JLM COUTURE INC
Form 10QSB
September 19, 2003

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

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JULY 31, 2003

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
Issuer's telephone number

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

As of September 18, 2003, there were 1,909,105 shares of common stock, par value $.0002 per share, outstanding.

Transitional small business disclosure format (check one)

Yes [ ] No [X]

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The Exhibit Index is located on Page 16.

JLM COUTURE, INC.

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PART I. FINANCIAL INFORMATION

JLM COUTURE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	July 31, 2003	October 31, 2002

	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 422,384	$ 958,810
Accounts receivable, net of allowances for doubtful accounts and trade discounts - $501,000 at July 31, 2003 and $451,000 at October 31, 2002	5,277,140	3,596,205
Inventories	4,015,382	3,747,357
Prepaid expenses and other current assets	293,717	531,712
Total current assets	10,008,623	8,834,084
Equipment and leasehold improvements net of accumulated depreciation and amortization of $482,578 at July 31, 2003 and $412,053 at October 31, 2002	594,509	460,264
Goodwill	211,272	211,272
Samples, net of accumulated amortization of $266,960 at July 31, 2003 and $132,493 at October 31, 2002	187,959	261,037
Other assets	94,415	49,540
	$11,096,778	$9,816,197

See accompanying notes to condensed consolidated financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	July 31, 2003	October 31, 2002
	(Unaudited)	
Current liabilities		
Accounts payable	$ 1,516,952	$1,014,241
Accrued expenses and other current liabilities	649,648	786,099
Deferred income taxes	-	73,000
Income taxes payable	175,089	157,289
Total current liabilities	2,341,689	2,030,629
Deferred income taxes	664,000	664,000
Total liabilities	3,005,689	2,694,629

Shareholders' equity		
Preferred stock - $.0001 par value, authorized 1,000,000 shares; issued and outstanding - none		
Common stock - $.0002 par value, authorized 10,000,000 shares; issued 2,330,530 at July 31, 2003 and 2,330,530 at October 31, 2002; Outstanding 1,903,360 at July 31, 2003 and 1,964,360 at October 31, 2002	465	465
Additional paid-in capital	3,653,642	3,653,642
Retained earnings	6,146,823	5,072,228
	9,800,930	8,726,335
Less: Deferred compensation	(270,313)	(335,000)
Notes receivable and accrued interest	(320,765)	(365,265)
Treasury stock at cost: 427,170 shares at July 31, 2003 and 366,170 at October 31, 2002	(1,118,763)	(904,502)
Total shareholders' equity	8,091,089	7,121,568
	$11,096,778	$9,816,197

See accompanying notes to condensed consolidated financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2003 AND 2002
(Unaudited)

	THREE MONTHS ENDED JULY 31,		NINE MONTHS ENDED JULY 31,	
	2003	2002	2003	2002
Net sales	$7,615,995	$7,521,046	$20,932,512	$19,629,794
Cost of goods sold	4,531,231	4,624,529	12,485,706	12,117,569
Gross profit	3,084,764	2,896,517	8,446,806	7,512,225
Selling, general and administrative expenses	2,233,526	2,047,797	6,561,076	5,704,688
Operating income	851,238	848,720	1,885,730	1,807,537
Interest Income (expense), net	(133)	(3,151)	3,865	(13,165)
Income before provision for income taxes	851,105	845,569	1,889,595	1,794,372

Provision for income taxes	370,000	370,000	815,000	770,000
Net income	$ 481,105	$ 475,569	$ 1,074,595	$ 1,024,372
Net income per weighted average number of common shares				
Basic	$ 0.25	$ 0.23	$ 0.56	$ 0.50
Diluted	$ 0.24	$ 0.23	$ 0.53	$ 0.49
Weighted average number of common shares				
Basic	1,905,733	2,026,982	1,915,611	2,051,100
Diluted	1,977,293	2,080,560	2,028,270	2,073,881

See accompanying notes to condensed consolidated financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED
JULY 31, 2003 AND 2002

	NINE MONTHS ENDED JULY 31, 2003	2002
Cash Flows from Operating Activities		
Net income	$ 1,074,595	$ 1,024,372
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and goodwill amortization	70,525	72,510
Amortization of deferred compensation	64,687	70,312
Provision for doubtful accounts and trade discounts	50,000	125,000
Changes in operating assets and liabilities		
Increase in accounts receivable	(1,730,935)	(1,528,226)
Increase in inventories	(268,025)	(320,249)
Decrease in prepaid expenses and other current assets	237,995	144,812
Decrease in samples	73,078	39,681
Increase in other assets	(44,875)	-
Increase in accounts payable	502,711	403,450
(Decrease) increase in accrued expenses and other current liabilities	(136,451)	524,034
(Decrease) increase in taxes payable	(55,200)	430,000
Decrease in long term liabilities	-	(8,239)
Net cash (used in) provided by Operating Activities	(161,895)	977,457

