

Edgar Filing: JLM COUTURE INC - Form 10QSB

JLM COUTURE INC  
Form 10QSB  
September 19, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from----- to -----.

Commission file number 0-19000  
-----

JLM COUTURE, INC.

-----  
(Exact name of small business issuer as specified in its charter)

Delaware 13-3337553  
-----  
(State or other jurisdiction of (IRS Employer)  
incorporation or organization) Identification No.)

225 West 37th Street, New York, New York 10018  
-----

(212) 921-7058  
-----

Registrant's telephone number, (including area code)

-----  
(Former name, former address and former fiscal year, if changed  
since last report)

Check whether the issuer (1) filed all reports required to be  
filed by Section 13 or 15(d) of the Exchange Act of 1934 during the  
past 12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

Yes  No

As of September 13, 2002, there were 2,014,270 shares of  
common stock, par value \$.0002 per share, outstanding.

Transitional small business disclosure format (check one)

Yes  No

Edgar Filing: JLM COUTURE INC - Form 10QSB

Page 1 of 16.

The Exhibit Index is located on Page 13.

JLM COUTURE, INC.

INDEX

	Page
	----
Part I. Financial Information:	
Item 1. Consolidated Financial Statements.	
Consolidated Balance Sheets at July 31, 2002 and October 31, 2001	3-4
Consolidated Statements of Income for the three and nine months ended July 31, 2002 and 2001	5
Consolidated Statements of Cash Flows for the nine months ended July 31, 2002 and 2001	6-7
Notes to Consolidated Financial Statements	8-9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation.	10-12
Part II. Other Information:	
Item 6. Exhibits and Reports on Form 8-K.	13
Signature	14
Certifications	15-16

PART I. FINANCIAL INFORMATION

JLM COUTURE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

ASSETS

July 31, 2002	October 31, 2001
-----	-----

## Edgar Filing: JLM COUTURE INC - Form 10QSB

(Unaudited)

Current assets:		
Cash and cash equivalents	\$ 341,195	\$ 204,647
Accounts receivable, net of allowances for doubtful accounts and trade discounts - \$550,000 at July 31, 2002 and \$425,000 at October 31, 2001	4,837,754	3,434,528
Inventories	4,036,402	3,716,153
Prepaid expenses and other current assets	343,065	487,877
Deferred income taxes	4,000	4,000
Prepaid Taxes	-	152,910
	-----	-----
Total current assets	9,562,416	8,000,115
Property and equipment - at cost net of accumulated depreciation and amortization of \$707,495 at July 31, 2002 and \$645,548 at October 31, 2001		
	360,235	199,664
Goodwill, net of accumulated amortization of \$66,960 at July 31, 2002 and \$56,337 at October 31, 2001		
	214,793	225,356
Samples, net of accumulated amortization of \$224,433 at July 31, 2002 and \$139,853 at October 31, 2001		
	211,277	250,958
Other assets	63,332	63,332
	-----	-----
	\$10,412,053	\$8,739,425
	=====	=====

See accompanying notes to consolidated financial statements.

### JLM COUTURE, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

#### LIABILITIES AND SHAREHOLDERS' EQUITY

	July 31, 2002	October 31, 2001
	-----	-----
	(Unaudited)	
Current liabilities:		
Revolving line of credit	\$ -	\$ 450,000
Accounts payable	1,578,463	1,175,013
Income taxes payable	277,090	-
Accrued expenses and other current liabilities	807,549	283,515
	-----	-----
Total current liabilities	2,663,102	1,908,528
	-----	-----
Deferred income taxes	594,000	594,000
Other liabilities	-	8,239
	-----	-----
Total liabilities	3,257,102	2,510,767

Edgar Filing: JLM COUTURE INC - Form 10QSB

	-----	-----
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 2,330,530 at July 31, 2002 and 2,330,530 at October 31, 2001; Outstanding 2,014,770 at July 31, 2002 and 2,098,210 at October 31, 2001	465	465
Additional paid-in capital	3,653,642	3,653,642
Retained earnings	4,987,467	3,963,095
	-----	-----
	8,641,574	7,617,202
Less: Deferred compensation	(350,938)	(421,250)
Note receivable and accrued interest	(396,245)	(432,135)
Treasury stock at cost: 315,760 shares at July 31, 2002 and 232,320 shares at October 31, 2001	(739,440)	(535,159)
	-----	-----
Total shareholders' equity	7,154,951	6,228,658
	-----	-----
	\$10,412,053	\$8,739,425
	=====	=====

