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JLM COUTURE INC
Form 10-K
February 14, 2005

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

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 31, 2004
or
- TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No.: 0-19000

JLM COUTURE, INC.

(Exact name of registrant as specified in its charter)

Delaware

13-3337553

(State or other jurisdiction
of incorporation or organization)

(IRS Employer
Identification No.)

225 West 37th Street, 5th Floor, New York, NY 10018

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (212) 921-7058

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act:

Common Stock, par value \$.0002 per share

(Title of class)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer:

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Yes [] No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant computed by reference to the closing sale price of the Common Stock on January 16, 2004 as reported by NASDAQ) was approximately \$3,624,581.

As of October 31, 2004 the issuer had 1,962,644 shares of Common Stock, par value \$.0002 per share outstanding.

The Proxy Statement of the registrant to be filed on or before February 28, 2005 is incorporated herein by reference.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. For example, statements included in this report regarding the Company's financial position, business strategy and other plans and objectives for future operations, and assumptions and predictions about future product demand, supply, manufacturing, costs, marketing and pricing factors are all forward-looking statements. When this report contains words like "intend," "anticipate," "believe," "estimate," "plan" or "expect," the Company is making forward-looking statements. The Company believes that the assumptions and expectations reflected in such forward-looking statements are reasonable, based on information available to the Company on the date hereof, but the Company cannot assure anyone that these assumptions and expectations will prove to have been correct or that it will take any action that it may presently be planning. The Company has disclosed certain important factors that could cause the Company's actual results to differ materially from its current expectations elsewhere in this report. The reader should understand that forward-looking statements made in this report are necessarily qualified by these factors. The Company is not undertaking to publicly update or revise any forward-looking statement if the Company obtains new information or upon the occurrence of future events or otherwise.

PART I

Item 1. Business.

Background. JLM Couture, Inc. (the "Company"), a Delaware corporation whose name was changed from Jim Hjelm's Private Collection, Ltd. in July 1997, was organized in April 1986 to design, manufacture and market high quality bridal wear and related accessories, including bridesmaid gowns. In 1993, the Company launched the Lazaro bridal division. In May 1997, the Company acquired Alvina Valenta Couture Collection, Inc. ("Alvina"), which designs, manufactures and markets couture-quality bridal wear. In 1999, the Company established a sales office in England to penetrate the European market. In 2000, the Company launched Lazaro Ensembles and Jim Hjelm Just Separates as new bridesmaid divisions.

Business. The Company operates primarily in one business segment: the design, manufacture and distribution of bridal gowns, veils and bridesmaid gowns. For financial information relating to the Company's business segment, please refer to the Financial Statements contained elsewhere herein.

The Company's couture lines of bridal gowns, bridesmaid gowns, veils and related items (the "Jim Hjelm," "Lazaro" and "Alvina Valenta" lines) emphasize contemporary and traditional styles characterized by ankle or floor length gowns, with or without trains, and are principally constructed in satin, silk and lace. The Company's designs reflect its emphasis on quality and design originality. Wholesale prices for the Company's bridesmaid and bridal gowns range from \$100 to \$180 and \$700 to \$3,200, respectively, with suggested retail prices ranging from \$200 to \$360 for bridesmaid gowns

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and \$1,400 to \$6,400 for bridal gowns.

The Company also produces a line of less expensive bridal gowns called "Visions", which is styled similarly to the Company's couture lines, but is constructed from less expensive fabrics. The wholesale prices for bridal gowns in the "Visions" line range from \$395 to \$600 and the retail prices range from \$800 to \$1,200.

The Company manufactures its products at both its own facilities and through hiring independent contractors. The Company uses its best efforts to maintain quality control over its independent contractors and supplies these contractors with cut pattern pieces. There are generally no written agreements between the Company and these contractors, enabling the Company to utilize each contractor on an as-needed basis. The Company also performs special changes on its basic designs at a customer's request. The Company generally charges the customer for custom alterations.

The Company utilizes bridal boutiques or bridal departments in women's clothing and department stores to market its gowns. During its fiscal year ended October 31, 2004 ("Fiscal 2004"), October 31, 2003 ("Fiscal 2003") and October 31, 2002 ("Fiscal 2002"), no customer accounted for more than ten percent (10%) of the Company's sales.

The Company's lines of gowns for each season are typically introduced at fashion shows held at the Company's showroom. The Company also displays its products at regional markets. Additionally, new collections are often featured at "trunk shows", which are fashion shows held at a retail customer's store, and which may include a personal appearance by the designer. These trunk shows are generally supported with local advertising paid for by the local retail customer.

Designers of the Company's products include Lazaro Perez (who designs under the name Lazaro), Victoria McMillan (Alvina Valenta) and Francesca Pitera for Jim Hjelm. Lazaro was awarded the Distinctive Excellence in Bridal Industry (DEBI) Award in the category of Style Innovator for bridal gowns in 1997, 1999 and 2004.

Ms. McMillan designs the Company's Alvina Valenta line of upscale wedding and bridesmaids gowns and which was acquired by the Company in 1997. Ms. McMillan has been the designer for Alvina Valenta since 1989.

The Company's designers are frequently featured in articles and advertisements published in Bride's and Your New Home and Modern Bride magazines as well as Martha Stewart, Weddings. Major fashion department stores and bridal boutiques have featured all three designers and their work in advertisements, in store customer showings, and in retail area displays.

The Company also markets its products through its five internet sites and generates customer demand through distribution of its bridal and bridesmaids catalogs.

The Company's designers generally participate in the Company's marketing efforts by appearing at seasonal bridal fashion shows and trunk shows, and otherwise being available for showing the Company's lines of bridal products. The Company also employs a full-time sales staff of 10 persons supervised by Mr. Joseph L. Murphy, the Company's President.

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The Company advertises its products in periodicals and other publications dealing with the bridal industry in advance of and during each bridal season. The Company's dresses have been advertised in *Bride's* and *Your New Home*, *Modern Bride*, *Martha Stewart*, *Weddings*, and *Elegant Bride* magazines. This advertising is directed toward displaying the Company's products in a manner that enhances the general perception of the quality of the Company's gowns and the Company's reputation.

The primary raw materials necessary for the Company's business are quality fabrics such as silks, taffetas and laces. The Company maintains a minimum inventory of these raw materials. The Company obtains its raw materials domestically and from overseas. Generally, the Company has been able to obtain necessary materials relatively easily.

Although the bridal industry is seasonal, with showings to retail buyers in advance of the Spring and Fall seasons, the Company's business has only experienced slight seasonal fluctuations, with a slight decrease in its fourth quarter.

The bridal wear industry is highly competitive. In marketing its bridalwear and bridesmaid gowns, the Company competes directly with the numerous domestic and foreign bridal houses. In its marketing efforts, the Company emphasizes the couture quality of its products and the public recognition of its trademarks Jim Hjelm, Lazaro, and Alvina Valenta. In management's view, the ability of the Company to continue to successfully compete is dependent upon the continued development and maintenance of a line of high quality and fashionable bridal wear. Equally important is the continued enhancement of the images of the Jim Hjelm, Lazaro and Alvina Valenta designer labels.

