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JLM COUTURE INC
Form 10-K/A
June 22, 2004

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

FORM 10-K/A
(Amendment No. 1)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 31, 2003
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 (State or other jurisdiction of incorporation or organization)	13-3337553 (IRS Employer Identification No.)
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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

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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:
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 \$5,051,336.96.

As of October 31, 2003 the issuer had 1,912,694 shares of Common Stock, par value \$.0002 per share outstanding.

The Proxy Statement of the registrant to be filed on or before February 28, 2004 is incorporated herein by reference.

TABLE OF CONTENTS

PART I		PAGE

Item 1.	Business.	3
Item 2.	Properties.	6
Item 3.	Legal Proceedings.	7
Item 4.	Submission of Matters to a Vote of Security Holders.	7
PART II		
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters.	8
Item 6.	Selected Financial Data.	12
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operation.	13
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.	17
Item 8.	Financial Statements and Supplementary Data.	17
Item 9.	Changes in and Disagreements with Registered Public Accounting Firm on Accounting and Financial Disclosure.	17
Item 9A.	Controls and Procedures.	17
PART III		
Incorporated by reference to the Proxy Statement of the Company to be filed with the Securities and Exchange Commission on or before February 28, 2004.		18

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PART IV

Item 10. Exhibits, Financial Statement Schedules and Reports on Form 8-K.	19
Signatures	21

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 set up 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

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Company's designs reflect its emphasis on quality and design originality. Wholesale prices for the Company's bridesmaid and bridal gowns range from \$90 to \$150 and \$500 to \$3,000, respectively, with suggested retail prices ranging from \$180 to \$300 for bridesmaid gowns and \$1,000 to \$6,000 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 custom alterations 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, 2003 ("Fiscal 2003"), October 31, 2002 ("Fiscal 2002") and October 31, 2001 ("Fiscal 2001"), 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.

Other designers of the Company's products include Lazaro Perez (who designs under the name Lazaro) and Victoria McMillan. Lazaro's designs enabled the Company to diversify and add depth to its product lines. In both 1997 and 1999 Lazaro was awarded the Distinctive Excellence in Bridal Industry (DEBI) Award in the category of Style Innovator for bridal gowns.

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

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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. Murphy.

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's gowns to the European community. Sales from this operation comprised approximately 3% in each of the last three fiscal years.

As of January 31, 2004 and January 31, 2003 the Company's backlog of firm orders was approximately \$4,500,000 and \$5,000,000, 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.

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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", which area is primarily devoted to garment manufacturers and other business 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 October 28, 2003, 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"); each of the Company's nominees for director was elected and there was no solicitation in opposition to management's state of nominees. Messrs. Daniel Sullivan and Keith Cannon were elected to serve as two Class II directors until the 2006 Annual Meeting of Stockholders and until their successors are elected and qualify.

Messrs. Joseph L. Murphy and Joseph E. O'Grady, the Company's other two directors, terms of office continue until 2004 and 2005, respectively.

The shareholders also voted on proposals to approve the adoption of the Company's 2003 Stock Incentive Plan and 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, 2003. The following table sets forth the results of each vote:

Proposal	Affirmative Votes	Negative Votes	Abstention	Broker Non Votes
Approval of 2003 Stock Incentive Plan	1,009,002	64,932	2,449	769,701
Ratification of the appointment of Goldstein Golub Kessler LLP as the company's independent registered public	1,836,935	634	2,466	-

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accounting firm for
its fiscal year ended
October 31, 2003

PART II

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

(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

Quarter Ended -----	Price range of Common Stock	
	High Bid -----	Low Bid -----
Fiscal 2002 -----		
January 31, 2002	\$2.38	\$1.86
April 30, 2002	2.40	2.01
July 31, 2002	3.75	2.13
October 31, 2002	3.70	2.30

On February 3, 2004, the closing bid and ask prices in the Over-the-Counter market for the Common Stock as reported by Nasdaq were \$4.61 and \$4.84, respectively.

(b) Holders. As of February 3, 2004, there were approximately 132 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.

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(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, 2003 with respect to the Company's compensation plans under which equity securities of the Company are authorized for issuance:

Equity Compensation Plan Information

	(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	64,000	\$2.64	180,000
Equity compensation plans not approved by security holders	140,000	\$2.05	0
Total	204,000	\$2.22	180,000

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

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purchased
under the
Plans or
Programs

August 1, to August 31, 2003	-	-	-	-
September 1, to September 30, 2003	-	-	-	-
October 1 to October 31, 2003	-	-	-	-
Total	-	-	-	-

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,				
	1999	2000	2001	2002	2003
Net sales	18,623	20,621	22,092	25,406	26,781
Net income	880	749	666	1,109	808
Net income per common share (basic)	.44	.37	.34	.54	.42
Net income per common share (diluted)	.43	.36	.34	.53	.40
Weighted average number of shares Outstanding (diluted)	2,055	2,057	1,986	2,099	1,996
Dividends	-	-	-	-	-

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Consolidated Balance Sheet Data (000's omitted)

	At October 31,				
	----- 1999 -----	----- 2000 -----	----- 2001 -----	----- 2002 -----	----- 2003 -----
Working capital	4,283	4,867	6,092	6,803	7,210
Total assets	7,633	8,755	8,739	9,816	10,551
Long-term debt	48	34	8	-	-
Shareholder's equity	5,135	5,725	6,228	7,122	7,825

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 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 \$

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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 cancelling 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.

