JLM Couture, Inc. and Subsidiaries

Consolidated Financial Report
October 31, 2017

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, 2017 and 2016, 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, 2017 and 2016, 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
February 21, 2018

JLM Couture, Inc. and Subsidiaries

Consolidated Balance Sheets
October 31, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash	**$ 4,737,728**	$ 1,831,700
Accounts receivable, less allowance for uncollectible amounts of $203,500 and $300,000 at 2017 and 2016, respectively	**4,368,709**	4,429,824
Inventories	**3,624,665**	4,473,593
Prepaid expenses and other current assets	**388,002**	453,057
Income tax receivable	**-**	529,668
Total current assets	**13,119,104**	11,717,842
Equipment and leasehold improvements, at cost, net of accumulated depreciation and amortization of $538,749 and $395,604 at 2017 and 2016, respectively	**738,476**	874,581
Goodwill	**-**	211,272
Samples, net of accumulated depreciation of $317,283 and $170,378 at 2017 and 2016, respectively	**508,673**	596,622
Deferred income taxes	**536,000**	352,000
Other assets	**699,297**	583,186
Total assets	**$ 15,601,550**	$ 14,335,503
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	**$ 1,526,260**	$ 2,050,831
Line of credit	**400,000**	400,000
Accrued expenses and other current liabilities	**1,145,964**	706,168
Income tax payable	**750,990**	-
Customer deposits	**713,661**	651,126
Total current liabilities	**4,536,875**	3,808,125
Deferred rent	**311,062**	318,525
Total liabilities	**4,847,937**	4,126,650
Commitments and contingencies		
Shareholders' equity:		
Preferred stock - $.0001 par value, authorized 1,000,000 shares; issued and outstanding - none	**-**	-
Common stock - $.0002 par value, authorized 10,000,000 shares; issued 2,534,480 ; outstanding 1,630,853 and 1,845,168 at 2017 and 2016, respectively	**559**	559
Additional paid-in capital	**4,418,432**	4,418,432
Retained earnings	**8,457,147**	7,280,097
	12,876,138	11,699,088
Less:		
Notes receivable and accrued interest	**(4,210)**	(4,210)
Treasury stock at cost: 903,627 and 689,312 shares at 2017 and 2016, respectively	**(2,118,315)**	(1,486,025)
Total shareholders' equity	**10,753,613**	10,208,853
Total liabilities and shareholders' equity	**$ 15,601,550**	$ 14,335,503

See notes to consolidated financial statements.

JLM Couture, Inc. and Subsidiaries

Consolidated Statements of Operations
Years Ended October 31, 2017 and 2016

	2017	2016
Net sales	$ 31,799,559	$ 28,526,475
Cost of goods sold	17,655,439	16,971,551
Restructuring expense	-	944,862
Gross profit	14,144,120	10,610,062
Selling, general and administrative expenses	12,390,317	11,579,332
Operating income (loss)	1,753,803	(969,270)
Other income (expense):		
Interest expense	(44,839)	(41,895)
Foreign currency translation adjustment	250,524	(224,308)
Total other income (expense)	205,685	(266,203)
Income (loss) income before income taxes	1,959,488	(1,235,473)
Income tax (expense) benefit	(782,438)	462,640
Net income (loss)	$ 1,177,050	$ (772,833)

See notes to consolidated financial statements.

JLM Couture, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity
Years Ended October 31, 2017 and 2016

	Common Stock		Additional	Retained	Notes Receivable and Accrued	Treasury Stock		Total Shareholders'
	Shares	Amount	Paid-In Capital	Earnings	Interest	Shares	Amount	Equity
Balance, October 31, 2015	2,464,480	$ 489	$ 4,331,002	$ 8,052,930	$ (4,210)	(689,312)	$ (1,486,025)	$ 10,894,186
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	(4,210)	(689,312)	(1,486,025)	10,208,853
Net income	-	-	-	1,177,050	-	-	-	1,177,050
Repurchase of shares	-	-	-	-	-	(214,315)	(632,290)	(632,290)
Balance, October 31, 2017	**2,534,480**	**$ 559**	**$ 4,418,432**	**$ 8,457,147**	**$ (4,210)**	**(903,627)**	**$ (2,118,315)**	**$ 10,753,613**

See notes to consolidated financial statements.

