

# **JLM Couture, Inc. and Subsidiaries**

Consolidated Financial Report  
October 31, 2013

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## Independent Auditor's Report

To the Board of Directors  
JLM Couture, Inc.  
New York, New York

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of JLM Couture, Inc. and subsidiaries, which comprise the consolidated balance sheets as of October 31, 2013 and 2012, and the related consolidated statements of income, shareholder's equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of JLM Couture, Inc. and subsidiaries as of October 31, 2013 and 2012, 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.

*McGladrey LLP*

New York, New York  
May 30, 2014

**JLM Couture, Inc. and Subsidiaries**

**Consolidated Balance Sheets**

**October 31, 2013 and 2012**

	2013	2012
<b>Assets</b>		
Current Assets		
Cash	\$ 2,259,198	\$ 1,335,346
Accounts receivable, less allowance for uncollectible amounts of \$250,000 and \$370,676 at 2013 and 2012, respectively	4,207,721	3,837,538
Inventories	5,347,722	5,664,472
Prepaid expenses and other current assets	408,668	321,057
Deferred income taxes	37,000	276,000
<b>Total current assets</b>	<b>12,260,309</b>	<b>11,434,413</b>
Equipment and Leasehold Improvements, at cost, net of accumulated depreciation and amortization of \$1,122,150 and \$1,028,882 at 2013 and 2012, respectively	597,318	645,303
Goodwill	211,272	211,272
Samples, net of accumulated depreciation of \$316,050 and \$293,003 at 2013 and 2012, respectively	682,543	436,196
Deferred Income Taxes	70,000	18,000
Other Assets	426,774	148,414
<b>Total assets</b>	<b>\$ 14,248,216</b>	<b>\$ 12,893,598</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Accounts payable	\$ 2,025,025	\$ 1,546,433
Line of credit	207,380	414,103
Accrued expenses and other current liabilities	1,190,934	510,916
Income taxes payable	301,126	24,940
Customer deposits	545,582	548,683
<b>Total current liabilities</b>	<b>4,270,047</b>	<b>3,045,075</b>
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 and 2,434,480 at October 31, 2013 and 2012, respectively; outstanding 1,792,542 and 1,772,017 at October 31, 2013 and 2012, respectively	489	483
Additional paid-in capital	4,316,034	4,264,260
Retained earnings	7,152,464	7,059,477
	<b>11,468,987</b>	<b>11,324,220</b>
Less		
Notes receivable and accrued interest	(46,886)	(46,401)
Treasury stock at cost: 671,938 and 662,463 shares at 2013 and 2012, respectively	(1,443,932)	(1,429,296)
<b>Total shareholders' equity</b>	<b>9,978,169</b>	<b>9,848,523</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 14,248,216</b>	<b>\$ 12,893,598</b>

See Notes to Consolidated Financial Statements.

**JLM Couture, Inc. and Subsidiaries**

**Consolidated Statements of Income  
Years Ended October 31, 2013 and 2012**

	<b>2013</b>	2012
Net Sales	<b>\$ 29,142,724</b>	\$ 27,324,582
Cost of Goods Sold	<b>17,777,414</b>	16,618,933
<b>Gross profit</b>	<b>11,365,310</b>	10,705,649
Selling, General and Administrative Expenses	<b>10,959,454</b>	9,955,659
<b>Operating income</b>	<b>405,856</b>	749,990
Other (Expense) Income		
Interest expense	<b>(48,715)</b>	(72,543)
Foreign currency translation adjustment	<b>33,716</b>	18,049
<b>Total other expense</b>	<b>(14,999)</b>	(54,494)
<b>Income before income taxes</b>	<b>390,857</b>	695,496
Income Tax Expense	<b>(297,870)</b>	(113,496)
<b>Net income</b>	<b>\$ 92,987</b>	\$ 582,000

See Notes to Consolidated Financial Statements.