In an effort to establish a presence in Europe, the Company retains a sales representative located in England to market its Occasions and Lazaro bridesmaid gowns to the European community. Sales from this operation comprised approximately 3 to 5% of the Company's revenues in each of the last three fiscal years.

As of January 31, 2005 and January 31, 2004 the Company's backlog of firm orders was approximately \$3,700,000 and \$4,500,000, respectively. This backlog is comprised of the normal delay between receipt of an order and the manufacture of the order. All orders were delivered or expect to be completed within the applicable fiscal year.

The Company employs approximately 70 full-time employees.

The Company has registered "Jim Hjelm A Private Collection", "Alvina Valenta", "Jim Hjelm Occasions", "Lazaro", and "Jim Hjelm" as trademarks with the U.S. Patent and Trademark Office (the "USPTO"). It has also filed applications for "Just Separates" and "Occasions" with the USPTO. There is no assurance that any of these marks will be allowed to be registered.

ITEM 2. Property.

The Company's executive offices and manufacturing facility are located at 225 West 37th Street, New York, New York. This space is located in Manhattan's "garment center", an area primarily devoted to garment manufacturers and other business

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tenants. The premises are occupied pursuant to two leases with an unaffiliated party, both of which expire on February 28, 2013. The Company's manufacturing facility consists of a fully-equipped design and production area, which includes cutting tables, sewing machines and other equipment required to manufacture the Company's products. The Company also leases space at 525 Seventh Avenue under a lease terminating February 28, 2012 with an unaffiliated party. This space is utilized to display the Company's products to buyers and for marketing activities.

ITEM 3. Legal Proceedings.

The Company is not a party to any material pending legal proceedings, and to the best knowledge of the Company, no such proceedings have been threatened.

ITEM 4. Submission of Matters to a Vote of Security Holders.

On September 29, 2004, the Company held its Annual Meeting of Shareholders (the "Meeting"). The Company solicited proxies for the meeting pursuant to Regulation 14A of the Securities Exchange Act of 1934 (the "Act"); the Company's nominee for director was elected and there was no solicitation in opposition to management's nominee. Mr. Joseph Murphy was elected to serve as a Class III director until the 2007 Annual Meeting of Stockholders and until his successor is elected and qualifies.

The Company's other three directors, Messrs. Joseph E. O'Grady, Daniel Sullivan and Keith Cannon, terms of office continue until 2005, 2006 and 2006, respectively.

The shareholders also voted to ratify the appointment of Goldstein Golub Kessler LLP as the Company's independent registered public accounting firm for its fiscal year ended October 31, 2004. The following table sets forth the results of each vote:

Proposal	Affirmative Votes	Negative Votes
-----	-----	-----
Ratification of the appointment of Goldstein Golub Kessler LLP as the company's independent registered public accounting firm for its fiscal year ended October 31, 2004	1,762,912	2,333

PART II

ITEM 5. Market for the Company's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities.

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(a) Market Information. The Common Stock of the Company (the "Common Stock") is traded on the Nasdaq Small Cap Market.

The following table sets forth, for the Company's last two fiscal years, the range of high and low bid quotations for its Common Stock. The market quotations represent prices between dealers, do not include retail markup, markdown, or commissions and may not necessarily represent actual transactions.

Quarter Ended	Price range of Common Stock	
	High Bid	Low Bid
Fiscal 2003		
January 31, 2003	\$4.41	\$2.96
April 30, 2003	7.18	3.53
July 31, 2003	8.81	5.14
October 31, 2003	7.60	4.69
Fiscal 2004		
January 31, 2004	\$5.11	\$4.24
April 30, 2004	4.90	3.44
July 31, 2004	4.22	3.21
October 31, 2004	3.44	2.81
Fiscal 2005		
January 31, 2005	\$3.99	\$2.85

On February 8, 2005, the closing bid and ask prices in the Over-the-Counter market for the Common Stock as reported by Nasdaq were \$3.47 and \$3.64, respectively.

(b) Holders. As of February 8, 2005, there were approximately 128 holders of record of the Common Stock. The Company believes that there are significantly more beneficial holders of the Common Stock as many of the shares of Common Stock are held in "street" names.

(c) Dividends. No cash dividends have been paid on the Common Stock for the past two fiscal years, and the Company does not anticipate paying cash dividends in the foreseeable future.

(d) Securities Authorized for Issuance Under Equity Compensation Plans.

The following table provides information as of October 31, 2004 with respect to the Company's compensation plans under which equity securities of the Company are authorized for issuance:

Equity Compensation Plan Information

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	(a)	(b)	(c)
Plan category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	103,000	\$2.87	629,000
Equity compensation plans not approved by security holders	140,000	\$2.05	0
Total	243,000	\$2.40	629,000

Issuer Purchases of Equity Securities.

Period	(a) Total Number Of Shares (or Units) Purchased	(b) Average Price Paid per share (or Unit)	(c) Total Number of Shares (or Units) Purchased as part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may yet be purchased under the Plans or Programs
August 1, to August 31, 2004	0	0	0	0

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September 1, to September 30, 2004	0	0	0	0
October 1 to October 31, 2004,	0	0	0	0
Total	0	0	0	0

ITEM 6. Selected Financial Data

The financial data set forth below should be read in conjunction with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and the related notes included elsewhere in this Form 10-K.

Consolidated Statement Of Operations Data
(000's omitted)

	Year Ended October 31,				
	2000	2001	2002	2003	2004
Net sales	20,621	22,092	25,406	26,781	24,589
Net income	749	666	1,109	808	368
Net income per common share (basic)	.37	.34	.54	.42	.19
Net income per common share (diluted)	.36	.34	.53	.40	.18
Weighted average number of shares outstanding (diluted)	2,057	1,986	2,099	1,996	2,008
Dividends	-	-	-	-	-

Consolidated Balance Sheet Data
(000's omitted)

At October 31,				
2000	2001	2002	2003	2004
-----	-----	-----	-----	-----

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Working capital	4,867	6,092	6,803	7,210	7,943
Total assets	8,755	8,739	9,816	10,551	10,684
Long-term debt	34	8	-	-	-
Shareholder's equity	5,725	6,228	7,122	7,825	8,406

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Disclosure Regarding Forward Looking Statements

The following discussion should be read in conjunction with the Company's financial statements and notes thereto appearing elsewhere in this Form 10-K. In addition to the historical information contained herein, the discussion in this Form 10-K contains certain forward looking statements that involves risks and uncertainties, such as statements of the Company's plans, objectives, expectations and intentions. The Company's actual results could differ materially from management's current expectations.

