JLM Couture, Inc.
and Subsidiaries

Unaudited Consolidated Financial Report
April 30, 2016

Contents

JLM Couture, Inc. and Subsidiaries
Consolidated Balance Sheets

	(Unaudited) April 30, 2016	October 31, 2015
Assets		
Current assets:		
Cash	$ 1,800,998	$ 1,953,143
Accounts receivable, less allowance for uncollectible amounts of $250,000 and $250,000 at April 30, 2016 and October 31, 2015 respectively	3,890,903	3,714,640
Inventories	6,353,388	5,641,637
Prepaid expenses and other current assets	233,389	355,880
Income tax receivable	116,960	-
Deferred income taxes	335,000	335,000
Total current assets	12,730,638	12,000,300
Equipment and leasehold improvements, at cost, net of accumulated depreciation and amortization of $1,381,962 and $1,328,145 at 2015 and 2014, respectively	912,718	854,242
Goodwill	211,272	211,272
Samples, net of accumulated depreciation of $654,971 and $720,259 at April 30, 2016 and October 31, 2015, respectively	756,658	660,343
Deferred income taxes	33,000	33,000
Other assets	559,960	661,371
Total assets	$ 15,204,246	$ 14,420,528
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 2,731,592	$ 1,711,027
Line of credit	200,000	200,000
Accrued expenses and other current liabilities	780,021	989,313
Income taxes payable	227,317	303,008
Customer deposits	578,222	355,494
Total current liabilities	4,517,152	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 2,464,480; outstanding 1,792,542 at April 30, 2016 and October 31, 2015, respectively	489	489
Additional paid-in capital	4,331,002	4,331,002
Retained earnings	7,878,338	8,052,930
	12,209,829	12,384,421
Less:		
Notes receivable and accrued interest	(36,710)	(36,710)
Treasury stock at cost: 656,115 and 671,938 shares at April 30, 2016 and October 31, 2015, respectively	(1,486,025)	(1,486,025)
Total shareholders' equity	10,687,094	10,861,686
Total liabilities and shareholders' equity	$ 15,204,246	$ 14,420,528

See notes to the accompanying consolidated financial statements.

JLM Couture, Inc. and Subsidiaries
Consolidated Statements of Operations (Unaudited)
For The Six Months Ended April 30, 2016 and 2015

	For The Six Months Ended April 30,	
	2016	2015
Net sales	$ 12,796,747	$ 14,944,212
Cost of goods sold	7,550,080	9,147,844
Gross profit	5,246,667	5,796,368
Selling, general and administrative expenses	5,525,733	5,696,696
Operating (loss) income	(279,066)	99,672
Interest expense	(13,332)	(15,371)
(Loss) income before income (benefit) tax	(292,398)	84,301
Income tax (benefit) expense	(117,806)	33,000
Net (loss) income	$ (174,592)	$ 51,301

See notes to the accompanying consolidated financial statements.

JLM Couture, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity (Unaudited)
For The Six Months Ended April 30, 2016

	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, 2015	2,464,480	$ 489	$ 4,331,002	$ 8,052,930	$ (36,710)	(656,115)	$ (1,486,025)	$ 10,861,686
Net loss	-	-	-	(174,592)	-	-	-	(174,592)
Balance, April 30, 2016	2,464,480	$ 489	$ 4,331,002	$ 7,878,338	$ (36,710)	(656,115)	$ (1,486,025)	$ 10,687,094

See notes to the accompanying consolidated financial statements.

JLM Couture, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
For The Six Months Ended April 30, 2016 and 2015

	Six Months Ended April 30, 2016	Six Months Ended April 30, 2015
Cash flows from operating activities:		
Net (loss) income	$ (174,592)	$ 51,301
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	53,817	57,724
Amortization of samples	176,527	247,700
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(176,263)	(210,486)
Inventories	(711,751)	366,990
Prepaid expenses and other current assets	122,491	(75,808)
Income taxes receivable	(116,960)	-
Samples and other assets	(171,431)	(130,417)
Increase (decrease) in:		
Accounts payable	1,020,564	(519,184)
Accrued expenses and other current liabilities	(209,291)	(13,566)
Income taxes payable	(75,691)	(296,734)
Customer deposits	222,728	223,528
Net cash used in operating activities	(39,852)	(298,952)
Cash flows from investing activities:		
Purchase of property and equipment	(112,293)	(43,062)
Net cash used in investing activities	(112,293)	(43,062)
Net decrease in cash	(152,145)	(342,014)
Cash:		
Beginning	1,953,143	1,888,779
Ending	$ 1,800,998	$ 1,546,765
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 5,832	$ 7,871
Income taxes	$ 75,691	$ -

See notes to the accompanying 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, 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 accompanying unaudited consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim unaudited consolidated financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. The unaudited consolidated financial statements furnished reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Interim results are not necessarily indicative of the results for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended January 31, 2016.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Note 2. **Summary of Significant Accounting Policies (Continued)**

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 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.

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* (Topic 606), requiring 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. The updated standard 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 has not yet selected a transition method and is currently evaluating the effect that the standard will have on the consolidated financial statements.

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. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and annual and interim periods thereafter, with early adoption

Note 2. Summary of Significant Accounting Policies (Continued)

permitted. 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 does not expect the adoption of ASU 2015-11 to have a material effect 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 our pending adoption of the new standard on our consolidated financial statements.

Fair value of financial instruments: The Company's financial instruments consist principally of cash, accounts receivable, inventories, accounts payable and bank debt. 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.

Freight and delivery costs: The Company's freight and delivery costs are included in selling, general and administrative expenses and amounted to approximately $327,700 and $330,100 for the six months ended April 30, 2016 and 2015, respectively. Amounts charged to customers for freight and delivery is included in selling, general, and administrative costs.

Note 2. Summary of Significant Accounting Policies (Continued)

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 Topic 740 Subtopic 10 (ASC 740-10), formerly referred to as Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, 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. With few exceptions, the Company is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2012.

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 April 30, 2016 and October 31, 2015, respectively.

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 July 25, 2016.

Note 3. Inventories

Inventories at April 30, 2016, and October 31, 2015 are summarized as follows:

	Unaudited April 30, 2016	October 31, 2015
Raw materials	$ 4,848,188	$ 4,375,327
Work-in-process	1,075,333	805,753
Finished goods	429,867	460,557
	$ 6,353,388	$ 5,641,637

Note 4. Equipment and Leasehold Improvements

Equipment and leasehold improvements at April 30, 2016, and October 31, 2015 are summarized as follows:

	Unaudited April 30, 2016	October 31, 2015	Useful Life
Leasehold improvements	$ 1,210,379	$ 1,210,379	Term of lease or useful life, whichever is shorter
Furniture and equipment	940,557	828,264	7 years
Transportation equipment	143,744	143,744	3 years
	2,294,680	2,182,387	
Less accumulated depreciation and amortization	(1,381,962)	(1,328,145)	
Equipment and leasehold improvements, net	$ 912,718	$ 854,242	

Note 5. Bank Revolving Credit Line

The Company has a revolving credit agreement with a bank, which was renewed to June 2016. Borrowings under this agreement may not exceed the lesser of $1,500,000 or 70% of eligible accounts receivable, as defined. 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. There was $200,000 outstanding on the line at April 30, 2016 and October 31, 2015.

Note 6. Subsequent Events

On June 29, 2016, the Company borrowed $200,000 under its credit facility.