**JLM Couture, Inc. and Subsidiaries**

**Consolidated Statements of Shareholders' Equity  
Years Ended October 31, 2013 and 2012**

	Common Stock		Additional Paid-In Capital	Retained Earnings	Notes Receivable and Accrued Interest	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance, November 1, 2011	2,434,480	\$ 483	\$ 4,194,813	\$6,477,477	\$ (74,817)	\$ (649,963)	\$(1,409,286)	\$ 9,188,670
Net income	-	-	-	582,000	-	-	-	582,000
Interest on notes receivable	-	-	-	-	(1,583)	-	-	(1,583)
Repayment on notes receivable	-	-	-	-	29,999	-	-	29,999
Stock-based compensation expense	-	-	69,447	-	-	-	-	69,447
Repurchase of shares	-	-	-	-	-	(12,500)	(20,010)	(20,010)
Balance, October 31, 2012	2,434,480	483	4,264,260	7,059,477	(46,401)	(662,463)	(1,429,296)	9,848,523
Net income	-	-	-	92,987	-	-	-	92,987
Interest on notes receivable	-	-	-	-	(485)	-	-	(485)
Options exercised	30,000	6	37,494	-	-	-	-	37,500
Stock-based compensation expense	-	-	14,280	-	-	-	-	14,280
Repurchase of shares	-	-	-	-	-	(9,475)	(14,636)	(14,636)
<b>Balance, October 31, 2013</b>	<b>2,464,480</b>	<b>\$ 489</b>	<b>\$ 4,316,034</b>	<b>\$7,152,464</b>	<b>\$ (46,886)</b>	<b>(671,938)</b>	<b>\$(1,443,932)</b>	<b>\$ 9,978,169</b>

See Notes to Consolidated Financial Statements.

**JLM Couture, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**  
**Years Ended October 31, 2013 and 2012**

	2013	2012
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 92,987	\$ 582,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	93,268	71,157
Provision for uncollectible accounts and volume discounts	23,283	45,172
(Recovery) provision for inventory obsolescence	(111,283)	163,416
Compensation expense on issuance of stock options	14,280	69,447
Noncash interest income	(485)	(1,583)
Deferred income taxes	187,000	76,000
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(393,466)	(25,179)
Inventories	428,033	(1,199,166)
Prepaid expenses and other current assets	(87,611)	(76,719)
Samples and other assets	(524,707)	(2,573)
Increase (decrease) in:		
Accounts payable	478,592	189,620
Accrued expenses and other current liabilities	680,018	179,067
Income taxes payable	276,186	37,496
Customer deposits	(3,101)	548,683
<b>Net cash provided by operating activities</b>	<b>1,152,994</b>	<b>656,838</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(45,283)	(507,987)
Repayment of notes receivable	-	29,999
<b>Net cash used in investing activities</b>	<b>(45,283)</b>	<b>(477,988)</b>
<b>Cash Flows from Financing Activities</b>		
Net (repayments) borrowings under revolving credit line	(206,723)	212,668
Purchase of treasury stock	(14,636)	(20,010)
Proceeds from the exercise of stock options	37,500	-
<b>Net cash (used in) provided by financing activities</b>	<b>(183,859)</b>	<b>192,658</b>
<b>Net increase in cash</b>	<b>923,852</b>	<b>371,508</b>
<b>Cash and Cash Equivalents</b>		
Beginning	1,335,346	963,838
Ending	\$ 2,259,198	\$ 1,335,346
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the year for:		
Interest	\$ 49,648	\$ 74,563
Income taxes	\$ 20,487	\$ -

See Notes to Consolidated Financial Statements.

## JLM Couture, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. The Company

JLM Couture, Inc. and Subsidiaries (the "Company") is engaged in the design and manufacture of traditional, high-quality bridal wear and related accessories, including bridesmaid gowns. Products are sold to specialty bridal shops located throughout the continental United States and Europe. The Company also has one retail location located in California.

#### Note 2. Summary of Significant Accounting Policies

Basis of Presentation: The consolidated financial statements include the accounts of JLM Couture, Inc. and its wholly owned subsidiaries, Alvina Valenta Couture Collection, Inc., JLM Europe Ltd., and JLM North America, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation: All assets and liabilities denominated in foreign currencies are translated into U.S. dollars at fiscal year-end exchange rates. Gains and losses from foreign currency transactions are recorded in operations.