See accompanying notes to consolidated financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2002 AND 2001  
(Unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	JULY 31,		JULY 31,	
	2002	2001	2002	2001
	-----	-----	-----	-----
Net sales	\$7,521,046	\$6,334,194	\$19,629,794	\$16,886,056
Cost of goods sold	4,624,529	3,935,996	12,117,569	10,465,579
	-----	-----	-----	-----
Gross profit	2,896,517	2,398,198	7,512,225	6,420,477
Selling, general and administrative expenses	2,047,797	1,833,846	5,704,688	5,003,978
	-----	-----	-----	-----

Edgar Filing: JLM COUTURE INC - Form 10QSB

Operating income	848,720	564,352	1,807,537	1,416,499
Interest expense, net of interest income	3,151	11,694	13,165	46,757
	-----	-----	-----	-----
Income from operations before provision for income taxes	845,569	552,658	1,794,372	1,369,742
Provision for income taxes	370,000	245,000	770,000	590,000
	-----	-----	-----	-----
Net income	\$ 475,569	\$ 307,658	\$1,024,372	\$ 779,742
	=====	=====	=====	=====
Net income per weighted average number of common shares				
Basic	\$ 0.23	\$ 0.16	\$ 0.50	\$ 0.40
	=====	=====	=====	=====
Diluted	\$ 0.23	\$ 0.16	\$ 0.49	\$ 0.40
	=====	=====	=====	=====
Weighted average number of common shares				
Basic	2,026,982	1,927,900	2,051,100	1,944,381
	=====	=====	=====	=====
Diluted	2,080,560	1,955,210	2,073,881	1,968,595
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED  
JULY 31, 2002 AND 2001

	NINE MONTHS ENDED JULY 31,	
	2002	2001
	-----	-----
Cash Flows from Operating Activities		
Net income	\$ 1,024,372	\$ 779,742
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and goodwill amortization	72,510	65,816
Amortization of deferred compensation	70,312	8,437
Provision for doubtful accounts and trade discounts	125,000	(75,000)
Changes in operating assets and liabilities (Increase) in accounts receivable	(1,528,226)	(640,334)

Edgar Filing: JLM COUTURE INC - Form 10QSB

(Increase) in inventories	(320,249)	(302,273)
(Increase) decrease in prepaid expenses and other current assets	144,812	(297,096)
Decrease in samples	39,681	96,648
(Increase) in other assets	-	(3,159)
Increase in accounts payable, accrued expenses and other current liabilities	927,484	402,163
Increase in taxes payable	430,000	186,711
(Decrease) in long term liabilities	(8,239)	(24,379)
	-----	-----
Net cash provided by Operating Activities	977,457	197,276
	-----	-----
Cash Flows From Investing Activities		
Purchase of property and equipment	(222,518)	(36,349)
	-----	-----
Net Cash used in Investing Activities	(222,518)	(36,349)
	-----	-----
Cash Flows from Financing Activities		
Net (reductions) proceeds from short term borrowing	(450,000)	200,000
Payments of notes receivable	35,890	33,656
Purchase of treasury stock	(204,281)	(166,786)
Exercise of stock options	-	8,700
	-----	-----
Net Cash (used in) provided by Financing Activities	(618,391)	75,570
	-----	-----
Net increase in cash	136,548	236,497
Cash, beginning of period	204,647	155,334
	-----	-----
Cash, end of period	\$ 341,195	\$ 391,831
	=====	=====

See accompanying notes to consolidated financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED  
JULY 31, 2002 AND 2001  
(Unaudited)

Supplemental Disclosures of Cash Flow Information:

	2002	2001
	-----	-----
Cash paid during the year for:		
Interest	\$ 33,958	\$ 38,839
	=====	=====
Income taxes	\$340,000	\$397,622
	=====	=====

# Edgar Filing: JLM COUTURE INC - Form 10QSB

See accompanying notes to consolidated financial statements.

