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JLM COUTURE INC
Form 10QSB
March 22, 2002

FORM 10-QSB

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended January 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 incorporation or organization) | (IRS Employer Identification No.) |

225 West 37th Street, New York, New York 10018
(Address of principal executive offices)

(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) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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

The number of shares outstanding of the issuer's common stock, par value \$.0002 per share, as of March 21, 2002 was 2,261,790.

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JLM COUTURE, INC.

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PART I. FINANCIAL INFORMATION

JLM COUTURE, INC. AND SUBSIDIARIES
116: CONSOLIDATED BALANCE SHEETS

ASSETS

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| | | January 31, 2002 (Unaudited) | October 2001 (Unaudited) |
|--|-----------|------------------------------------|--------------------------------|
| Current assets: | | | |
| Cash | | \$ 98,836 | \$ 204,000 |
| Accounts receivable, net of allowance for doubtful accounts, trade discounts and allowances - \$425,000 at January 31, 2002 and at October 31, 2001 | 4,182,168 | 3,434,528 | |
| Inventories, net | | 4,259,158 | 3,716,153 |
| Prepaid expenses and other current assets | 446,831 | 487,877 | |
| Deferred income taxes | | 4,000 | 4,000 |
| Prepaid taxes | | 32,910 | 152,910 |
| Total current assets | | 9,023,903 | 8,000,115 |
| Property and equipment, net of accumulated depreciation and amortization of \$662,055 at January 31, 2002 and \$645,548 at October 31, 2001 | | | |
| | 193,798 | 199,664 | |
| Goodwill, net of accumulated amortization of \$59,858 at January 31, 2002 and \$56,337 at October 31, 2001 | | | |
| | 221,835 | 225,356 | |
| Samples, net of accumulated amortization of \$211,759 at January 31, 2002 and \$139,853 at October 31, 2001 | | | |
| | 179,052 | 250,958 | |
| Other Assets | | | |
| | | 63,332 | 63,332 |
| Total Assets | | \$9,681,920 | \$8,739,425 |

See accompanying notes to consolidated financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | January 31, 2002 | October 31, 2001 (Unaudited) |
|---|------------|---------------------|------------------------------------|
| Current liabilities: | | | |
| Revolving line of credit | \$ 750,000 | \$ 450,000 | |
| Accounts payable | 1,684,514 | 1,175,013 | |
| Accrued expenses and other current liabilities | 231,592 | 283,515 | |

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| | | | |
|---|-------------|-------------|-----------|
| Total current liabilities | 2,666,106 | 1,908,528 | |
| Deferred Income Taxes | 594,000 | 594,000 | |
| Other Liabilities | | - | 8,239 |
| Total liabilities | 3,260,106 | 2,510,767 | |
| 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 January 31, 2002 and October 31, 2001; Outstanding 2,098,210 at January 31, 2002 and at October 31, 2001 | | | |
| | 465 | 465 | |
| Additional paid-in capital | 3,653,642 | 3,653,642 | |
| Retained earnings | 4,130,939 | 3,963,095 | |
| | | 7,785,046 | 7,617,202 |
| Less: Deferred compensation | (395,938) | (421,250) | |
| Note receivable and accrued interest | | (432,135) | (432,135) |
| Treasury stock at cost: 232,320 shares at January 31, 2002 and at October 31, 2001 | (535,159) | (535,159) | |
| Total shareholders' equity | 6,421,814 | 6,228,658 | |
| Total Liabilities and Shareholders' Equity | \$9,681,920 | \$8,739,425 | |

See accompanying notes to consolidated financial statements.

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

| | 2002 | 2001 |
|--|-------------|-------------|
| Net sales | \$4,500,276 | \$4,249,777 |
| Cost of goods sold | 2,684,820 | 2,645,712 |
| Gross profit | 1,815,456 | 1,604,065 |
| Selling, general and administrative expenses | 1,524,310 | 1,309,329 |
| Operating income | 291,146 | 294,736 |

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| | | |
|--|------------|------------|
| Interest expense, net of interest income of \$4,698 and \$4,781 for 2002 and 2001, respectively | 3,302 | 16,183 |
| Income before provision for income taxes | 287,844 | 278,553 |
| Provision for income taxes | 120,000 | 120,000 |
| Net income | \$ 167,844 | \$ 158,553 |
| Net income per weighted average number of common shares: | | |
| Basic | \$ 0.08 | \$ 0.08 |
| Diluted | \$ 0.08 | \$ 0.08 |
| Weighted average number of common shares outstanding: | | |
| Basic | 2,098,210 | 1,968,164 |
| Diluted | 2,104,748 | 1,990,311 |

See accompanying notes to consolidated financial statements.

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

| | 2002 | |
|--|-----------|-----------|
| Cash Flows From Operating Activities: | | |
| Net Income | \$167,844 | \$158,553 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 91,934 | 97,716 |
| Provision for doubtful accounts | - | (75,000) |
| Compensation expense on issuance of stock options and common stock | 25,312 | - |
| Changes in operating assets and liabilities | | |
| Increase in accounts receivable | (747,640) | (289,387) |
| Increase in inventories | (543,005) | (297,947) |
| Decrease (Increase) in prepaid expenses and other current assets | 41,046 | (93,491) |
| Decrease in prepaid taxes | 120,000 | - |
| Increase in other assets | - | (41,183) |
| Increase in accounts payable | 509,501 | 281,286 |
| Decrease in accrued expenses and other current liabilities | - | (51,923) |
| Decrease in long term liabilities | (8,239) | (17,407) |
| | (58,723) | (58,723) |

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| | | | |
|--|-----------|-----------|-----------|
| Net Cash Used In Operating Activities | (395,170) | (335,583) | |
| Cash Flows From Investing Activities - Purchase of property and equipment | (10,641) | | - |
| Cash Flows from Financing Activities: | | | |
| Net proceeds from | | | |
| revolving line of credit | | 300,000 | 300,000 |
| Payment on notes receivable | | - | 33,656 |
| Purchase of treasury stock | | - | (57,455) |
| Net Cash provided by Financing Activities | 300,000 | 276,201 | |
| Net decrease in cash | | (105,811) | (59,382) |
| Cash, beginning of period | | 204,647 | 155,334 |
| Cash, end of period | | \$ 98,836 | \$ 95,952 |

See accompanying notes to consolidated financial statements.