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

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

Accounts Receivable: Accounts receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The allowance for doubtful accounts is determined based upon estimates made by management and maintained at a level considered adequate to provide for future uncollectible amounts based on collection history, age of receivables and other factors deemed appropriate. Actual results could differ from these estimates. The Company writes off accounts receivable against the allowance account when a balance is deemed to be uncollectible.

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

Prepaid Advertising and Marketing Costs: Prepaid advertising and marketing costs include costs of advertisements that have not yet been published. Upon publishing of an advertisement, the related cost is expensed by the Company. Advertising and promotional costs for the years ended October 31, 2013 and 2012 were approximately \$3,019,000 and \$3,083,000, respectively.

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



## JLM Couture, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### 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. 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.

Fair Value of Financial Instruments: The Company's financial instruments consist principally of cash, accounts receivable, inventories, accounts payable and accrued expenses. 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 \$784,000 and \$955,000 for the years ended October 31, 2013 and 2012, 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.

## JLM Couture, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### 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"), 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 2010.

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, 2013 or 2012.

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, 2013 and 2012 was \$14,280 and \$69,447, 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 May 30, 2014.

#### Note 3. Inventories

Inventories consist of the following at October 31:

	<u>2013</u>	<u>2012</u>
Raw materials	\$ 3,276,619	\$ 3,610,721
Work-in-process	1,055,950	1,045,050
Finished goods	1,015,153	1,008,701
	<u>\$ 5,347,722</u>	<u>\$ 5,664,472</u>

#### Note 4. Prepaid Expenses and Other Current Assets

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

	<u>2013</u>	<u>2012</u>
Prepaid advertising and marketing costs	\$ 208,058	\$ 203,793
Other	200,610	117,264
	<u>\$ 408,668</u>	<u>\$ 321,057</u>

## JLM Couture, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 5. Equipment and Leasehold Improvements

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

	<u>2013</u>	<u>2012</u>	<u>Estimated Useful Life</u>
Leasehold improvements	<b>\$ 906,506</b>	\$ 894,135	Term of lease or useful life, whichever is shorter
Furniture and equipment	<b>700,614</b>	648,674	7 years
Transportation equipment	<b>112,348</b>	80,131	3 years
Construction-in-progress	<b>-</b>	51,245	
	<b>1,719,468</b>	1,674,185	
Less accumulated depreciation and amortization	<b>(1,122,150)</b>	(1,028,882)	
<b>Equipment and leasehold improvements, net</b>	<b>\$ 597,318</b>	<b>\$ 645,303</b>	

Depreciation and amortization expense amounted to \$93,268 and \$71,157 for the years ended October 31, 2013 and 2012, respectively.

#### Note 6. Bank Revolving Credit Line

The Company has a revolving credit agreement with a bank, which was renewed to June 2014. 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 (5.75% at October 31, 2013). 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 \$207,380 and \$414,103 outstanding on the line at October 31, 2013 and 2012, respectively and the Company had additional borrowing availability of \$1,262,620 at October 31, 2013.

#### Note 7. Income Taxes

The provision for income taxes for the years ended October 31, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Current:		
Federal	<b>\$ 82,121</b>	\$ 12,047
State and local	<b>28,749</b>	25,449
	<b>110,870</b>	37,496
Deferred	<b>187,000</b>	76,000
	<b>\$ 297,870</b>	<b>\$ 113,496</b>

## JLM Couture, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 7. Income Taxes (Continued)

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

	<u>2013</u>	<u>2012</u>
Deferred tax assets		
Current:		
Net operating loss carryforward	\$ 212,000	\$ 220,000
Allowance for doubtful accounts	96,000	104,000
Other liabilities and accruals	23,000	23,000
Stock compensation expense	16,000	102,000
Other	-	12,000
	<u>347,000</u>	<u>461,000</u>
Noncurrent:		
Difference in tax and book basis of property and equipment	59,000	58,000
Other liabilities and accruals	92,000	39,000
	<u>151,000</u>	<u>97,000</u>
<b>Total deferred tax assets</b>	<b><u>498,000</u></b>	<b><u>558,000</u></b>
Deferred tax liabilities		
Current:		
Prepaid advertising and marketing expenses	(35,000)	(33,000)
Inventory capitalization costs	(275,000)	(152,000)
	<u>(310,000)</u>	<u>(185,000)</u>
Noncurrent:		
Accumulated depreciation and amortization	(81,000)	(79,000)
	<u>(81,000)</u>	<u>(79,000)</u>
<b>Total deferred tax liabilities</b>	<b><u>(391,000)</u></b>	<b><u>(264,000)</u></b>
<b>Net deferred tax asset</b>	<b><u>\$ 107,000</u></b>	<b><u>\$ 294,000</u></b>