Results of Operations - Fiscal 2004 as Compared to Fiscal 2003.

For Fiscal 2004, revenues were \$24,588,977 as compared to \$26,781,400 in Fiscal 2003, a decrease of \$2,192,423 or 8%. The Company believes the decrease was a reduction of demand for the Company's product in the current economic environment as there appears to be a nationwide trend towards simpler weddings. In addition, the temporary increase in the number of weddings subsequent to September 11, 2001 has subsided. Also, brides-to-be purchase their wedding gowns ten to twelve months in advance of their wedding, and therefore, the decrease in sales is also reflective of the slower economy of one year ago.

The Company's gross profit margin decreased in Fiscal 2004 to 39% from 42% in Fiscal 2003. The primary reason for this decrease was that the Company's product mix for Fiscal 2004 included a higher percentage of lower margin bridesmaids' dresses as compared to Fiscal 2003 when sales represented a higher percentage of bridal gowns with higher mark ups. This resulted in approximately a 1% decrease in the margin or \$240,000. Additionally, new leases for production facilities accounted for approximately \$150,000 of additional expenses. These expenses, along with lower efficiencies due to the lower sales volume, account for the decrease in gross margin.

Selling, general and administrative ("SG&A") expenses decreased to \$8,952,645 or 36% of net sales in Fiscal 2004 from \$9,899,846 or 37% of sales in Fiscal 2003, a decrease of \$947,201. The Company's efforts to control costs resulted in a decrease in approximately \$300,000 of decreased salaries in addition to approximately \$400,000 of reduced office, telephone and travel expenses. In 2003 the Company also incurred a \$208,000 expense relating to cancellation of certain stock options.

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The Company generated net income of \$367,773, or \$0.19 per share-basic and \$0.18 per share-diluted for Fiscal 2004 as compared to net income of \$807,752, or \$0.42 per share-basic and \$0.40 per share-diluted for Fiscal 2003. This was reflective of the reduced sales level.

Results of Operations - Fiscal 2003 as Compared to Fiscal 2002.

For Fiscal 2003, revenues were \$26,781,400 as compared to \$25,405,702 in Fiscal 2002, an increase of \$1,375,698 or 5%. This increase was a result of the Company's sale of bridal gowns, bridesmaids' dresses and evening wear to more retail stores during the year (an increase in the Company's customer base).

The Company's gross profit margin decreased in Fiscal 2003 to 42.2% from 44.7% in Fiscal 2002. The primary reason for this decrease was that the Company's product mix for Fiscal 2003 included a higher percentage of lower margin bridesmaids' dresses as compared to Fiscal 2002 when sales represented a higher percentage of bridal gowns with higher mark ups. This resulted in approximately a 1.5% decrease in the margin. Additionally, costs of goods sold in Fiscal 2003 included approximately \$125,000 of occupancy costs above Fiscal 2002 levels due to the expansion of the Company's production facilities and approximately \$100,000 additional payroll-related costs as the Company added a new designer (and associated staff) in the latter part of Fiscal 2003.

Selling, general and administrative ("SG&A") expenses increased to \$9,899,846 or 37% of net sales in Fiscal 2003 from \$9,300,939 or 36.6% of sales in Fiscal 2002, an increase of \$598,907. The Company's efforts in cost controls that resulted in a decrease in approximately \$500,000 of expenses in office, telephone, travel, and salaries was offset by an increase of \$1,000,000 in promotional expenses, as well as a \$208,000 expense relating to canceling certain stock options.

The Company generated net income of \$807,752, or \$0.42 per share-basic and \$0.40 per share-diluted for Fiscal 2003 as compared to net income of \$1,109,133, or \$0.54 per share-basic and \$0.53 per share-diluted for Fiscal 2002.

Liquidity and Capital Resources

The Company's working capital increased to \$7,943,317 at October 31, 2004 from \$7,210,049 at October 31, 2003, an increase of \$733,268. The Company's current ratio was 6.0 to 1 at October 31, 2004 and 4.4 to 1 at October 31, 2003.

During Fiscal 2004, net cash provided by the Company's operating activities was \$371,788 as compared to cash provided by operating activities of \$742,192 in Fiscal 2003. In Fiscal 2004, the Company increased its inventory in excess of \$600,000 over Fiscal 2003 levels and purchased raw materials as the Company anticipated growth in the new Alvina Valenta bridesmaid line of dresses, as well as other new product lines. The Company reduced accounts receivable by close to \$900,000 and accounts payable and other liabilities by over \$500,000 as business slowed during the year.

Cash used in investing activities in Fiscal 2004 was \$43,687

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as compared to \$320,373 in Fiscal 2003. In 2003 the Company incurred costs associated with the expansion of its production facility.

Cash provided by financing activities in Fiscal 2004 was \$48,500 as compared to using \$161,566 in Fiscal 2003 when the Company purchased \$214,261 of treasury stock.

The Company's working capital increased to \$6,803,455 at October 31, 2003 from \$6,091,587 at October 31, 2002, an increase of \$711,868. The Company's current ratio was 4.4 to 1 at October 31, 2003 as compared to 4.2 to 1 at October 31, 2002.

During Fiscal 2003, net cash provided by the Company's operating activities was \$1,841,085 as compared to cash provided by operating activities of \$272,298 in Fiscal 2002. The increase was primarily due to the increase in net income. Additionally, certain expenses, including taxes, incurred in Fiscal 2003 were not payable until Fiscal 2004.

Cash used in investing activities in Fiscal 2003 was \$341,149 as compared to \$40,356 in Fiscal 2002, as the Company incurred cost associated with its relocation of its showroom.

Cash used in financial activities in Fiscal 2003 was \$745,773 as compared to \$182,629 in Fiscal 2002. This was primarily a result of the Company eliminating its revolving credit borrowings in Fiscal 2003 of \$1,250,000 as well as increased purchases of treasury stock.

The Company has a loan agreement with Israel Discount Bank of New York (the "Credit Line"). The Credit Line provides for interest to be charged at the prime interest rate. The Credit Line is secured by a first lien on all of the Company's accounts receivable, inventories, cash, securities, deposits and general intangibles.

Funds generated from operations along with the Credit Line are expected to be sufficient for the Company to meet its cash flow requirements in the foreseeable future, including all contractual obligations as disclosed in Note 12 to the financial statements.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Contractual Obligations

The following is a summary of the Company's significant contractual cash obligations for the periods indicated that existed as of October 31, 2004 and is based on information appearing in the notes to the consolidated financial statements:

Contractual Obligations	2005	2006	2007	2008	2009	Thereafter	Total
-----	----	----	-----	-----	-----	-----	-----
Operating	\$577,445	\$572,170	\$562,796	\$587,401	\$607,711	\$1,844,355	\$4,751,878

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Leases

Employment Agreement	481,475	329,834	341,068	352,691	364,716	977,950	2,847,734
	-----	-----	-----	-----	-----	-----	-----
Total Contractual Obligations	\$1,058,920	\$902,004	\$903,864	\$940,092	\$972,427	\$2,822,305	\$7,599,612
	=====	=====	=====	=====	=====	=====	=====

Critical Accounting Policies

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, net sales and expenses, and the related disclosures. Management bases its estimates on historical experience, its knowledge of economic and market factors and various other assumptions that it believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies are affected by significant estimates, assumptions and judgments used in the preparation of the Company's consolidated financial statements.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, (i.e. 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 which 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.