## JLM COUTURE, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### Note 1. Basis of Presentation

The consolidated balance sheets as of July 31, 2002, the consolidated statements of income for the nine month periods ended July 31, 2002 and 2001 and the consolidated statements of cash flows for the nine month periods ended July 31, 2002 and 2001 have been prepared by the Company, without audit. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows, as of July 31, 2002 and for all periods presented have been made. The results of operations are not necessarily indicative of the results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-KSB for its fiscal year ended October 31, 2001 which was filed with the Securities and Exchange Commission.

### Note 2. Inventories

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

	July 31, 2002	October 31, 2001
	-----	-----
Raw materials	\$2,399,358	\$2,302,754
Work-in-process	497,645	176,823
Finished Goods	1,139,399	1,236,576
	-----	-----
	\$4,036,402	\$3,716,153
	=====	=====

Raw materials are shown as net of \$260,000 obsolescence reserves at July 31, 2002 and October 31, 2001.

## JLM COUTURE, INC. AND SUBSIDIARIES NOTES TO FINANCIAL STATEMENTS (Unaudited)

### Note 3. Revolving Line of Credit

The Company had an available line of credit of up to

## Edgar Filing: JLM COUTURE INC - Form 10QSB

\$1,250,000 with a financial institution. Borrowings are collateralized by the Company's cash, accounts receivable, securities, deposits and general intangibles. At July 31, 2002 and October 31, 2001 the Company had borrowed \$0 and \$450,000, respectively, under the revolving line of credit.

### Note 4. Treasury Stock

During the nine month period ended July 31, 2002, the Company purchased 83,440 shares of Common Stock at a total cost of \$204,281. Treasury stock is reflected on the balance sheet as a reduction of shareholders equity.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

#### Results of Operations

-----

Nine months ended July 31, 2002 as compared to nine months ended July 31, 2001 and three months ended July 31, 2002 as compared to three months ended July 31, 2001.

For the first nine months of the Company's fiscal year ending October 31, 2002 ("Fiscal 2002"), revenues increased to \$19,629,794 from \$16,886,056, an increase of 16.2% over the same period a year ago. This increase was due to increased market penetration of the Company's products. Gross profit as a percentage of sales increased to 38.3% from 38% during the same period a year ago. Selling, general and administrative ("SG&A") expenses as a percentage of sales decreased to 29.1% of sales as compared to 29.6% due to economies of scale. Net income was \$1,024,372 an increase of 31.8% from net income of \$779,742 in the first nine months of Fiscal 2001 as a result of increased sales. Per share earnings for this period was \$.50 per basic share and \$.49 per diluted share, as compared to \$0.40 per basic and diluted share a year ago.

For the quarter ended July 31, 2002 ("3Q FY2002"), revenues increased to \$7,521,046 from \$6,334,194, an increase of 18.7% over the same period a year ago. This increase was due to increased market penetration of the Company's products. Gross profit as a percentage of sales rose to 38.5% from 37.9% as there were economies of scale associated with the increased sales volume. SG&A expenses as a percentage of sales decreased to 27.2% as compared to 29.0%. Net income was \$475,569, an increase of 54.6% over net income of \$307,658 in the third quarter of Fiscal 2001. Per share earnings for this period were \$.23 per basic and diluted share, as compared to \$0.16 per basic and diluted share a year ago.

#### Liquidity and Capital Resources

-----

The Company's working capital increased to \$6,899,314 at July 31, 2002 from \$6,091,587 at October 31, 2001. The Company's current ratio decreased to 3.6 to 1 at July 31, 2002 from 4.2 to 1



## Edgar Filing: JLM COUTURE INC - Form 10QSB

at October 31, 2001.

