	$ 1,831,700	$ 1,953,143
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 38,902	$ 31,445
Income taxes	$ 354,036	$ 336,549

See notes to consolidated financial statements.

Note 1. The Company

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 also has one retail location located in California.

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, Alvina Valenta Couture Collection, Inc., 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 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 financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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 operations.

Cash: For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of credit risk: The Company maintains cash in bank deposit accounts which, at times, exceed federally insured limits. The Company has not experienced any losses on these accounts and does not believe it has significant credit risk.

Accounts receivable: Accounts receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The allowance for doubtful accounts is determined based upon estimates made by management and 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 account when a balance is deemed to be uncollectible.

Inventories: Inventories are valued at the lower of cost (first-in, first-out) or market, and include material, labor and overhead.

Prepaid advertising and marketing costs: Prepaid advertising and marketing costs include costs of advertisements that have not yet been published. Upon publishing of an advertisement, the related cost is expensed by the Company. Advertising and promotional costs for the years ended October 31, 2016 and 2015 were approximately $2,556,000 and $2,809,000, respectively.

Equipment and leasehold improvements: Depreciation of equipment is computed using the straight-line method over the estimated useful lives of the respective assets, which range from five to ten years. Amortization of leasehold improvements and leased equipment is computed using the straight-line method over the lesser of the lease term or estimated useful lives of the assets. Major additions and improvements are capitalized, and repairs and maintenance are charged to operations as incurred.

Note 2. Summary of Significant Accounting Policies (Continued)

Goodwill: The carrying value of goodwill is tested for impairment at least annually at the reporting unit level using a two-step impairment test. To accomplish this, the Company determined the fair value of the reporting unit and compared it to the carrying amount of the reporting at that date. No impairment charges resulted from this evaluation since the fair value of the reporting unit exceeded the carrying amount.

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 four years. Based on historical sales patterns, a dress style is typically sold for approximately four years after its introduction. Sample costs include all costs of manufacturing the samples, which consist primarily 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.

Long-lived assets: The Company reviews its long-lived assets and certain related intangibles for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. As a result of its review, the Company does not believe that any such change has occurred. If such changes in circumstances are present, a loss is recognized to the extent the carrying value of the asset is in excess of the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers.* ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Company is evaluating the effect that the standard will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers – Identifying Performance Obligations and Licensing* to assist preparers with identifying performance obligations and implementing licensing guidance under the new revenue standard. The Company is currently evaluating the impact of the pending adoption of the new standard on the financial statements. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. This ASU provides clarifying guidance in certain narrow areas and adds some practical expedients relative to assessing collectability, presentation of taxes collected form customers, noncash consideration, contract modifications at transition, and completed contracts at transition and technical corrections. The amendments have the same effective date and transition requirements as ASU 2014-09. The Company has not yet selected a transition method and is currently evaluating the impact of the pending adoption of these ASUs on its consolidated financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist which raise substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures. The Company does not expect the adoption of ASU 2015-11 to have a material effect on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11*, Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in the ASU require entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. This ASU will be effective for the Company for fiscal years beginning after December 15, 2016. Early adoption of ASU 2015-11 is permitted. The Company is currently evaluating the effects adoption of this guidance will have on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. This ASU simplifies the presentation of deferred income taxes by eliminating the requirement for entities to separate deferred tax liabilities and assets into current and noncurrent amounts in classified balance sheets. Instead, it requires deferred tax assets and liabilities be classified as noncurrent in the balance sheet. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2017. Early adoption is permitted, and this ASU may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 is effective for annual periods, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. The Company is currently evaluating the impact the adoption of this guidance will have on its consolidated statement of cash flows.

Fair value of financial instruments: The Company's financial instruments consist principally of cash, accounts receivable, and accounts payable. The Company believes all of the financial instruments' recorded values approximate current values because of the short-term nature of those instruments.

