

**COUSIN CORPORATION OF AMERICA**

Financial Statements  
with  
Independent Auditors' Report

December 31, 2016 and 2015

# COUSIN CORPORATION OF AMERICA

## Table of Contents

December 31, 2016 and 2015

INDEPENDENT AUDITORS' REPORT .....	1-2
FINANCIAL STATEMENTS	
Balance Sheets .....	3
Statements of Income.....	4
Statements of Stockholders' Equity.....	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7 - 10

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Cousin Corporation of America  
Largo, Florida

Ladies and Gentlemen:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Cousin Corporation of America (a Florida corporation), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income, stockholders' equity and cash flows for the years then ended, and the related notes to 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cousin Corporation of America as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Melby & Associates, P.A., CPAs*

Melby & Associates, P.A., CPA's  
February 24, 2017

# COUSIN CORPORATION OF AMERICA

## Balance Sheets

December 31, 2016 and 2015

### Assets

	<u>2016</u>	<u>2015</u>
Current assets		
Cash in bank and on hand	\$ 653,869	\$ 4,561
Accounts receivable	7,330,370	9,546,634
Inventories (Note 1)	12,567,291	11,868,399
Prepaid expenses and other	<u>51,920</u>	<u>59,714</u>
Total current assets	20,603,450	21,479,308
Property and equipment, net (Note 3)	<u>1,859,463</u>	<u>1,994,788</u>
Total assets	<u>\$22,462,913</u>	<u>\$23,474,096</u>

### Liabilities and Stockholders' Equity

Current liabilities		
Current portion of term notes payable (Note 4)	\$ 116,431	\$ 237,267
Line of credit (Note 4)	-	2,271,941
Accounts payable	2,766,250	1,228,539
Accrued expenses (Note 5)	<u>541,460</u>	<u>490,559</u>
Total current liabilities	3,424,141	4,228,306
Term notes payable (Note 4)	<u>-</u>	<u>116,315</u>
Total liabilities	3,424,141	4,344,621
Stockholders' equity		
Common stock - \$.10 par value; 310,000 shares authorized, issued, and outstanding	31,000	31,000
Other contributed paid-in capital	1,139,331	1,139,331
Retained earnings	<u>17,868,441</u>	<u>17,959,144</u>
Total stockholders' equity	<u>19,038,772</u>	<u>19,129,475</u>
Total liabilities and stockholders' equity	<u>\$22,462,913</u>	<u>\$23,474,096</u>

See accompanying notes to financial statements.

# COUSIN CORPORATION OF AMERICA

## Statements of Income

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Sales	\$ 34,283,156	\$ 38,917,406
Cost of sales	<u>28,125,884</u>	<u>32,345,094</u>
Gross profit	6,157,272	6,572,312
Selling, general and administrative expenses, including depreciation and amortization of \$192,058 in 2016 and \$284,094 in 2015	<u>5,559,664</u>	<u>5,764,834</u>
Income from operations	597,608	807,478
Other income (expenses)		
Interest expense, net	(10,736)	(30,196)
Loss on disposal of software	<u>-</u>	<u>(1,211,937)</u>
	(10,736)	(1,242,133)
Net income (loss) before income taxes	586,872	(434,655)
Income taxes (Note 1)	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ 586,872</u>	<u>\$ (434,655)</u>

See accompanying notes to financial statements.

# COUSIN CORPORATION OF AMERICA

## Statements of Stockholders' Equity

Years ended December 31, 2016 and 2015

	<u>Common Stock</u>	<u>Other Contributed Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
Balance at January 1, 2015	\$31,000	\$1,139,331	\$ 19,150,143	\$ 20,320,474
Net loss for the year ended December 31, 2015	-	-	(434,655)	(434,655)
Less distributions to stockholders	<u>-</u>	<u>-</u>	<u>(756,344)</u>	<u>(756,344)</u>
Balance at December 31, 2015	31,000	1,139,331	17,959,144	19,129,475
Net income for the year ended December 31, 2016	-	-	586,872	586,872
Less distributions to stockholders	<u>-</u>	<u>-</u>	<u>(677,575)</u>	<u>(677,575)</u>
Balance at December 31, 2016	<u>\$31,000</u>	<u>\$1,139,331</u>	<u>\$ 17,868,441</u>	<u>\$ 19,038,772</u>

See accompanying notes to financial statements.