Allowances for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for losses that it estimates will arise from its customers inability to make required payments. Management makes its estimates of the uncollectability of its accounts receivable by analyzing historical bad debts, specific customer creditworthiness and current economic trends. At October 31, 2004 the allowance for doubtful accounts was \$226,000 and at October 31, 2003 it was \$301,000.

Inventory Valuation

Management regularly assesses the valuation of the Company's inventories and writes down those inventories which are obsolete or in excess of management forecasted usage to their estimated realizable value. Management estimates of realizable value are

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based upon its analyses, and assumptions include, but are not limited to, forecasted sales levels by product, expected product lifecycle, product development plans and future demand requirements. If market conditions are less favorable than forecasts, or actual demand from customers is lower than management estimates, the Company may be required to record additional inventory write-downs. If demand is higher than expected, the Company may sell its inventories that had previously been written down. At October 31, 2004 and 2003 the Company maintained an obsolescence reserve of \$250,000 and \$150,000 respectively.

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 under the Credit Line.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk.

Not Applicable.

ITEM 8. Financial Statements and Supplementary Data.

The financial statements listed below are included on pages F-1 through F-32 following the signature page.

Title of Document -----	Page ----
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of October 31, 2004 and 2003	F-2 - F-3
Consolidated Statements of Income for the Years Ended October 31, 2004, 2003 and 2002	F-4
Consolidated Statements of Shareholders' Equity for the Years Ended October 31, 2004, 2003 and 2002	F-5 - F-7
Consolidated Statements of Cash Flows for the Years Ended October 31, 2004, 2003 and 2002	F-8 - F-9
Notes to Consolidated Financial Statements	F-10 -F-32

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ITEM 9. Changes in and Disagreements with Registered Public Accounting Firm on Accounting and Financial Disclosure.

None.

ITEM 9A. Controls and Procedures.

The Company maintains "disclosure controls and procedures", as such term is defined in Rules 13a-15e and 15d-15e of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to ensure that information required to be disclosed in its reports, pursuant to the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to its management, including its Chief Executive Officer and Principal Accounting Officer, as appropriate, to allow timely decisions regarding the required disclosures. In designing and evaluating the disclosure controls and procedures, management has recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

The Company's Chief Executive Officer and Principal Accounting Officer (its principal executive officer and principal accounting officer, respectively) have evaluated the effectiveness of its "disclosure controls and procedures" as of the end of the period covered by this Annual Report on Form 10-K. Based on their evaluation, the principal executive officer and principal financial officer concluded that its disclosure controls and procedures are effective. There were no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date the controls were evaluated.

PART III

The information required by Items 10, 11, 12, 13 and 14 of this Part will be incorporated by reference to the Proxy Statement of the Company to be filed with the Securities and Exchange Commission on or before February 28, 2005.

PART IV

ITEM 10. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

- (a) Financial Statement Schedules
- (b) Reports on Form 8-K

None.

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(c) Exhibits

- 3.1 The Company's Certificate of Incorporation, 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 (the "1995 10-KSB").
- 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").
- 4.1 Form of First Amended and Restated 1996 Stock Option Plan, Incorporated by reference to Exhibit 99 of Registration Statement No. 333-56434 filed on Form S-8.
- 4.2 Form of 2003 Stock Incentive Plan, as amended incorporated by reference to the Company's Annual Report on Form 10-K for its fiscal year ended October 31, 2003.
- 10.1 Security Agreement between Israel Discount Bank of New York and JLM Couture, Inc. dated March 1998 incorporated by reference to Exhibit 10.3 of the 1998 Form 10-KSB.
- 10.2 Pledge Agreement dated as of December 22, 1998 between Joseph L. Murphy and the Company incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-KSB for its fiscal year ended October 31, 1999 (the "1999 10-KSB").

ITEM 10. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(c) Exhibits (Continued)

- 10.3 Subscription Agreement dated as of December 22, 1998 between Joseph L. Murphy and the Company incorporated by reference to Exhibit 10.6 to the 1999 10-KSB.
- 10.4 Promissory Note dated as of December 22, 1998 by Joseph L. Murphy to the Company incorporated by reference to Exhibit 10.7 to the 1999 10-KSB.
- 21 List of Subsidiaries of the Company.
- 23.1 Consent of Goldstein Golub Kessler LLP dated February 14, 2005.
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification pursuant to 18 U.S.C.

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Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities 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.

Dated: February 14, 2005

By: /s/ Joseph L. Murphy

Joseph L. Murphy,
President

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

Name -----	Capacity -----	Date -----
/s/ Daniel M. Sullivan Daniel M. Sullivan	Chairman of the Board of Directors	February 14, 2005
/s/ Joseph L. Murphy Joseph L. Murphy	President and Director (principal executive officer)	February 14, 2005
/s/ Joseph E. O'Grady Joseph E. O'Grady	Secretary and Director	February 10, 2005
/s/ Jerrold Walkenfeld Jerrold Walkenfeld	Principal accounting officer (principal Financial officer)	February 13, 2005
/s/ Keith Cannon Keith Cannon	Director	February 11, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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To the Board of Directors
JLM Couture, Inc.

We have audited the accompanying consolidated balance sheets of JLM Couture, Inc. (a Delaware corporation) and Subsidiaries as of October 31, 2004 and 2003 and the related consolidated statements of income, shareholders' equity and comprehensive income and cash flows for each of the three years in the period ended October 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2004 and 2003 and the results of its operations and its cash flows for each of the three years in the period ended October 31, 2004 in conformity with United States generally accepted accounting principles.

