

JLM Couture, Inc. and Subsidiaries

Consolidated Financial Report
October 31, 2019

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RSM US LLP

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, 2019 and 2018, the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (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 financial position of JLM Couture, Inc. and its subsidiaries as of October 31, 2019 and 2018, and the results of their 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
February 25, 2020

JLM Couture, Inc. and Subsidiaries

Consolidated Balance Sheets October 31, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 3,502,571	\$ 5,631,947
Accounts receivable, less allowance for uncollectible amounts of \$378,600 and \$275,000 at 2019 and 2018, respectively	4,130,812	4,302,850
Inventories	2,430,124	2,325,899
Prepaid income taxes	182,211	32,062
Prepaid expenses and other current assets	460,840	553,803
Total current assets	10,706,558	12,846,561
Equipment and leasehold improvements, net	765,414	813,077
Samples, net of accumulated depreciation of \$414,830 and \$274,187 at 2019 and 2018, respectively	583,804	474,518
Deferred income taxes	444,000	237,000
Other assets	726,052	763,206
Total assets	\$ 13,225,828	\$ 15,134,362
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,262,821	\$ 1,518,980
Line of credit	400,000	400,000
Accrued expenses and other current liabilities	962,358	786,527
Customer deposits	527,927	489,350
Total current liabilities	3,153,106	3,194,857
Deferred rent	277,663	313,060
Total liabilities	3,430,769	3,507,917
Commitments and contingencies		
Shareholders' equity:		
Preferred stock - \$0.0001 par value, authorized 1,000,000 shares; issued and outstanding - none	-	-
Common stock - \$0.0002 par value, authorized 10,000,000 shares; issued 2,534,480; outstanding 1,518,204 and 1,628,036 at 2019 and 2018, respectively	559	559
Additional paid-in capital	4,418,432	4,418,432
Retained earnings	8,349,241	9,351,047
	12,768,232	13,770,038
Less:		
Notes receivable and accrued interest	(4,210)	(4,210)
Treasury stock at cost: 1,016,276 and 906,444 shares at 2019 and 2018, respectively	(2,968,963)	(2,139,383)
Total shareholders' equity	9,795,059	11,626,445
Total liabilities and shareholders' equity	\$ 13,225,828	\$ 15,134,362

See notes to consolidated financial statements.

JLM Couture, Inc. and Subsidiaries

Consolidated Statements of Operations
Years Ended October 31, 2019 and 2018

	2019	2018
Net sales	\$ 24,876,549	\$ 30,234,278
Cost of goods sold	<u>14,892,009</u>	<u>16,853,921</u>
Gross profit	9,984,540	13,380,357
Selling, general and administrative expenses	<u>11,383,454</u>	<u>11,759,067</u>
Operating (loss) income	(1,398,914)	1,621,290
Other income (expense):		
Interest expense	(59,129)	(57,496)
Foreign currency translation adjustment	<u>136,662</u>	<u>129,150</u>
Total other income	77,533	71,654
(Loss) income before income taxes	(1,321,381)	1,692,944
Income tax (benefit) expense	<u>(319,575)</u>	799,044
Net (loss) income	\$ (1,001,806)	\$ 893,900

See notes to consolidated financial statements.

JLM Couture, Inc. and Subsidiaries

**Consolidated Statements of Shareholders' Equity
Years Ended October 31, 2019 and 2018**

	Common Stock		Additional Paid-In Capital	Retained Earnings	Notes Receivable and Accrued Interest	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance, October 31, 2017	2,534,480	\$ 559	\$ 4,418,432	\$ 8,457,147	\$ (4,210)	(903,627)	\$ (2,118,315)	\$ 10,753,613
Net income	-	-	-	893,900	-	-	-	893,900
Repurchase of shares	-	-	-	-	-	(2,817)	(21,068)	(21,068)
Balance, October 31, 2018	2,534,480	559	4,418,432	9,351,047	(4,210)	(906,444)	(2,139,383)	11,626,445
Net loss	-	-	-	(1,001,806)	-	-	-	(1,001,806)
Repurchase of shares	-	-	-	-	-	(109,832)	(829,580)	(829,580)
Balance, October 31, 2019	2,534,480	\$ 559	\$ 4,418,432	\$ 8,349,241	\$ (4,210)	(1,016,276)	\$ (2,968,963)	\$ 9,795,059

See notes to consolidated financial statements.