Note 2. Summary of Significant Accounting Policies (Continued)

Revenue recognition: Revenue is recognized when persuasive evidence of an arrangement exists, the product has been delivered, the rights and risks of ownership have passed to the customer, the price is fixed and determinable, and collection of the resulting receivable is reasonably assured. For arrangements that include customer acceptance provisions, revenue is not recognized until the terms of acceptance are met. Reserves for sales returns and allowances are estimated and provided for at the time revenue is recognized.

Freight and delivery costs: The Company's freight and delivery costs are included in selling, general and administrative expenses and amounted to approximately $891,000 and $925,000 for the years ended October 31, 2016 and 2015, respectively. Amounts charged to customers for freight and delivery is included in selling, general, and administrative costs.

Income taxes: Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company follows the provisions of Accounting Standards Codification (ASC) Topic 740 Subtopic 10 ASC 740-10, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the position is sustainable based on its technical merits. Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

The Company recognizes interest and penalties, if any, related to uncertain tax positions in selling, general and administrative expenses. No interest and penalties related to uncertain tax positions were accrued at October 31, 2016 or 2015.

Stock-based compensation: The Company applies ASC 718-10, which requires the measurement and recognition of compensation expense for all stock-based awards made to the Company's employees and directors, including employee stock options and other stock-based awards based on estimated fair values. Stock-based compensation expense for the years ended October 31, 2016 and 2015 was $0 and $14,968, respectively.

Restructuring: In 2016, the Company moved the manufacturing of certain of its collections, including bridesmaid and bridal, to an offshore location. The Company disposed of approximately $1,000,000 of the cost of its inventory in connection with that move.

Evaluation of subsequent events: The Company evaluates events occurring after the date of the consolidated financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the consolidated financial statements. Such evaluation is performed through the date the consolidated financial statements are available for issuance, which was May 24, 2017.

Note 3. Inventories

Inventories consist of the following at October 31:

	2016	2015
Raw materials	$ 2,484,636	$ 4,375,327
Work-in-process	1,272,697	805,753
Finished goods	716,260	460,557
	$ 4,473,593	$ 5,641,637

During 2016, the Company decreased its reserve for inventory obsolescence by approximately $550,000 to account for the Company disposing of certain materials that were fully reserved in prior years.

Note 4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following at October 31:

	2016	2015
Prepaid advertising and marketing costs	$ 233,451	$ 262,332
Other	219,606	93,548
	$ 453,057	$ 355,880

Note 5. Equipment and Leasehold Improvements

Equipment and leasehold improvements at October 31, are summarized as follows:

	2016	2015	Estimated Useful Life
Leasehold improvements	$ 1,210,379	$ 1,210,379	Term of lease or useful life, whichever is shorter
Furniture and equipment	971,612	828,264	7 years
Transportation equipment	143,744	143,744	3 years
	2,325,735	2,182,387	
Less accumulated depreciation and amortization	(1,451,154)	(1,328,145)	
Equipment and leasehold improvements, net	$ 874,581	$ 854,242	

Depreciation and amortization expense amounted to $123,009 and $205,995 for the years ended October 31, 2016 and 2015, respectively.

Note 6. Bank Revolving Credit Line

The Company had a revolving credit agreement with a lending institution which was fully repaid and closed in December 2016. Borrowings under this agreement could not exceed the lesser of $1,500,000 or 70% of eligible accounts receivable, as defined. Interest on the line accrued at the bank's prime rate plus 2.5% per annum. The line of credit also required the Company to comply with certain nonfinancial and financial covenants as defined in the agreement. Borrowings under the line were secured by substantially all of the assets of the Company. There was $400,000 and $200,000 outstanding on the line at October 31, 2016 and 2015, respectively.

In December 2016, the Company entered into a new revolving credit facility with a lending facility. Borrowings under this agreement may not exceed the lesser of $1,500,000 or 80% of eligible accounts receivable, as defined. The Company also has available $500,000, letter of credits which is a sublimit of the credit facility. Interest on the line accrues at the bank's prime rate plus 2.5% per annum. The line of credit also requires the Company to comply with certain nonfinancial and financial covenants as defined in the agreement.