/s/GOLDSTEIN GOLUB KESSLER LLP

GOLDSTEIN GOLUB KESSLER LLP

New York, New York
February 4, 2005

JLM COUTURE, INC. AND
SUBSIDIARIES
Consolidated Balance Sheets as of
October 31, 2004 and 2003

	2004	2003
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 1,594,664	\$ 1,219,063
Accounts receivable, net of allowance for doubtful accounts, of \$226,000 at October 31, 2004 and \$301,000 at October 31, 2003	2,794,769	3,610,523
Inventories, net	4,671,158	4,070,192

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Prepaid expenses and other		
current assets	377,587	325,283
Deferred income taxes	-	20,000
Prepaid taxes	102,105	76,188
	-----	-----
Total current assets	9,540,283	9,321,249
Equipment and leasehold		
improvements, net of accumulated		
depreciation and amortization of		
\$629,908 at October 31, 2004 and		
\$515,333 at October 31, 2003	606,469	677,357
Goodwill	211,272	211,272
Samples, net of accumulated		
amortization of \$109,271 at		
October 31, 2004 and		
\$108,190 at October 31, 2003	231,256	247,120
Other assets	94,416	94,416
	-----	-----
	\$10,683,696	\$10,551,414
	=====	=====

The accompanying notes to consolidated financial statements are an integral part of these financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES

Consolidated Balance Sheets as of
October 31, 2004 and 2003
(continued)

	2004	2003
	-----	-----
Current liabilities:		
Accounts payable	\$ 831,368	\$ 1,193,570
Accrued expenses and		
other current liabilities	751,598	917,630
Deferred income taxes	14,000	-
	-----	-----
Total current liabilities	1,596,966	2,111,200
	-----	-----
Deferred income taxes	681,000	615,000
	-----	-----
Total liabilities	2,277,966	2,726,200
	-----	-----
Commitments and contingencies (Note 12)		
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 2,394,480 at October 31, 2004		
and 2,344,530 at October 31, 2003;		
outstanding 1,962,644 at		
October 31, 2004 and 1,912,694		
at October 31, 2003	475	465
Additional paid-in capital	3,939,272	3,679,542

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Retained earnings	6,247,753	5,879,980
Accumulated other comprehensive		
Income (loss)	17,372	(25,095)
	-----	-----
	10,204,872	9,534,892
Less: Deferred compensation	(385,714)	(248,750)
Note receivable and		
accrued interest	(270,460)	(317,960)
Treasury stock, at cost:		
431,836 shares at October 31,		
2004 and 2003	(1,142,968)	(1,142,968)
	-----	-----
Total shareholders' equity	8,405,730	7,825,214
	-----	-----
	\$10,683,696	\$10,551,414
	=====	=====

The accompanying notes to consolidated financial statements are an integral part of these financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
Consolidated Statements of Income
For the Years Ended
October 31, 2004, 2003 and 2002

	2004	2003	2002
	-----	-----	-----
Net sales	\$24,588,977	\$26,781,400	\$25,405,702
Cost of goods sold	15,043,292	15,487,372	14,038,477
	-----	-----	-----
Gross profit	9,545,685	11,294,028	11,367,225
Selling, general and			
administrative expenses	8,952,645	9,899,846	9,300,939
	-----	-----	-----
Operating income	593,040	1,394,182	2,066,286
Interest income (expense),			
net of interest expense of			
\$7,280 and \$8,249 for 2004 and			
2003, respectively and interest			
income of \$17,810 for 2002	12,647	8,448	(10,153)
	-----	-----	-----
Income before provision for			
income taxes	605,687	1,402,630	2,056,133
Provision for income taxes	237,914	594,878	947,000
	-----	-----	-----
Net income	\$ 367,773	\$ 807,752	\$ 1,109,133
	=====	=====	=====
Net income per weighted			
average number of common			
shares:			
Basic	\$0.19	\$0.42	\$0.54
	=====	=====	=====
Diluted	\$0.18	\$0.40	\$0.53
	=====	=====	=====
Weighted average number of			
common shares outstanding:			
Basic	1,962,644	1,914,392	2,043,907

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	=====	=====	=====
Diluted	2,008,092	1,995,823	2,098,981
	=====	=====	=====

The accompanying notes to consolidated financial statements are an integral part of these financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
 Consolidated Statements of Shareholders' Equity and Comprehensive Income
 For the Years Ended October 31, 2004 and 2003

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Deferred Compensation	Notes Receivable and Accrued Interest	Treasury Stock Shares	Treasury Stock Amount
Balance November 1, 2001	2,330,530	\$465	\$3,653,642	\$3,963,095	(421,250)	\$(432,135)	(232,320)	(535,150)
Purchase of Treasury Stock							(133,850)	(369,340)
Accrued Interest on Notes Receivable						(6,700)		
Payments on Notes Receivable						73,570		
Amortization of Deferred Compensation					86,250			
Net Income				1,109,133				
Balance October 31, 2002	2,330,530	\$465	\$3,653,642	\$5,072,228	\$(335,000)	\$(365,265)	(366,170)	\$(904,500)

The accompanying notes to consolidated financial statements are an integral part of these financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
 Consolidated Statements of Shareholders' Equity and Comprehensive Income
 For the Years Ended October 31, 2004 and 2003

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	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehen- sive Loss	Deferred Compensation	Notes Receivable and Accrued Interest	Trea Share
Balance October 31, 2002	2,330,530	\$465	\$3,653,642	\$5,072,228		(335,000)	\$(365,265)	(366,17
Net Income				807,752				
Foreign currency translation					(25,095)			
Comprehensive Income								
Shares tendered upon option exercise	14,000		24,205					(4,66
Purchase of Treasury Stock								(61,00
Exercise of Stock Options			1,695					
Accrued Interest on Notes Receivable							(3,695)	
Payments on Notes Receivable							51,000	
Amortization of Deferred Compensation						86,250		
Balance October 31, 2003	2,344,530	\$465	\$3,679,542	\$5,879,980	\$(25,095)	\$(248,750)	\$(317,960)	(431,83

The accompanying notes to consolidated financial statements are an integral part of these financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity and Comprehensive Income
For the Years Ended October 31, 2004 and 2003

	Additional	Accumulated Other Comprehen-	Notes Receivable
--	------------	------------------------------------	---------------------

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	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	ive Income (Loss)	Deferred Compensation	and Accrued Interest	Tre Shar
Balance October 31, 2003	2,344,530	\$465	\$3,679,542	\$5,879,980	\$(25,095)	\$(248,750)	\$(317,960)	(431,83
Net income				367,773				
Foreign currency transaction net of taxes of \$13,552					42,467			
Comprehensive Income								
Accrued Interest on Notes Receivable							(500)	
Payments on Notes Receivable							48,000	
Employee Stock Grant	49,950	10	259,730			(259,740)		
Amortization of Deferred Compensation						122,776		
Balance October 31, 2004	2,394,480	\$475	\$3,939,272	\$6,247,753	\$17,372	\$(385,714)	\$(270,460)	\$(431,836)

The accompanying notes to consolidated financial statements are an integral part of these financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended October 31, 2004, 2003 and 2002

	2004	2003	2002
Cash flows from operating activities:			
Net income	367,773	807,752	1,109,133
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	114,575	103,280	94,633
Provision for doubtful accounts	24,000	50,000	-
Foreign currency translation	42,467	(25,095)	-
Accrued interest income on note			