JLM Couture, Inc. and Subsidiaries

**Consolidated Statements of Cash Flows
Years Ended October 31, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Net (loss) income	\$ (1,001,806)	\$ 893,900
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	153,563	157,916
Amortization of samples	184,312	225,774
Provision for uncollectible accounts	103,683	102,008
Deferred income taxes	(207,000)	299,000
Deferred rent	(35,397)	(20,345)
Changes in assets and liabilities affecting operating cash flows:		
Accounts receivable	68,355	(36,149)
Inventories	(104,225)	1,298,766
Prepaid expenses and other current assets	92,963	(165,801)
Prepaid income taxes/income taxes payable	(150,149)	(783,052)
Samples and other assets	(256,444)	(255,528)
Accounts payable	(256,159)	(7,280)
Accrued expenses and other current liabilities	175,831	(337,094)
Customer deposits	38,577	(224,311)
Net cash (used in) provided by operating activities	(1,193,896)	1,147,804
Cash flows from investing activities:		
Purchase of property and equipment	(105,900)	(232,517)
Net cash used in investing activities	(105,900)	(232,517)
Cash flows from financing activities:		
Purchase of treasury stock	(829,580)	(21,068)
Net cash used in financing activities	(829,580)	(21,068)
Net (decrease) increase in cash	(2,129,376)	894,219
Cash:		
Beginning	5,631,947	4,737,728
Ending	\$ 3,502,571	\$ 5,631,947
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 54,023	\$ 24,596
Income taxes	\$ 202,574	\$ 1,283,096

See notes to consolidated financial statements.

JLM Couture, Inc. and Subsidiaries

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, 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 these 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 banks whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. The Company had balances above this limit at various times throughout the year ending October 31, 2019. 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 allowances are 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 net realizable value, 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 were approximately \$2,818,000 and \$2,815,000 for the years ended October 31, 2019 and 2018, respectively.

JLM Couture, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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 three to 10 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.

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 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 February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. In September 2017, the FASB issued ASU 2017-13, *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs*, which rescinds certain SEC Observer comments and staff announcements from the lease guidance and incorporates SEC staff announcements on the effect of a change in tax law on leveraged leases from ASC 840 into ASC 842. In January 2018, the FASB issued ASU 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, which amends the new lease guidance to add an optional transition practical expedient that permits an entity to continue applying its current accounting policy for land easements that exist or expire before the ASC 842 effective date. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which exempts entities from having to provide the interim disclosures required by ASC 250-10-50-3 in the fiscal year in which a company adopts the new leases standard.

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The new standard provides a number of practical expedients. The Company expects to adopt guidance at the beginning of the period of adoption, November 1, 2021, and is still evaluating the method of transition.

JLM Couture, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. This ASU is effective for the Company beginning on November 1, 2021. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

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.

Revenue recognition: Effective November 1, 2018, the Company adopted Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers (ASC 606), using the modified retrospective transition method and applied the new revenue recognition standard only to contracts that were not completed contracts prior to November 1, 2018. In connection with the adoption of ASC 606, the Company also adopted Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers (ASC 340-40) related to contract acquisition and fulfillment costs.

The adoption of ASC 606 did not have a significant impact on the Company's revenue recognition as compared to historical revenue recognition guidance and, accordingly, no cumulative-effect adjustment was recorded as of November 1, 2018. In addition, the Company's revenues for the year ended October 31, 2019 would have been substantially the same as if the Company had recorded revenues using historical revenue recognition guidance.

The Company recognizes revenue in accordance with ASC 606, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied.

The Company's revenues is primarily derived from sales of traditional, high-quality bridal wear and related accessories, including bridesmaid gowns. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods to the customer. Revenue is recorded based on the transaction price, which includes fixed consideration. The Company will apply the expected value of variable consideration which includes return rights and prompt payment discounts, both of which the Company has determined that it is probably there will not be a significant reversal of revenue in the future.

The timing of revenue recognition generally aligns with the right to invoice the customer. The Company records accounts receivable when it has the unconditional right to issue an invoice and receive payment, regardless of whether revenue has been recognized. The Company did not have contract assets nor any deferred revenue as of the adoption of ASC 606 on November 1, 2018 and as of October 31, 2019.

JLM Couture, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

In limited instances where the timing of revenue recognition differs from the timing of the right to invoice, the Company has determined that a significant financing component does not exist. The Company typically requires payment between 30 and 60 days of the invoice date. As such, the Company does not believe that there is a significant financing component since at the inception of the contract the Company expects to be paid within the 1-year practical expedient.

The Company's products are standard bridal wear and any anticipated rework costs that would be incurred in the event of a customer cancellation would be insignificant. Therefore, the Company does not meet any of the requirements for over time recognition for any of its performance obligations. As such, the identified performance obligations will be recorded as satisfied at a point in time upon either shipment or delivery depending on the customer terms. The Company will elect the practical expedient to treat shipping and handling costs incurred after control passes to the customer as fulfillment costs.