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

#### Note 8. Shareholders' Equity

Stock Option Plans: On October 28, 2003, the Company adopted the 2003 Stock Incentive Plan (the "2003 Plan"). The 2003 Plan authorizes the grant of incentive options, nonqualified options, stock appreciation rights, restricted awards and performance awards. Incentive options may only be granted to employees of the Company. The option price at which an option may be exercised must be at least 100% of the fair market value per share of the common stock on the date of grant (or 110% of the fair market value with respect to incentive options granted to an employee who owns stock possessing more than 10% of the total voting power of all classes of stock of the Company). The maximum number of shares that may be issued pursuant to awards granted under the 2003 Plan may not exceed the sum of (a) 500,000 shares, plus (b) any shares of common stock remaining available for issuance as of the effective date of the 2003 Plan.

**JLM Couture, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 8. Shareholders' Equity (Continued)**

The following table summarizes data relating to nonincentive plan options and incentive plan options:

Options	Incentive			Nonincentive		
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at November 1, 2011	15,000	\$ 1.47	1.90	120,000	\$ 1.89	1.36
Issued	-	-	-	100,000	1.25	-
Forfeited or expired	-	-	-	-	-	-
Outstanding at October 31, 2012	15,000	1.47	0.89	220,000	1.60	2.02
Exercised	-	-	-	(30,000)	1.25	-
Forfeited or expired	(15,000)	1.47	-	(120,000)	1.89	-
Outstanding at October 31, 2013	-	\$ -	-	70,000	\$ 1.89	2.88
Exercisable at October 31, 2013	-	\$ -	-	70,000	\$ 1.89	2.88

The following table summarizes information about stock options outstanding and exercisable at October 31, 2012:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$1.25	70,000	2.9 years	\$1.25	70,000	\$1.25

There were 365,000 shares of common stock at both October 31, 2013 and 2012 that were reserved for future issuance of stock options. The options outstanding and exercisable had an intrinsic value of \$84,700 and \$2,500 at October 31, 2012 and 2011, respectively. The fair value of options exercised was \$18,650 at October 31, 2013.

## JLM Couture, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### 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 \$35,000 note was received for the purchase. The note is due on demand and has an outstanding balance of \$36,710 at both October 31, 2013 and 2012.

On December 22, 1998, the Company issued an executive of the Company 200,000 shares of common stock at a price of \$2.25 per share, which was the fair value on the issuance date. The executive executed a promissory note due to the Company in the amount of \$450,000, with \$45,000 in principal and accrued interest payments due annually on December 22 until repaid. The promissory note bears interest at 5% per annum. The outstanding principal and interest balance at October 31, 2013 and 2012 was \$10,176 and \$9,691, respectively.

#### 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 plan for the years ended October 31, 2013 and 2012 was approximately \$25,600 and \$13,700, 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,	
2014	\$ 794,134
2015	817,710
2016	812,349
2017	744,020
2018	774,803
Thereafter	<u>3,103,518</u>
	<u>\$ 7,046,534</u>

Rent expense charged to operations for the foregoing leases for the years ended October 31, 2013 and 2012 amounted to \$828,925 and \$819,237, 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 required lease payments. Deferred rent payable amounted to \$324,702 and \$101,451 at October 31, 2013 and 2012, respectively, and is included in accrued expenses and other current liabilities on the accompanying consolidated balance sheets.

At October 31, 2013 and 2012, the Company was committed under a stand-by letter of credit issued by the bank on its behalf for \$63,487.

## **JLM Couture, Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements**

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#### **Note 11. Commitments and Contingencies (Continued)**

The Company has employment agreements with various executives and designers. Future minimum commitments under these agreements amount to approximately \$950,000 per year expiring at various dates through 2016.

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.