JLM Couture, Inc.
and Subsidiaries

Consolidated Financial Report (Unaudited)

January 31, 2019

Contents

JLM Couture, Inc. and Subsidiaries
Consolidated Balance Sheets
At January 31, 2019 and October 31, 2018

		(Unaudited) January 31, 2019		October 31, 2018
Assets				
Current assets:				
Cash	**$**	**4,111,221**	$	5,631,947
Accounts receivable, less allowance for uncollectible amounts of $275,000 at 2019 and 2018		**4,315,530**		4,302,850
Inventories		**2,601,855**		2,325,899
Prepaid Income Tax		**12,062**		32,062
Prepaid expenses and other current assets		**470,173**		553,803
Total current assets		**11,510,841**		12,846,561
Equipment and leasehold improvements, at cost, net of accumulated depreciation and amortization of $734,807 and $696,665 at 2019 and 2018, respectively		**793,684**		813,077
Samples, net of accumulated depreciation of $318,740 and $274,187 at 2019 and 2018, respectively		**509,965**		474,518
Deferred income taxes		**353,000**		237,000
Other assets		**779,036**		763,206
Total assets	**$**	**13,946,526**	$	15,134,362
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable	**$**	**1,542,188**	$	1,518,980
Line of credit		**400,000**		400,000
Accrued expenses and other current liabilities		**439,873**		786,527
Customer deposits		**599,023**		489,350
Total current liabilities		**2,981,084**		3,194,857
Deferred rent		**304,539**		313,060
Total liabilities		**3,285,623**		3,507,917
Commitments and contingencies				
Shareholders' equity:				
Preferred stock - $.0001 par value, authorized 1,000,000 shares; issued and outstanding - none		**-**		-
Common stock - $.0002 par value, authorized 10,000,000 shares; issued 2,534,480 ; outstanding 1,518,237 and 1,628,036 at 2019 and 2018, respectively		**559**		559
Additional paid-in capital		**4,418,432**		4,418,432
Retained earnings		**9,051,033**		9,351,047
		13,470,024		13,770,038
Less:				
Notes receivable and accrued interest		**(4,210)**		(4,210)
Treasury stock at cost: 1,016,243 and 906,744 shares at 2019 and 2018, respectiv		**(2,804,911)**		(2,139,383)
Total shareholders' equity		**10,660,903**		11,626,445
Total liabilities and shareholders' equity	**$**	**13,946,526**	$	15,134,362

See notes to unaudited consolidated financial statements.

JLM Couture, Inc. and Subsidiaries

Consolidated Statements of Operations (Unaudited)
For The Three Months Ended January 31, 2019 and 2018

	January 31, 2019	January 31, 2018
Net sales	$ 5,390,586	$ 7,085,861
Cost of goods sold	3,161,118	4,045,024
Gross profit	2,229,468	3,040,837
Selling, general and administrative expenses	2,682,684	2,811,744
Operating (loss) income	(453,216)	229,093
Other income (expense):		
Interest expense	(8,537)	(12,152)
Foreign currency translation adjustment	66,798	145,066
Total other income (expense)	58,261	132,914
(Loss) Income before income taxes	(394,955)	362,007
Income tax benefit (expense)	96,000	(241,602)
Net (loss) income	$ (298,955)	$ 120,405

See notes to unaudited consolidated financial statements.

JLM Couture, Inc. and Subsidiaries

Consolidated Statement of Shareholders' Equity (Unaudited)
For The Three Months Ended January 31, 2019

	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, 2018	2,534,480	$ 559	$ 4,418,432	$ 9,349,988	$ (4,210)	(906,444)	$ (2,139,391)	$ 11,625,378
Re-purchase of common shares						(109,799)	(665,520)	(665,520)
Net loss	-	-	-	(298,955)	-	-	-	(298,955)
Balance, January 31, 2019	**2,534,480**	**$ 559**	**$ 4,418,432**	**$ 9,051,033**	**$ (4,210)**	**(1,016,243)**	**$ (2,804,911)**	**$ 10,660,903**

See notes to unaudited consolidated financial statements.