Freight and delivery costs: The Company's freight and delivery costs amounted to approximately \$719,000 and \$737,000. For the years ended October 31, 2019 and 2018, \$603,000 and \$615,000 are included in selling, general and administrative expenses and \$116,000 and \$122,000 are included in cost of goods sold, respectively. Amounts charged to customers for freight and delivery is included in net sales.

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 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.

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 was \$0 for the years ended October 31, 2019 and 2018.

Reclassifications: Certain items in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation.

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 February 25, 2020.

JLM Couture, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Inventories

Inventories consist of the following at October 31:

	2019	2018
Raw materials	\$ 858,446	\$ 863,149
Work-in-process	606,535	538,952
Finished goods	1,259,204	1,092,692
Inventory reserve	(294,061)	(168,894)
	<u>\$ 2,430,124</u>	<u>\$ 2,325,899</u>

Note 4. Prepaid Expenses and Other Current Assets

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

	2019	2018
Prepaid advertising and marketing costs	\$ 192,003	\$ 238,067
Other	268,837	315,736
	<u>\$ 460,840</u>	<u>\$ 553,803</u>

Note 5. Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following at October 31:

	2019	2018	Estimated Useful Life
Leasehold improvements	\$ 827,030	\$ 772,475	Term of lease or useful life, whichever is shorter
Furniture and equipment	724,999	673,653	7 years
Transportation equipment	63,613	63,614	3 to 7 years
	<u>1,615,642</u>	<u>1,509,742</u>	
Less accumulated depreciation and amortization	<u>(850,228)</u>	<u>(696,665)</u>	
Equipment and leasehold improvements, net	<u>\$ 765,414</u>	<u>\$ 813,077</u>	

Depreciation and amortization expense amounted to \$153,563 and \$157,916 for the years ended October 31, 2019 and 2018, respectively.

JLM Couture, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Bank Revolving Credit Line

The Company has a revolving credit facility with a lending institution. Borrowings under this agreement may not exceed the lesser of \$1.6 million 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. 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 shareholder. There was \$400,000 outstanding on the line at October 31, 2019 and 2018. There were no letters of credits outstanding at October 31, 2019 and 2018. The facility expires in October 2020.

Note 7. Income Taxes

The provision for income taxes consists of the following for the years ended October 31, 2019 and 2018:

	2019	2018
Current:		
Federal	\$ (104,833)	\$ 481,529
State and local	(7,742)	18,515
	(112,575)	500,044
Deferred (benefit) expense	(207,000)	299,000
	<u>\$ (319,575)</u>	<u>\$ 799,044</u>

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

	2019	2018
Deferred tax assets:		
Net operating loss carryforward	\$ 220,000	\$ -
Allowance for doubtful accounts	95,000	72,000
Inventory	98,000	70,000
Other liabilities and accruals	32,000	16,000
Deferred rent	65,000	74,000
Difference in tax and book basis of property and equipment	(66,000)	5,000
Total deferred tax assets	<u>\$ 444,000</u>	<u>\$ 237,000</u>

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.

On December 22, 2017, the United States effected fundamental changes to federal tax law following the enactment of the Tax Cuts and Jobs Act (TCJA). The TCJA significantly alters U.S. tax law by, among other provisions, lowering the U.S. federal statutory corporate income tax rate from 35% to 21%, imposing a mandatory one-time transition tax on previously deferred foreign earnings, and eliminating or reducing certain income tax deductions.

The Company has approximately \$950,000 in net operating loss carryforwards at a federal, state, and local level. Due to the TCJA, the federal net operating loss carryforwards no longer expire. The state and local net operating loss carryforwards expire in 2039.

JLM Couture, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7. Income Taxes (Continued)

ASC 740 requires the effects of changes in tax laws to be recognized in the period in which the legislation is enacted. The TCJA did have a material impact on the Company's financial statements since the Company's deferred temporary differences were reduced substantially by the lowering of the corporate tax rate. During the year ended October 31, 2018, the Company's deferred tax asset was reduced by \$145,000 as a result of the effects of the TCJA.

Note 8. Shareholders' Equity

Stock options: 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. As of October 31, 2019, there are no options issued or outstanding under either 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, 2019 and 2018. During 2016, the Company reduced the balance to \$4,210, as \$32,500 was deemed uncollectible.

Note 10. 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 approximately \$18,000 and \$21,000 for the years ended October 31, 2019 and 2018, 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:	
2020	\$ 953,997
2021	870,337
2022	524,135
2023	112,421
	<u>\$ 2,460,890</u>

JLM Couture, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Commitments and Contingencies (Continued)

Rent expense charged to operations for the foregoing leases amounted to approximately \$948,000 and \$937,000 for the years ended October 31, 2019 and 2018, respectively, and is included in selling, general and administrative expenses in the statement of operations.

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 \$799,000 per year expiring at various dates through the year ending October 31, 2024.

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.