During the nine months ended July 31, 2002, the Company provided \$977,457 of cash from operating activities, as compared to \$197,276 in the year earlier period. The Company used \$222,518 of cash in investing activities in the current year compared to using \$36,349 cash a year ago. This was primarily due to the capital costs associated with the moving of the company's showroom during the current period. The Company used \$618,391 of cash for financing activities during the nine months ended July 31, 2002, as compared to being provided \$75,570 a year earlier, as the Company paid down \$450,000 to its revolving credit facility during the current period.

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 ten-year promissory note due to the Company in the amount of \$450,000, with \$45,000 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 July 31, 2002 and October 31, 2001 was \$344,500 and \$374,000 respectively.

On August 14, 2001, pursuant to an employment agreement the Company issued 200,000 unregistered shares to an executive of the Company. The employment agreement expires on April 30, 2006. Deferred compensation for the fair value of the related shares was recorded in connection with this issuance. The unamortized portion of such deferred compensation will be amortized over the remaining life of the employment agreement.

### Recent Accounting Pronouncements

-----

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS No. 141) and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142).

SFAS No. 141 addresses financial accounting and reporting for business combinations. This statement requires the purchase method of accounting to be used for all business combinations, and prohibits the pooling-of-interests method of accounting. This statement is effective for all business combinations initiated after June 30, 2001 and supersedes APB Opinion No. 16, "Business Combinations" as well as FASB Statement of Financial Accounting Standards No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises."

SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets should be accounted for in financial statements upon their acquisition. This statement requires goodwill to be periodically reviewed for impairment rather than amortized, effective with fiscal years beginning after December 15, 2001. SFAS No. 142 supersedes APB Opinion No. 17, "Intangible Assets." The Company is currently evaluating the implications of adoption of SFAS No. 142 and anticipates adopting its provisions for its fiscal year beginning November 1, 2002.

## Edgar Filing: JLM COUTURE INC - Form 10QSB

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and amends the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations Reporting the Effect of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. The provisions of SFAS No. 144 will be effective for fiscal years beginning after December 15, 2001. The Company is currently evaluating the implications of adoption of SFAS No. 144 and anticipates adopting its provisions for its financial year beginning November 1, 2002.

### Safe Harbor Statement

-----

Statements which are not historical facts, including statements about the Company's confidence and strategies and its expectations about new and existing products, technologies and opportunities, market and industry segment growth, demand and acceptance of new and existing products are forward looking statements that involve risks and uncertainties. These include, but are not limited to, product demand and market acceptance risks; the impact of competitive products and pricing; the results of financing efforts; the loss of any significant customers of any business; the effect of the Company's accounting policies; the effects of economic conditions and trade, legal, social, and economic risks, such as import, licensing, and trade restrictions; the results of the Company's business plan and the impact on the Company of its relationship with its lender.

## PART II. OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K.

#### (a) Exhibits.

-----

- 3.1 Certificate of Incorporation of the Company as amended dated December 30, 1994, incorporated by reference to Exhibit 3.1 of the Company's annual Report on Form 10-KSB filed for its fiscal year ended October 31, 1995 ("1995 10-K").
- 3.2 The Company's By-Laws are incorporated by reference to Exhibit 3.03 of Registration Statement No. 33-10278 NY filed on Form S-18 ("Form S-18").
- 10.1 Amendment No. 1 dated August 14, 2001 to Employment Agreement between the Company and Joseph L. Murphy

Edgar Filing: JLM COUTURE INC - Form 10QSB

dated May 19, 1998 incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the period ended July 31, 2001.

- 99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

-----

None.

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JLM COUTURE, INC.  
Registrant

By: /s/ Joseph L. Murphy  
-----  
Joseph L. Murphy, President  
(Duly authorized officer)

Dated: September 19, 2002

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph L. Murphy, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of JLM Couture, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

Edgar Filing: JLM COUTURE INC - Form 10QSB

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: September 19, 2002

/s/Joseph L. Murphy  
-----

Name: Joseph L. Murphy  
Title: Chief Executive Officer  
(Principal Executive Officer)

CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jerrold Walkenfled, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of JLM Couture, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: September 19, 2002

/s/Jerrold Walkenfled  
-----

Name: Jerrold Walkenfled  
Title: Financial Consultant