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receivable	(500)	(3,695)	(6,700)
Compensation expense on issuance of stock options and common stock	122,776	86,250	86,250
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	791,754	(64,318)	(161,677)
Increase in inventories	(600,966)	(322,835)	(31,204)
(Increase) decrease in prepaid expenses and other current assets	(52,304)	206,429	109,075
Increase in prepaid taxes	(25,917)	(76,188)	-
(Increase) decrease in samples and other assets	15,864	(30,959)	3,713
Increase (decrease) in accounts payable	(362,202)	179,329	(160,772)
Increase (decrease) in accrued expenses and other current liabilities	(166,032)	131,531	502,584
Increase (decrease) in income taxes payable	-	(157,289)	157,289
Increase (decrease) in deferred income taxes	100,000	(142,000)	147,000
Decrease in other long-term liabilities	-	-	(8,239)
Net cash provided by operating activities	371,288	742,192	1,841,085
Cash flows from investing activities:			
Purchase of property and equipment	(43,687)	(320,373)	(341,149)
Net cash used in investing activities	(43,687)	(320,373)	(341,149)

The accompanying notes to consolidated financial statements are an integral part of these financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended October 31, 2004, 2003 and 2002
(Continued)

	2004	2003	2002
	-----	-----	-----
Cash flows from financing activities:			
Net reductions of revolving line of credit	\$ -	\$ -	\$ (450,000)
Payments on note receivable	48,000	51,000	73,570
Proceeds from stock option exercise	-	1,695	-
Purchase of treasury stock	-	(214,261)	(369,343)
Net cash provided by (used in) financing activities	48,000	(161,566)	(745,773)
	-----	-----	-----

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Net increase in cash	375,601	260,253	754,163
Cash and cash equivalents, beginning of year	1,219,063	958,810	204,647
	-----	-----	-----
Cash and cash equivalents, end of year	\$1,594,664	\$1,219,063	\$ 958,810
	=====	=====	=====

Supplemental Disclosures of Cash Flow Information

Non cash financing activity:

Employee stock grant	\$259,740	-	-
	=====	=====	=====
Cash paid during the year for:			
Interest	\$ 7,014	\$ 4,553	\$ 30,107
	=====	=====	=====
Income taxes	\$156,931	\$970,000	\$490,000
	=====	=====	=====

The accompanying notes to consolidated financial statements are an integral part of these financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2004, 2003 and 2002

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 Western Europe. The Company operates in one segment.

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. and JLM Europe Ltd. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in

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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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation

All assets and liabilities of the foreign subsidiary are translated into U.S. dollars at fiscal year-end exchange rates. Income and expense items are translated at average exchange rates prevailing during the fiscal year.

The aggregate effect of translation adjustments has been deferred and is reflected as a separate component of shareholders' equity as of October 31, 2003 and October 31, 2004.

JLM COUTURE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2004, 2003 and 2002

No material year-end foreign currency translation adjustments were necessary at October 31, 2002.

Cash Equivalents

For purposes of the statement 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.

Allowance for Doubtful Accounts

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 uncollectable amounts. Actual results could differ from these estimates. The Company writes off accounts receivable against the allowance when a balance is determined to be uncollectible.

Inventories

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

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overhead.

Prepaid Expenses

Prepaid expenses include prepaid advertising and marketing costs, which reflect costs of advertisements that have not 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, 2004, 2003 and 2002 were \$3,008,949, \$3,080,784 and \$2,054,861, respectively.

JLM COUTURE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2004, 2003 and 2002

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 Company has adopted SFAS No. 142, "Goodwill and Other Intangible Assets". 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 for fiscal years beginning after December 15, 2001. SFAS No. 142 supersedes APB Opinion No. 17, "Intangible Assets."

Samples

The Company produces trunk show samples of each dress line to be used for displaying 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 which are used by contractors in manufacturing dresses as they are ordered by customers. These production samples are amortized over their useful life of 4 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 primarily consist

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of fabric and trim, as well as contract labor and allocated overhead. The Company reviews its

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2004, 2003 and 2002

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 circumstance 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 carrying value of the Company's current receivables and payables approximates its fair value because of the short-term maturities of those instruments.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, (i.e. 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 which 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 \$686,000, \$773,000 and \$715,000 for the years ended October 31, 2004, 2003

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2004, 2003 and 2002

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and 2002, respectively. Amounts charged to customers for freight and delivery are included in revenues.

Income Taxes

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, an asset and liability approach is required. Such approach results in the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book carrying amounts and the tax basis of assets and liabilities.

Stock-Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," establishes a fair value based method of accounting for an employee stock option or similar equity instrument. However, SFAS 123 allows an entity to continue to measure compensation cost for employee stock-based compensation plans using the intrinsic value method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25"). Entities electing to continue to follow the accounting under APB 25 are required to make pro forma disclosures of net income and earnings per share as if the fair value based method of accounting under SFAS 123 had been applied.

The Company has elected to apply APB 25 and related interpretations in accounting for its stock options issued to employees (intrinsic value) and has adopted the disclosure-only provisions of SFAS 123. Had the Company elected to recognize compensation cost based on the fair value of the options granted at the grant date as prescribed by SFAS 123, the Company's net income and income per common share would have been as follows:

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2004, 2003 and 2002

Year Ended October 31,	2004	2003	2002
Net income - as reported	\$367,773	\$807,752	\$1,109,133
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	58,941	57,663	35,690
Net income - pro forma	\$308,832	\$750,089	\$1,073,440
=====	=====	=====	=====

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Basic income per share - as reported	\$0.19	\$0.42	\$0.54
=====			
Basic income per share - pro forma	\$0.16	\$0.39	\$0.53
=====			
Diluted income per share - as reported	\$0.18	\$0.40	\$0.53
=====			
Diluted income per share - pro forma	\$0.15	\$0.38	\$0.51
=====			

The fair value of issued stock options was estimated at the date of grant using the Black-Scholes option pricing model incorporating the following assumptions for options granted:

	For The Years Ended October 31,		
	2004	2003	2002
	-----	-----	-----
Weighted average market price at date of grant	\$2.98	\$3.66	\$2.10
Risk free interest rate	3.35%	4.50%	4.50%
Volatility factor	62%	100%	100%
Expected life of the stock options	5.0 yrs	5.0 yrs	5.0 yrs
Expected dividends	\$ -	\$ -	\$ -

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2004, 2003 and 2002

Earnings per Share

SFAS No. 128, "Earnings Per Share", which the Company adopted effective November 1, 1998, establishes standards for computing and presenting earnings per share ("EPS"). The standard requires the presentation of basic EPS and diluted EPS. Basic EPS is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding, adjusted to reflect potentially dilutive securities. Certain options and warrants have been excluded from the calculation of diluted EPS, as their effect is anti-dilutive.