Cash Flows From Investing Activities		
Purchase of property and equipment	(204,770)	(222,518)
Net payments of notes receivable	44,500	35,890
Net Cash used in Investing Activities	(160,270)	(186,628)
Cash Flows from Financing Activities		
Net (reductions) proceeds from short term borrowing	-	(450,000)
Purchase of treasury stock	(214,261)	(204,281)
Cash used in Financing Activities	(214,261)	(654,281)
Net increase (decrease) in cash	(536,426)	136,548
Cash, beginning of period	958,810	204,647
Cash, end of period	$ 422,384	$ 341,195

See accompanying notes to condensed consolidated financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED
JULY 31, 2003 AND 2002
(Unaudited)

Supplemental Disclosures of Cash Flow Information:

	2003	2002
Cash paid during the year for:		
Interest	$ 12,264	$ 33,958
Income taxes	$870,000	$340,000

See accompanying notes to condensed consolidated financial statements.

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

Note 1. Basis of Presentation

The condensed consolidated balance sheet as of July 31, 2003, the condensed consolidated statements of income for the three and nine month periods ended July 31, 2003 and 2002 and the condensed consolidated statements of cash flows for the nine month periods ended July 31, 2003 and 2002 have been prepared by the Company, without audit. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows, as of July 31, 2003 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, 2002, which was filed with the Securities and Exchange Commission.

The Company has elected to apply Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock options issued to employees (intrinsic value) and has adopted the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation. 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 No. 123, the Company's net income and income per common share would have been as follows:

Nine months ended July 31,	2003	2002
Net income - as reported	$1,074,595	$1,024,372
Add: Stock based employee compensation expense included in reported net income, net of related tax effects	125,132	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	62,063	59,483

Nine months ended July 31,	2003	2002
Net income pro forma	$1,137,664	$964,889
Basic income per share as reported	$0.56	$0.50
Basic income per share pro forma	$0.59	$0.47
Diluted income per share as reported	$0.53	$0.49

Diluted income per share pro forma	$0.56	$0.46

Three months ended July 31,	2003	2002
Net income - as reported	$481,105	$475,569
Add: Stock based employee compensation expense included in reported net income, net of related tax effects	-	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	-	-
Net income pro forma	$481,105	$475,569
Basic income per share as reported	$0.25	$0.23
Basic income per share pro forma	$0.25	$0.23
Diluted income per share as reported	$0.24	$0.23
Diluted income per share pro forma	$0.24	$0.23

Note 2. Inventories

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

Inventories consisted of the following:

	July 31, 2003	October 31, 2002
Raw materials	$2,986,908	$2,782,515
Work-in-process	544,167	354,114
Finished Goods	484,307	610,728
	$4,015,382	$3,747,357

Raw materials are shown net of $260,000 obsolescence reserve at July 31, 2003 and October 31, 2002.

Note 3. Goodwill

Effective November 1, 2002, the Company adopted Statement of Financial Accounting Standards ("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 but are to be evaluated for impairment.

The Company concluded, as of July 31, 2003, that there was no impairment to goodwill, and, pursuant to SFAS 142, goodwill is no longer being amortized.

The following pro-forma information reconciles net income reported for the three month and nine month periods ended July 31, 2003 and 2002 to adjusted net income reflecting the adoption of SFAS No. 142.

	Three Months Ended July 31, 2003	Three Months Ended July 31, 2002	Nine Months Ended July 31, 2003	Nine Months Ended July 31, 2002
Reported net income	$481,105	$475,569	$1,074,595	$1,024,372
Addback: Goodwill amortization	-	3,521	-	10,563
Adjusted net income	$481,105	$479,090	$1,074,595	$1,034,935
Basic income per share:				
Reported net income	0.25	0.23	0.56	0.50
Addback: Goodwill amortization	-	0.01	-	-
Adjusted net income	0.25	0.24	0.56	0.50
Diluted income per share:				
Reported net income	0.24	0.23	0.53	0.49
Addback: Goodwill and amortization	-	-	-	0.01
Adjusted net income	0.24	0.23	0.53	0.50

Note 4. Revolving Line of Credit

The Company had an available line of credit of up to $500,000 with a financial institution. Borrowings are collateralized by the Company's cash, accounts receivable, securities, deposits and general intangibles. At July 31, 2003 and October 31, 2002 the Company had no outstanding balances under the revolving line of credit.

Note 5. Treasury Stock

During the nine month period ended July 31, 2003 the Company purchased 61,000 shares of Common Stock at a total cost of $214,261. Treasury stock is reflected on the balance sheet as a reduction of shareholder equity.

Additionally, during the nine month period ended July 31, 2003, the Company, in conjunction with its stock repurchase program, repurchased 206,000 stock options from employees for $208,554.

These costs were reflected as a charge to income in the current period.

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

Critical Accounting Policies

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

Allowances for Doubtful Accounts

We maintain an allowance for doubtful accounts for losses that we estimate will arise from our customers inability to make required payments. We make our estimates of the uncollectability of our accounts receivable by analyzing historical bad debts, specific customer creditworthiness and current economic trends. At July 31, 2003 the allowance for doubtful accounts was $501,000 and at October 31, 2002 it was $451,000.