JLM Couture, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended October 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Net income (loss)	**$ 1,177,050**	$ (772,833)
Adjustments to reconcile net income (loss) to net cash provided by (used in) by operating activities:		
Depreciation and amortization	**143,145**	123,009
Amortization of samples	**314,440**	219,727
Impairment of goodwill	**211,272**	-
Provision for uncollectible accounts	**20,000**	50,000
Deferred income taxes	**(184,000)**	16,000
Deferred rent	**(7,463)**	1,323
Changes in assets and liabilities affecting operating cash flows:		
Accounts receivable	**41,115**	(765,184)
Inventories	**848,928**	1,168,044
Prepaid expenses and other current assets	**65,055**	(97,177)
Samples and other assets	**(342,602)**	(77,821)
Accounts payable	**(524,571)**	339,804
Accrued expenses and other current liabilities	**439,796**	66,557
Income taxes receivable/payable	**1,280,658**	(832,676)
Customer deposits	**62,535**	295,632
Net cash provided (used in) by operating activities	**3,545,358**	(265,595)
Cash flows from investing activities:		
Purchase of property and equipment	**(7,040)**	(143,348)
Net cash used in investing activities	**(7,040)**	(143,348)
Cash flows from financing activities:		
Net borrowings under revolving credit line	**-**	200,000
Purchase of treasury stock	**(632,290)**	-
Exercise of stock options	**-**	87,500
Net cash (used in) provided by financing activities	**(632,290)**	287,500
Net increase (decrease) in cash	**2,906,028**	(121,443)
Cash:		
Beginning	**1,831,700**	1,953,143
Ending	**$ 4,737,728**	$ 1,831,700
Supplemental disclosures of cash flow information:		
Cash paid (received) during the year for:		
Interest	**$ 33,700**	$ 38,902
Income taxes	**$ (314,220)**	$ 354,036

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. 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 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 for the years ended October 31, 2017 and 2016 were approximately $3,009,000 and $2,556,000, 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 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 at that date. The Company incurred $211,272 of impairment charges during 2017 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.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. ASU 2014-09, as deferred one year by ASU 2015-14, will be effective for annual reporting periods beginning after December 15, 2018 using either of two methods: *(a)* retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or *(b)* retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. The Company has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements.

Note 2. Summary of Significant Accounting Policies (Continued)

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 Company adopted this standard during 2017 and retroactively presented all periods shown.

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 our pending adoption of the new standard on the 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 statements 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.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

Freight and delivery costs: The Company's freight and delivery costs are included in selling, general and administrative expenses and amounted to approximately $712,000 and $891,000 for the years ended October 31, 2017 and 2016, 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, 2017 or 2016.

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, 2017 and 2016 was $0.

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.

Reclassifications: Certain items in the 2016 consolidated financial statements have been reclassified to conform to the 2017 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 21, 2018.

Note 3. Inventories

Inventories consist of the following at October 31:

	2017	2016
Raw materials	$ 1,758,125	$ 2,484,636
Work-in-process	710,832	1,272,697
Finished goods	1,155,708	716,260
	$ 3,624,665	$ 4,473,593

During 2017, the Company increased its reserve for inventory obsolescence by approximately $154,000 to account for the Company determining specific raw materials are no longer used for active styles.

Note 4. Prepaid Expenses and Other Current Assets

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

	2017	2016
Prepaid advertising and marketing costs	$ 205,264	$ 233,451
Other	182,738	219,606
	$ 388,002	$ 453,057

Note 5. Equipment and Leasehold Improvements

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

	2017	2016	Estimated Useful Life
Leasehold improvements	$ 722,001	$ 722,001	Term of lease or useful life, whichever is shorter
Furniture and equipment	491,610	484,570	7 years
Transportation equipment	63,614	63,614	3 to 7 years
	1,277,225	1,270,185	
Less accumulated depreciation and amortization	(538,749)	(395,604)	
Equipment and leasehold improvements, net	$ 738,476	$ 874,581	

Depreciation and amortization expense amounted to $143,145 and $123,009 for the years ended October 31, 2017 and 2016, 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 outstanding on the line at October 31, 2016.

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 $1,600,000 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. 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 of the Company and a personal guarantee of the Company's majority shareholder. There was $400,000 outstanding on the line at October 31, 2017. There were no letters of credits outstanding at October 31, 2017.

Note 7. Income Taxes

The (benefit from) provision for income taxes for the years ended October 31, 2017 and 2016, consists of the following:

	2017	2016
Current:		
Federal	$ 932,897	$ (537,889)
State and local	33,541	59,249
	966,438	(478,640)
Deferred	(184,000)	16,000
	$ 782,438	$ (462,640)

Note 7. Income Taxes (Continued)

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

	2017	2016
Deferred tax assets:		
Current:		
Allowance for doubtful accounts	$ 81,000	$ 116,000
Inventory capitalization costs	348,000	355,000
Other liabilities and accruals	95,000	46,000
Net operating loss - state and local	-	84,000
Other liabilities and accruals	133,000	126,000
Total deferred tax assets	657,000	727,000
Deferred tax liabilities:		
Current:		
Prepaid advertising and marketing expenses	(82,000)	(90,000)
Difference in tax and book basis of certain intercompany loans	-	(193,000)
Difference in tax and book basis of property and equipment	(39,000)	(10,000)
Goodwill	-	(82,000)
Total deferred tax liabilities	(121,000)	(375,000)
Net deferred tax asset	$ 536,000	$ 352,000

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 options: In 2016, 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.

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, 2017, there are no options issued or outstanding under this 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, 2017 and 2016. 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 (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, 2017 and 2016, was approximately $21,600 and $14,600, 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:		
2018	$	893,003
2019		821,479
2020		845,547
2021		870,337
2022		524,135
Thereafter		112,421
	$	4,066,922

Rent expense charged to operations for the foregoing leases for the years ended October 31, 2017 and 2016 amounted to approximately $961,000 and $928,000, 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.

Note 11. Commitments and Contingencies (Continued)

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.