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

Supplemental Disclosures of Cash Flow Information:

| | 2002 | 2001 |
|----------------------------------|---------|----------|
| Cash paid during the period for: | | |
| Interest | \$7,770 | \$ 9,830 |
| Income taxes | - | 20,000 |

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See accompanying notes to consolidated financial statements.

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

Note 1.

The consolidated balance sheets as of January 31, 2002, the consolidated statements of income for the three month periods ended January 31, 2002 and 2001 and the consolidated statements of cash flows for the three month periods ended January 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 January 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:

| | January, 31, 2002 (Unaudited) | October 31, 2001 |
|-----------------|----------------------------------|------------------|
| Raw materials | \$2,124,705 | \$2,302,754 |
| Work-in-process | 840,102 | 176,823 |
| Finished goods | 1,294,351 | 1,236,576 |
| | \$4,259,198 | \$3,716,153 |

Raw materials are shown net of a \$260,000 obsolescence reserve

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at January 31, 2002 and October 31, 2001.

Note 3. Revolving Line of Credit

The Company has an available line of credit of up to \$1,250,000 with a financial institution. Borrowings are collateralized by the Company's cash, accounts receivable, securities, deposits and general intangibles. At January 31, 2002 and October 31, 2001, the Company had borrowed \$750,000 and \$450,000, respectively, under the revolving line of credit.

JLM COUTURE, INC. AND SUBSIDIARIES

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

Results of Operations

Three months ended January 31, 2002 as compared to three months ended January 31, 2001.

For the first three months of the Company's fiscal year ending October 31, 2002 ("Fiscal 2002"), revenues increased to \$4,500,276 from \$4,249,777, an increase of 5.9% over the same period a year ago. The increase was due to increased market penetration of the Company's products. Gross profit as a percentage of sales increased to 40.3% from 37.7% as there was a larger contribution to sales from the higher priced bridal gowns in the current period. Net income was \$167,844, an increase of 5.9% from net income of \$158,553 in the first three months of the prior fiscal year. Per share earnings for this period was \$0.08 per basic and diluted share, the same as last year. Selling, general and administrative expenses as a percentage of sales increased to 33.9% of sales as compared to 30.8%, as there were increased marketing costs.

Liquidity and Capital Resources

The Company's working capital increased to \$6,357,797 at January 31, 2002 from \$6,091,587 at October 31, 2001. The Company's current ratio decreased to 3.4 to 1 at January 31, 2002 from 4.2 to 1 at October 31, 2001.

During the three months ended January 31, 2002, the Company used \$395,170 of cash from operating activities, as compared to using \$335,583 during the year earlier period. The Company used \$10,641 for investing activities in the current year compared to using \$0 a year ago. Cash provided by financing activities during the three months ended January 31, 2002 was \$300,000 as compared to \$276,201 a year earlier.

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 January 31, 2002 and October 31, 2001 was

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\$378,500 and \$374,000 respectively. The annual principal payment of \$45,000 due on December 22, 2001 remains unpaid.

JLM COUTURE, INC. AND SUBSIDIARIES

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

(Continued)

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 life 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 life of the employment agreement.

Introduction Of The Euro

On January 1, 2000, eleven of the fifteen member countries of the European Union established fixed conversion rates between their existing sovereign currencies and a new currency called the "Euro." These countries agreed to adopt the Euro as their common legal currency on that date. The Euro trades on currency exchanges and is available for non-cash transactions. Until January 1, 2002, the existing sovereign currencies remained legal tender in these countries. On January 1, 2002, the Euro replaced the sovereign legal currencies of these countries. The Company's initial international expansion was in the United Kingdom, which has not adopted the Euro. The Company will evaluate the impact the implementation of the Euro will have on its business operations and no assurances can be given that the implementation of the Euro will not have a material adverse affect on the Company's business, financial condition and results of operations. However, the Company does not expect the Euro to have a material effect on its competitive position. In addition, the Company cannot accurately predict the impact the Euro will have on currency exchange rates or the Company's currency exchange risk.

New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, Business

JLM COUTURE, INC. AND SUBSIDIARIES
(Continued)

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

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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, beginning on January 1, 2002. 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.

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 lenders.

PART II. Other Information.

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

- (a) Exhibits.

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- 3.1 Certificate of Incorporation of the Company, as amended, 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.
- 3.2 By-Laws of the Company incorporated by reference to Exhibit 3.03 of Registration Statement No. 33-10278 NY filed on Form S-18.

(b) Reports on Form 8-K.

None.

SIGNATURE

Pursuant to the requirements 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.

Dated: March 22, 2002

JLM COUTURE, INC.,

Registrant

By:/s/Joseph L. Murphy
Joseph L. Murphy
President (Authorized
officer and Principal
Financial Officer)