JLM Couture, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)
For The Three Months Ended January 31, 2019 and 2018

	January 31, 2019	January 31, 2018
Cash flows from operating activities:		
Net (loss) income	**$ (300,014)**	$ 120,405
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	**38,142**	35,344
Amortization of samples	**44,553**	44,332
Deferred income taxes	**(116,000)**	133,000
Deferred rent	**(8,521)**	286
Changes in assets and liabilities affecting operating cash flows:		
(Increase) decrease in:		
Accounts receivable	**(12,680)**	(354,979)
Inventories	**(275,956)**	(166,092)
Prepaid expenses and other current assets	**83,630**	(9,784)
Samples and other assets	**(95,830)**	(128,169)
Increase (decrease) in:		
Accounts payable	**23,208**	431,394
Accrued expenses and other current liabilities	**(346,654)**	(249,355)
Income taxes payable / receivable	**20,000**	108,602
Customer deposits	**109,673**	(909)
Net cash provided by operating activities	**(836,449)**	(35,925)
Cash flows from investing activities:		
Purchase of property and equipment	**(18,749)**	(27,006)
Net cash used in investing activities	**(18,749)**	(27,006)
Cash flows from financing activities:		
Purchase of treasury stock	**(665,528)**	-
Net cash used in financing activities	**(665,528)**	-
Net (decrease) increase in cash	**(1,520,726)**	(62,931)
Cash:		
Beginning	**5,631,947**	4,737,728
Ending	**$ 4,111,221**	$ 4,674,797
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	**$ 5,768**	$ 22,976

See notes to unaudited 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.

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. The Company discontinued operations for the Alvina Valenta Couture Collection, Inc. during 2017.

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 and provisions for sales discounts, returns and allowances. 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.

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 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 unit at that date. During the year ended October 31, 2017, the Company reduced the carrying value of goodwill to $0 and incurred $211,272 of impairment charges resulting from the discontinuation of Alvina Valenta Couture Collection, Inc.

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.

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: The Company recognizes revenue at the point of sale, net of discounts, which is usually at the time goods are shipped.

Freight and delivery costs: The Company's freight and delivery costs are included in selling, general and administrative expenses. Amounts charged to customers for freight and delivery is included in selling, general, and administrative costs.

Income taxes: Deferred taxes are provided on some 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

Evaluation of subsequent events: The Company evaluates events occurring after the date of the unaudited consolidated financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the unaudited consolidated financial statements. Such evaluation is performed through the date the unaudited consolidated financial statements are available for issuance, which was May 2, 2019.

Note 3. Inventories

Inventories consist of the following:

	As of	
	Januay 31, 2019	October 31, 2018
Raw materials	$ 1,280,747	$ 744,834
Work-in-process	761,954	538,952
Finished goods	559,154	1,042,113
	$ 2,601,855	$ 2,325,899

Note 4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

	As of	
	Januay 31, 2019	October 31, 2018
Prepaid advertising and marketing costs	$ 279,986	$ 238,067
Other	190,187	315,736
	$ 470,173	$ 553,803

Note 5. Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following:

	As of		Estimated
	Januay 31, 2019	October 31, 2018	Useful Life
Leasehold improvements	$ 773,416	$ 772,475	Term of lease or useful life, whichever is shorter
Furniture and equipment	691,462	673,653	7 years
Transportation equipment	63,613	63,614	3 to 7 years
	1,528,491	1,509,742	
Less accumulated depreciation and amortization	(734,807)	(696,665)	
Equipment and leasehold improvements, net	$ 793,684	$ 813,077	

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 $1,600,000 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 3% per annum (reduced to the bank's prime rate plus 2½% per annum effective January 1, 2019). 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 were secured by substantially all of the assets the Company and a personal guarantee of the Company's majority shareholder. There was $400,000 on the line outstanding at January 31, 2019 and October 31, 2018, respectively. Three were no letters of credits outstanding at January 31, 2019 and October 31, 2018. The facility expires in October 2019.

Note 7. 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 granted to employees of the Company. The option price at which and 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 processing 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 common stock remaining available for issuance as of the effective date of the 2003 Plan. As of October 31, 2018, there are no options issued or outstanding under this Plan.

Note 8. 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, 2018 and 2017. During 2016, the Company reduced the balance to $4,210 as $32,500 was deemed uncollectible.

Note 9. 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 plan amounted to $6,410 and $5,250 for the three months ended January 31, 2019 and January 31, 2018, respectively.

Note 10. 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:

For the three months ended January 31, 2019		
2019	$	877,478
2020		832,423
2021		857,396
2022		380,780
2023		28,105
	$	2,976,182

Rent expense charged to operations for the foregoing leases for the three months ended January 31, 2019 and 2018 amounted to approximately $222,765 and $219,324, 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 commitments under these agreements amount to approximately $682,000 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 operations.