# COUSIN CORPORATION OF AMERICA

## Statements of Cash Flows

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net income (loss)	\$ 586,872	\$ (434,655)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loss on disposal of software	-	1,211,937
Depreciation and amortization	192,058	284,094
Decrease (increase) in accounts receivable	2,216,264	(611,223)
(Increase) in inventories	(698,892)	(208,349)
Decrease (increase) in prepaid expenses and other	7,794	(2,907)
Increase (decrease) in accounts payable	1,537,711	(1,863,865)
Increase (decrease) in accrued expenses	<u>50,901</u>	<u>(172,124)</u>
Total adjustments	<u>3,305,836</u>	<u>(1,362,437)</u>
Net cash provided by (used in) operating activities	3,892,708	(1,797,092)
Cash flows from investing activities:		
Capital expenditures	<u>(56,733)</u>	<u>(724,785)</u>
Net cash (used in) investing activities	(56,733)	(724,785)
Cash flows from financing activities:		
(Payments) advances on term note	(237,151)	(153,952)
(Payments) advances on line of credit, net	(2,271,941)	2,271,941
Distributions to stockholders	<u>(677,575)</u>	<u>(756,344)</u>
Net cash (used in) provided by financing activities	<u>(3,186,667)</u>	<u>1,361,645</u>
Net increase (decrease) in cash	649,308	(1,160,232)
Cash, beginning of year	<u>4,561</u>	<u>1,164,793</u>
Cash, end of year	<u>\$ 653,869</u>	<u>\$ 4,561</u>

See accompanying notes to financial statements.



# COUSIN CORPORATION OF AMERICA

## Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Operations

Cousin Corporation of America is a Florida Corporation engaged in the wholesale distribution and retail sale of DIY jewelry making merchandise including glass beads, semi-precious beads, Swarovski crystals, plastic beads, and a complete selection of bead kits and beading supplies. The Company distributes its products through established retail dealers, distributors, manufacturers, professional crafters, and designers throughout the United States and internationally, and via e-commerce through their Prima Bead Division. In June 2016, the Company added a fashion and gift division named Laura Janelle, which sells completed jewelry and fashion accessories to independent retail shops, hospital gift shops and small to medium sized retail chains like Hallmark. A national sales rep organization is utilized to sell and service the Laura Janelle accounts.

#### Revenues and Cost Recognition

Revenue is recognized when the following criteria are met: evidence of an agreement exists, delivery has occurred, price to the buyer is fixed and determinable, and collectibility is reasonably assured. Delivery is considered to have occurred when the customer takes title and assumes the risks and rewards of ownership, which is generally on the date of shipment.

#### Cash and Cash Equivalents

The Company considers investments with an original maturity of three months or less when purchased to be cash equivalents.

#### Accounts Receivable and Allowance for Doubtful Accounts

The Company purchases credit insurance for select accounts receivable. In addition, the Company periodically reviews its accounts to determine if an allowance is necessary. As of December 31, 2016 and 2015, the Company determined that no allowance for doubtful accounts was necessary.

#### Inventories

Inventories are stated at the lower of cost or market determined on the first-in, first-out basis based on average cost. Inventories consisted primarily of finished goods.

#### Depreciation and Amortization

For financial reporting purposes, depreciation of property and equipment and amortization of other assets is provided primarily on the double declining balance method.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

# COUSIN CORPORATION OF AMERICA

## Notes to Financial Statements

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Income Taxes

The Company has elected to be taxed under Subchapter S of the Internal Revenue Code. Under this election, all elements of taxable income flow through to the stockholders. Therefore, no provision for income taxes is required on the financial statements.

#### Derivative Financial Instruments

Derivative financial instruments are used to manage foreign exchange risk with the Chinese Yuan and risks with the price of silver. Gains and losses on these contracts are recorded at the settlement date of those contracts as adjustments to the material cost of the products being purchased in China for the Chinese Yuan and silver.

### NOTE 2 - CONCENTRATIONS OF CREDIT RISK

The Company maintains its cash balances primarily in one financial institution in Tampa, Florida. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2016, the Company had cash balances that exceeded the FDIC limit by \$402,534.

### NOTE 3 - PROPERTY AND EQUIPMENT

A summary of the major classifications of property and equipment at December 31, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Machinery and equipment	\$ 2,395,444	\$ 2,395,333
Buildings and improvements	2,240,126	2,220,488
Land	694,000	694,000
Furniture and fixtures	224,923	212,778
Vehicles	<u>135,313</u>	<u>135,313</u>
	5,689,806	5,657,912
Less accumulated depreciation	<u>(3,830,343)</u>	<u>(3,663,124)</u>
Net property and equipment	<u>\$ 1,859,463</u>	<u>\$ 1,994,788</u>

Depreciation expense charged to operations for 2016 and 2015 was \$192,058 and \$284,094, respectively.