A reconciliation of the weighted average number of shares of common stock outstanding to the weighted average number of shares of common stock outstanding

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assuming dilution is as follows:

	Years Ended October 31,		
	2004	2003	2002
Basic weighted average common shares outstanding	1,962,644	1,914,392	2,043,907
Effect of dilutive securities:			
Stock options	45,448	81,431	55,074
Diluted weighted average common shares outstanding	2,008,092	1,995,823	2,098,981

New Accounting Standards

In December 2004, the FASB issued a Statement of Financial Accounting Standards No. 123R (Revised 2004), Share-Based Payment ("SFAS No. 123R"), which requires that the compensation cost relating to share-based payment transactions be recognized in financial statements based on alternative fair value models.

JLM COUTURE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2004, 2003 and 2002

The share-based compensation cost will be measured based on the fair value of the equity or liability instruments issued. The Company currently discloses pro forma compensation expense quarterly and annually by calculating the stock option grants' fair value using the Black-Scholes model and disclosing the impact on net income and net income per share in a Note to the Consolidated Financial Statements. Upon adoption, pro forma disclosure will no longer be an alternative. The table above reflects the estimated impact that such a change in accounting treatment would have had on our net income and net income per share if it had been in effect during the year ended October 31, 2004. SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. The Company cannot estimate what those amounts will be in the future. The Company will begin to apply SFAS No. 123R using the most appropriate fair value model as of the interim reporting period ending September 30, 2005.

Cost of Goods Sold

The cost of goods sold includes all materials used in producing dresses, labor costs (inclusive of fringe benefits), production sample costs, as well as inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, internal transfer

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costs and other costs of the Company's distribution network.

Selling, General & Administrative Costs

The Company's selling, general & administrative costs ("SG&A") include, advertising and promotional costs, sales expenses, freight and delivery, office expenses, computer related costs, travel and entertainment, credit and collection costs as well as bad debts. All salary costs (as well as related fringe benefits) not

JLM COUTURE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2004, 2003 and 2002

directly related to the production of dresses are charged to SG&A.

Note 3. Inventories

Inventories consisted of the following:

	October 31,	
	2004	2003
	-----	-----
Raw materials	\$4,019,492	\$3,319,321
Work-in-process	155,711	180,816
Finished goods	495,955	570,055
	-----	-----
	\$4,671,158	\$4,070,192
	=====	=====

Raw materials are shown net of a \$250,000 and \$150,000 obsolescence reserve at October 31, 2004 and 2003 respectively.

Note 4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	October 31,	
	2004	2003
	-----	-----
Prepaid advertising and marketing costs	\$ 314,400	\$ 285,948
Other	63,187	39,335
	-----	-----
	\$ 377,587	\$ 325,283
	=====	=====

JLM COUTURE, INC. AND SUBSIDIARIES

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Notes to Consolidated Financial Statements
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Note 5. Equipment and Leasehold Improvements

Equipment and leasehold improvements are summarized as follows:

	October 31,	
	2004	2003
	-----	-----
Furniture and equipment	\$ 583,895	\$ 542,608
Leasehold improvements	603,659	601,259
Transportation equipment	48,823	48,823
	-----	-----
	1,236,377	1,192,690
Less: Accumulated depreciation and amortization	(629,908)	(515,333)
	-----	-----
Equipment and leasehold improvements, net	\$ 606,469	\$ 677,357
	=====	=====

Note 6. Goodwill

Effective November 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires that an intangible asset with a definite life be amortized over its useful life and that goodwill and intangible assets with indefinite lives are not to be amortized and the remaining book value is to be 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.

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The following pro-forma information reconciles net income reported for the years ended October 31, 2004, 2003 and 2002 to adjusted net income reflecting the adoption of SFAS No. 142.

	2004	2003	2002
	-----	-----	-----
Reported net income	\$367,773	\$807,752	\$1,109,133
Addback: Goodwill amortization	-	-	14,084
	-----	-----	-----
Adjusted net income	\$367,773	\$807,752	\$1,123,217

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	=====	=====	=====
Basic income per share:			
Reported net income	0.19	0.42	0.54
Addback: Goodwill amortization	-	-	0.01
	-----	-----	-----
Adjusted net income	0.19	0.42	0.55
	=====	=====	=====
Diluted income per share:			
Reported net income	0.18	0.40	0.53
Addback: Goodwill and amortization	-	-	0.01
	-----	-----	-----
Adjusted net income	0.18	0.40	0.54
	=====	=====	=====

Note 7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities are summarized as follows:

	October 31,	
	-----	-----
	2004	2003
	-----	-----
Payroll and related expenses	\$280,164	\$420,738
Other	471,434	496,892
	-----	-----
	\$751,598	\$917,630
	=====	=====

JLM COUTURE, INC. AND SUBSIDIARIES
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Note 8. Revolving Line of Credit

The Company has a line of credit agreement with Israel Discount Bank of New York ("IDB"). The proceeds of the credit facility were initially used to repay amounts outstanding under the Company's previous line of credit facility. Credit availability is based on eligible amounts of accounts receivable, as defined, up to a maximum of \$1,250,000. Based on eligible accounts receivable at October 31, 2004, \$1,250,000 was available for future borrowing. The line of credit facility is secured by the Company's cash, accounts receivable, inventory, securities, deposits and general intangibles. Interest is charged at the prime rate (4.75% at October 31, 2004). The line of credit agreement will automatically renew each year unless either party provides 60 days notice to terminate the line of credit agreement. There were no interest expense charged to operations related to the IDB line of credit facility for the years ended October 31, 2004 and 2003. At October 31, 2004 and 2003, the Company had no outstanding borrowings under the line of credit agreement.

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Note 9. Income Taxes

The provision for income taxes for the years ended October 31, 2004, 2003 and 2002, consist of the following:

	2004	2003	2002
Current:	-----	-----	-----
Federal	\$136,462	\$564,665	\$592,183
State and local	(5,448)	172,213	206,817
	-----	-----	-----
	\$131,014	\$736,878	\$799,000
	-----	-----	-----
Deferred:			
Federal	40,900	(93,000)	113,000
State and local	66,000	(49,000)	35,000
	-----	-----	-----
	106,900	(142,000)	148,000
	-----	-----	-----
	\$237,914	\$594,878	\$947,000
	=====	=====	=====

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A reconciliation of the statutory Federal income tax rate to the effective income tax rate for the years ended October 31, 2004, 2003 and 2002, is as follows:

	2004	2003	2002
	----	----	----
Statutory federal income tax at applicable rates	34%	34%	34%
State and local taxes, net of federal tax benefit	0%	8%	7%
Nondeductible expenses	3%	2%	3%
Other	2%	(2%)	2%
	---	---	---
	39%	42%	46%
	===	===	===

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

	October 31,	
	2004	2003
Deferred tax assets:		
Allowance for doubtful accounts	\$ 99,000	\$ 132,000
Other liabilities and accruals	25,000	14,000
	-----	-----
Total deferred tax assets	\$ 124,000	\$ 146,000
	-----	-----
Deferred tax liabilities:		
Prepaid advertising and		

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marketing expenses	(138,000)	(126,000)
Intercompany reimbursement taxed in different period	(659,000)	(593,000)
Accumulated depreciation and amortization	(22,000)	(22,000)
	-----	-----
Total deferred tax liabilities	(819,000)	(741,000)
	-----	-----
Net deferred tax liability	\$ (695,000)	\$ (595,000)
	=====	=====

JLM COUTURE, INC. AND SUBSIDIARIES
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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 10. Shareholders' Equity

During fiscal years 2003 and 2002, the Company repurchased 61,000 and 133,850 shares of Common Stock, respectively, in the open market at a cost of \$214,261 and \$369,343, respectively.