Inventory Valuation

We regularly assess the valuation of our inventories and write down those inventories which are obsolete or in excess of our forecasted usage to their estimated realizable value. Our estimates of realizable value are based upon our analyses and assumptions including, but 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 our forecasts or actual demand from our customers is lower than our estimates, we may be required to record additional inventory write-downs. If demand is higher than expected, we may sell our inventories that had previously been written down. At July 31, 2003 and October 31, 2002 we maintained an obsolescence reserve of $260,000.

Impairment of Goodwill

In determining the recoverability of goodwill, assumptions must be made regarding estimated future cash flows and other factors to determine the fair value of the asset. If these estimates or their related assumptions change in the future, the Company may be required to record charges not previously recorded. Effective November 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets". Under the provisions of SFAS No. 142, the cost of certain intangibles will no longer be subject to amortization but was reviewed for potential impairment during the first six months of Fiscal 2003 and on an annual basis thereafter. The Company concluded, as of April 30, 2003, that there was no impairment to goodwill, and, pursuant to SFAS 142, goodwill is no longer being amortized.

Results of Operations

Nine months ended July 31, 2003 as compared to nine months ended July 31, 2002 and three months ended July 31, 2003 as compared to three months ended July 31, 2002.

For the first nine months of the Company's fiscal year ending October 31, 2003 ("Fiscal 2003"), revenues increased to $20,932,512 from $19,629,794, an increase of 6.6% over the same period a year ago. This increase was due to increased market penetration of the Company's products. Gross profit as a percentage of sales increased to 40.4% from 38.3% as a larger percentage of sales were from higher margin products. Net income for the current nine month period was $1,074,595 an increase of 4.9% from net income of $1,024,372 in the first nine months of Fiscal 2002. The increase in net income, due to the increase in sales, was tempered by a pre-tax expense of $208,554 for the repurchase of stock options from employees. Per share earnings for this period was $.56 per basic share and $.53 per diluted share, as compared to $0.50 per basic $0.49 per diluted share a year ago. Selling, general and administrative expenses as a percentage of sales increased to 31.3% of sales as compared to 29.1% largely due to the expense relating to the payment made to cancel certain stock options.

For the quarter ended July 31, 2003 ("3Q FY2003"), revenues increased to $7,615,995 from $7,521,046, an increase of 1.3% over the same period a year ago. Gross profit as a percentage of sales rose to 40.5% from 38.5% as a larger percentage of sales were from higher margin products. In the current quarter net income was $481,105 an increase of 1.2% from net income of $475,569 in the third quarter of Fiscal 2002. Per share earnings for 3Q FY2003 were $0.25 per basic and $0.24 per diluted share, as compared to $0.23 per basic and diluted share a year ago. Selling, general and administrative expenses as a percentage of sales increased to 29.3% of sales as compared to 27.2%, largely due to increased costs related to the expansion of the Company's facilities.

Liquidity and Capital Resources

The Company's working capital increased to $7,666,934 at July 31, 2003 from $6,803,455 at October 31, 2002. The Company's current ratio decreased to 4.3 to 1 at July 31, 2003 from 4.4 to 1 at October 31, 2002.

During the nine months ended July 31, 2003, the Company used $161,895 of cash from operating activities, as compared to providing $997,457 during the year earlier period as the Company was more prompt with payments to vendors in the current period. The Company used $160,270 of cash in investing activities in the current year compared to using $186,628 cash a year ago. The Company used $214,261 of cash from financing activities during the nine months ended July 31, 2003 as compared to using $654,281 a year earlier, as the Company reduced its debt by $450,000 a year ago.

On December 22, 1998, the Company issued an executive of the Company 200,000 shares of Common Stock at a price of $2.25 per share, which was the fair value on the issuance date. The executive executed a ten-year promissory note due to the Company in the amount of $450,000, with $45,000 principal and accrued interest payments due annually on December 22, until repaid. The promissory note bears interest at 5% per annum. The outstanding principal and interest balance at July 31, 2003 and October 31, 2002 was $274,875 and $319,375 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.

Item 3. 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 Quarterly Report on Form 10-QSB. 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 II. OTHER INFORMATION

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

(a) Exhibits.

3.1 Certificate of Incorporation of the Company as amended dated December 30, 1994, incorporated by reference to Exhibit 3.1 of the Company's annual Report on Form 10-KSB filed for its fiscal year ended October 31, 1995 ("1995 10-K").

3.2 The Company's By-Laws are incorporated by reference to Exhibit 3.03 of Registration Statement No. 33-10278 NY filed on Form S-18 ("Form S-18").

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. 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.

(b) Reports on Form 8-K.

On June 23, 2003, the Company filed a current report on Form 8-K to report the Company's announcement of its earnings for the second quarter of its fiscal year ending October 31, 2003.

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.

JLM COUTURE, INC.
Registrant

By:/s/Joseph L. Murphy

Joseph L. Murphy, President
(Duly authorized officer)

Dated: September 17, 2003