### NOTE 4 - LINE OF CREDIT AND TERM NOTES PAYABLE

The Company finances its operations through a \$7,000,000 revolving line of credit term loan, originally signed on February 28, 2012, modified on May 5, 2014 and now maturing on May 5, 2017. The outstanding balance on the line of credit at December 31, 2016 and 2015 was \$0 and \$2,271,941, respectively. Interest is at the one month libor rate plus two (2.0%) percent per annum. The note is collateralized by substantially all of the Company's accounts receivable, inventories, property and equipment, and other assets, and is subject to certain loan covenants. The unused portion of the note at December 31, 2016 and 2015 was \$6,883,569 and \$4,374,477, respectively.

# COUSIN CORPORATION OF AMERICA

## Notes to Financial Statements

### NOTE 4 - LINE OF CREDIT AND TERM NOTES PAYABLE (CONTINUED)

In addition, the Company entered into a four year, \$700,000 term loan originally signed on October 30, 2013, modified on October 30, 2014 and now maturing in June 2017 for the purpose of funding a new ERP software system. Interest is fixed at 3.14% per annum and the agreement reduces the amount available under the line of credit to \$6,883,569 (\$7,000,000 less the outstanding balance on the term note). The note is collateralized by accounts receivable and inventory. The outstanding balance on the term loan at December 31, 2016 and 2015 was \$116,431 and \$353,582, respectively. Monthly principal and interest payments of \$20,414 began on May 30, 2015 and continue through June 2017.

The maturity over the next year is as follows:

2017	\$116,431
------	-----------

Interest expense paid during the years ended December 31, 2016 and 2015 was \$10,736 and \$30,240, respectively.

### NOTE 5 - ACCRUED EXPENSES

A summary of the major classifications of accrued expenses at December 31, 2016 and 2015 consists of the following:

	2016	2015
Customer entitlements or rebates	\$ 33,832	\$ 8,896
Salaries and wages	217,829	222,871
Commissions and royalties	88,443	53,980
401k Plan payable	175,912	172,788
All other	25,444	32,024
Total	<u>\$ 541,460</u>	<u>\$ 490,559</u>

### NOTE 6 - COMMITMENTS

The Company leases a portion of its warehouse facilities through May 31, 2018. As of December 31, 2016, the future obligations over the term of the Company's lease amounted to \$404,460. These future commitments by year are as follows:

2017	\$285,460
2018	<u>119,000</u>
	<u>\$404,460</u>

Rental expense charged to operations for the years ended December 31, 2016 and 2015 was \$289,398 and \$297,759, respectively.

# COUSIN CORPORATION OF AMERICA

## Notes to Financial Statements

### NOTE 7 - MAJOR CUSTOMERS

During the years ended December 31, 2016 and 2015, major customers accounted for the following percentages of net sales:

	<u>2016</u>	<u>2015</u>
Wal-Mart Stores USA	58%	61%
Michael's Stores Inc.	17%	15%
Hobby Lobby	9%	5%
Jo Ann Stores, Inc.	7%	7%
Wal-Mart Stores Canada	2%	3%
AC Moore	2%	3%

Accounts receivable from these customers as of December 31, 2016 and 2015, amounted to \$7,051,068 and \$9,227,811 or 96% and 97%, respectively, of total receivables at those dates.

### NOTE 8 - 401(k) SAVINGS PLAN

The Company provides a 401(k) Savings Plan for the benefit of eligible employees. The Company contributes 100% of the employee's salary deferral up to 4% of compensation, plus 50% of the deferral in excess of 4% up to 6% of compensation. The Company contributions for the years ended December 31, 2016 and 2015 were \$175,912 and \$172,788, respectively.

### NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS

The Company has entered into certain transactions to hedge the foreign exchange risk associated with material purchases from China and the risk associated with the price of silver for certain materials purchased. The China hedges are US dollar/China Yuan Offshore Currency Futures (USD/CNH futures). The Company recognizes the gains and losses resulting from these hedges as adjustments to the cost of materials in the Chinese Yuan or silver hedges when settled.

The Company uses the "Income Approach" to disclose the value of assets (liabilities) at the balance sheet date. As defined by ASC 820, the Income Approach uses valuation techniques to convert future amounts to a single present value. As of December 31, 2016 and 2015, the present value of those amounts were:

<u>Liabilities</u>	<u>2016</u>	<u>2015</u>
Silver Commodity	\$ -	\$ (134,876)
Foreign Currency - Chinese Yuan	<u>(6,236,241)</u>	<u>(4,502,616)</u>
Total	<u><u>\$(6,236,241)</u></u>	<u><u>\$(4,637,492)</u></u>

### NOTE 10 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 24, 2017, the date on which the financial statements were available to be issued, and determined that no subsequent event activity required disclosure.