Stock Option Plans

On August 26, 1996, the Company adopted a Stock Option Plan (the "1996 Plan"). The 1996 Plan provides for the issuance of incentive and nonstatutory stock options to employees, consultants, advisors and/or directors for a total of up to 100,000 shares of Common Stock. In September 1999, the 1996 Plan was amended to increase the number of shares available for grant to 250,000 shares. The exercise price of options granted may not be less than the fair market value of the shares on the date of grant (110% of such fair market value for a holder of more than 10% of the Company's common stock). The 1996 Plan is scheduled to terminate on August 26, 2006.

On October 28, 2003, the Company adopted the 2003 Stock Incentive Plan (the "2003 Plan"). Awards may be granted under the 2003 Plan on and after its effective date (August 12, 2003). The 2003 Plan authorizes the grant of incentive options, nonqualified options, SARs, 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

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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 under the 1996 Plan.

JLM COUTURE, INC. AND SUBSIDIARIES
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The following table summarizes data relating to non-incentive plan options and incentive plan options:

Incentive						
	2004	Weighted Average Exercise Price	2003	Weighted Average Exercise Price	2002	Weighted Average Exercise Price
Options outstanding at the beginning of the year	64,000	2.64	48,000	2.10	122,500	3.32
Options granted	51,000	2.98	22,000	3.66	48,000	2.10
Options expired	(12,000)	2.10	-	-	(122,500)	3.32
Options exercised	-	-	(6,000)	2.10	-	-
	-----	-----	-----	-----	-----	-----
Options outstanding at the end of the year	103,000	2.87	64,000	2.64	48,000	2.10
	=====	=====	=====	=====	=====	=====
Options exercisable at the end of the year	52,000	2.75	-	-	-	-
	=====	=====	=====	=====	=====	=====

Non-Incentive						
	2004	Weighted Average Exercise Price	2003	Weighted Average Exercise Price	2002	Weighted Average Exercise Price

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options outstanding at the beginning of the year	140,000	2.05	354,000	2.33	408,000	3.11
Options granted	-	-	-	-	124,000	2.10
Options expired	-	-	(200,000)	2.56	(178,000)	3.95
Options exercised	-	-	(14,000)	1.85	-	-
	-----	----	-----	----	-----	----
Options outstanding at the end of the year	140,000	2.05	140,000	2.05	354,000	2.33
	=====	=====	=====	=====	=====	=====
Options exercisable at the end of the year	140,000	2.05	20,000	1.75	230,000	2.46
	=====	=====	=====	=====	=====	=====

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The weighted average fair value of options granted during the years ended October 31, 2004, 2003 and 2002 was \$2.98, \$3.66 and \$1.20, respectively.

The following table summarizes information about stock options outstanding and exercisable at October 31, 2004:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$1.79 - \$2.10	170,000	2 yrs	2.06	170,000	2.06
\$2.98 - \$3.66	73,000	4 yrs	3.18	22,000	3.66
=====	=====	=====	=====	=====	=====

At October 31, 2004, 629,000 shares of common stock were reserved for future issuance of stock options.

Note 11. Related Party Transactions

Notes Receivable - Sale of Stock

On October 15, 1990, the Company's former president exercised a stock option to purchase 36,458 shares of Common Stock at a

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purchase price of \$.96 per share. A \$35,000 note was received for the purchase. The note together with interest accruing at a prime rate plus one percent per annum, is due on demand. The outstanding principal and interest balance at October 31, 2004 and 2003 was \$36,710 and \$39,710, respectively.

JLM COUTURE, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements For the Years Ended October 31, 2004, 2003 and 2002

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 October 31, 2004 and 2003 was \$233,750 and \$278,250, respectively.

On June 5, 2000, pursuant to an employment agreement, the Company issued 50,000 unregistered shares to an employee of the Company. The employment agreement expires on October 31, 2008. 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 term of the employment agreement.

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 term of the employment agreement.

On June 5, 2004, pursuant to an employment agreement, the Company issued 49,950 unregistered shares to an employee of the Company. The employment agreement expires on October 31, 2013. 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 term of the employment agreement.

The unamortized portion of the deferred compensation represents the value of the shares that must be repaid to the Company if the respective employee does not complete the term of the contract.

JLM COUTURE, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements For the Years Ended October 31, 2004, 2003 and 2002

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Note 12. Commitments and Contingencies

Lease Commitments

The Company leases office, production, and showroom facilities under leases expiring through 2013. Minimum annual rentals under such leases are as follows:

Year Ending October 31,	

2005	\$ 577,445
2006	572,170
2007	562,796
2008	587,401
2009	607,711
Thereafter	1,844,355

	\$4,751,878
	=====

Rent expense charged to operations for the foregoing lease and short-term rentals for the years ended October 31, 2004, 2003 and 2002 amounted to \$705,808, \$614,401 and \$520,640, 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 which represents cumulative rent expense charged to operations from inception of these leases in excess of required lease payments.

At October 31, 2004 and 2003, the Company was committed under a stand-by letter of credit issued by the bank on its behalf for approximately \$160,299.

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Employment Agreements

The Company has employment agreements with four of its key employees terminating at various dates through October 2013. Total compensation expense under the terms of these agreements for the years ended October 31, 2004, 2003 and 2002 was \$792,500, \$769,704 and \$941,650, respectively.

Future minimum commitments under these employment agreements are as follows:

Year Ending October 31,

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2005	\$ 481,475
2006	329,834
2007	341,068
2008	352,691
2009	364,716
Thereafter	977,950

	\$2,847,734
	=====

JLM COUTURE, INC. AND SUBSIDIARIES
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Note 13. Valuation and Qualifying Accounts

Years ended October 31, 2004, 2003 and 2002 (in 000's)

	Balance at Beginning of year	Charged to costs and expenses	Charged to other accounts	Deductions (1)	Balance at end of year
	-----	-----	-----	-----	-----
Year ended October 31, 2004, allowance for doubtful accounts (deducted from accounts receivable)	\$301	\$ 24	-	\$ 99	\$226
Year ended October 31, 2003, allowance for doubtful accounts (deducted from accounts receivable)	\$326	\$376	-	\$401	\$301
Year ended October 31, 2002, allowance for doubtful accounts (deducted from accounts receivable)	\$301	\$294	-	\$268	\$326