Note 7. Income Taxes

The (benefit from) provision for income taxes for the years ended October 31, 2016 and 2015 consists of the following:

	2016	2015
Current:		
Federal	$ (537,889)	$ 31,305
State and local	59,249	12,254
	(478,640)	43,559
Deferred	16,000	179,000
	$ (462,640)	$ 222,559

Note 7. Income Taxes (Continued)

The components of deferred income tax assets and liabilities are as follows at October 31:

	2016	2015
Deferred tax assets:		
Current:		
Allowance for doubtful accounts	$ 116,000	$ 96,000
Inventory capitalization costs	355,000	505,000
Other liabilities and accruals	46,000	27,000
Stock compensation expense	-	22,000
Net operating loss - state and local	84,000	-
	601,000	650,000
Noncurrent:		
Other liabilities and accruals	126,000	121,000
	126,000	121,000
Total deferred tax assets	727,000	771,000
Deferred tax liabilities:		
Current:		
Prepaid advertising and marketing expenses	(90,000)	(100,000)
Difference in tax and book basis of certain intercompany loans	(193,000)	(215,000)
	(283,000)	(315,000)
Noncurrent:		
Difference in tax and book basis of property and equipment	(10,000)	(7,000)
Goodwill	(82,000)	(81,000)
	(92,000)	(88,000)
Total deferred tax liabilities	(375,000)	(403,000)
Net deferred tax asset	$ 352,000	$ 368,000

Deferred income taxes are provided on temporary differences between financial statement and taxable income. Realization of deferred income tax assets is dependent on generating sufficient taxable income in the future.

Note 8. Shareholders' Equity

Stock option plans: On October 28, 2003, the Company adopted the 2003 Stock Incentive Plan (the 2003 Plan). The 2003 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 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 2003 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.

During the year, the Chief Executive Officer exercised 70,000 options at $1.25 per share. The Company received $87,500 in cash and issued 70,000 common shares of stock.

As of October 31, 2016, there are no options issued or outstanding under this Plan.

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 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.

Note 9. Related Party Transactions

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. The note is due on demand and has an outstanding balance of $36,710 at both October 31, 2016 and 2015.

Note 10. Employee Benefit Plan

The Company has a defined contribution plan under Section 401(k) of the Internal Revenue Code (the Code) 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 Code. The Company's contribution to the defined contribution plan for the years ended October 31, 2016 and 2015 was approximately $14,600 and $24,000, respectively.

Note 11. Commitments and Contingencies

Lease commitments: The Company leases office, retail, production, and showroom facilities under leases expiring through 2023. Minimum annual rentals under such leases are as follows:

Years ending October 31:		
2017	$	744,020
2018		774,803
2019		802,279
2020		826,347
2021		885,137
Thereafter		589,756
	$	4,622,342

Rent expense charged to operations for the foregoing leases for the years ended October 31, 2016 and 2015 amounted to approximately $928,000 and $910,000, respectively.

The leases provide for scheduled increases in base rent. Rent expense is charged to operations ratably over the term of the leases, which results in deferred rent payable that represents cumulative rent expense charged to operations from inception of these leases in excess of the required lease payments.

Employment agreements: The Company has employment agreements with various executives and designers. Future minimum commitments under these agreements amount to approximately $440,000 per year expiring at various dates through 2023.

Legal matters: The Company is involved in various legal actions arising in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters will not have a material adverse impact on the consolidated financial position of the Company or the consolidated results of its operations or cash flows.

Subsequent Events: In January 2017, the Company entered into a stock purchase agreement (“Agreement”) whereby a certain shareholder of the Company (“Seller”) can sell 208,365 shares of the Company’s common stock to the Company. In January 2017, the Company purchased 108,365 shares of common stock at $2.90 per share, or $314,259. At the Company’s option, the remaining 100,000 held the seller can be sold to the Company in 25,000 share increments for up to two years at prices from $3.00 per share to $3.35 per share, as defined in the Agreement, at certain set dates. On April 3, 2017, the Company re-purchased an additional 25,000 shares of common stock at $2.95 per share, or $73,859.

In December 2016, the Company repaid and closed its revolving credit facility and entered into a new facility with another financial institution (See Note 6).