Results of Operations - Fiscal 2002 as Compared to Fiscal 2001.

For Fiscal 2002, revenues were \$24,701,566 as compared to \$21,420,342 in Fiscal 2001, an increase of \$3,281,224 or 15.3%. This increase was due to increased market penetration of the Company's products.

The Company's gross profit margin increased in Fiscal 2002 to 43.2% from 42.2% in Fiscal 2001. The Company attributes the increase in its gross profit margin to better costs controls.

Selling, general and administrative ("SG&A") expenses decreased to 34.8% of net sales in Fiscal 2002 as compared to 36.6% of sales in Fiscal 2001. The decrease was a result of the company's efforts to control costs. Advertising costs as well as costs associates with its European operations were better controlled in fiscal 2002.

The Company generated net income of \$1,109,133, or \$.54 per share-basic and \$.53 per share-diluted for Fiscal 2002 as compared to net income of \$666,363, or \$0.34 per share basic and diluted for Fiscal 2001.

Liquidity and Capital Resources

The Company's working capital increased to \$7,210,049 at October 31, 2003 from \$6,803,455 at October 31, 2002, an increase of \$406,594. The Company's current ratio was 4.4 to 1 at October 31, 2003 and 2002.

During Fiscal 2003, net cash provided by the Company's operating activities was \$742,192 as compared to cash provided by operating activities of \$1,841,085 in Fiscal 2002. In Fiscal 2003, the Company increased its inventory in excess of \$200,000 over Fiscal 2002 levels and purchased raw materials in preparation of introducing its new Alvina Valenta bridesmaid line of dresses, as well as other new product lines. In addition, the Company reduced its obsolescence inventory reserve by \$110,000. The reduction included use of inventory that had been previously reserved for, as well as the disposition of approximately \$75,000 of inventory for which the Company received approximately \$25,000. The \$50,000 difference is reflected in cost of goods sold.

Cash used in investing activities in Fiscal 2003 was \$320,373 as compared to \$341,149 in Fiscal 2002, as the Company incurred costs in 2002 associated with the relocation of its showroom and in 2003 associated with the expansion of its

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production facility.

Cash used in financing activities in Fiscal 2003 was \$161,566 as compared to \$745,773 in Fiscal 2002. This was primarily a result of the Company paying off its revolving credit loan in 2002 as well as repurchasing less treasury stock in 2003 as compared to 2002.

The Company's working capital increased to \$6,803,455 at October 31, 2002 from \$6,091,587 at October 31, 2001, an increase of \$711,868. The Company's current ratio was 4.4 to 1 at October 31, 2002 as compared to 4.2 to 1 at October 31, 2001.

During Fiscal 2002, 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 2001. The increase was primarily due to the increase in net income. Additionally, certain expenses, including taxes, incurred in Fiscal 2002 were not payable until Fiscal 2003.

Cash used in investing activities in Fiscal 2002 was \$341,149 as compared to \$40,356 in Fiscal 2001, as the Company incurred cost associated with its relocation of its showroom.

Cash used in financial activities in Fiscal 2002 was \$745,773 as compared to \$182,629 in Fiscal 2001. This was primarily a result of the Company eliminating its revolving credit borrowings in Fiscal 2002 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 13 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, 2003 and is based on information appearing in the notes to the consolidated financial statements:

Contractual Obligations	2004	2005	2006	2007	2008	Thereafter	Total
-----	----	----	----	----	----	-----	-----

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Operating							
Lease	\$551,05	\$577,445	\$572,170	\$562,796	\$587,401	\$2,452,066	\$5,302,929
Employment							
Agreement	627,500	481,475	329,834	341,068	352,691	1,342,666	3,475,234
Total							
Contractual	\$1,178,551	\$1,058,920	\$902,004	\$903,864	\$940,092	\$3,794,792	\$8,778,163
Obligations	=====	=====	=====	=====	=====	=====	=====

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, 2003 the allowance for doubtful accounts was \$301,000 and at October 31, 2002 it was \$326,000.

Inventory Valuation

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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 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, 2003 and 2002 the Company maintained an obsolescence reserve of \$150,000 and \$260,000 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-26 following the signature page.

Title of Document -----	Page ----
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of October 31, 2003 and 2002	F-2 - F-3
Consolidated Statements of Income for the Years Ended October 31, 2003, 2002 and 2001	F-4

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Consolidated Statements of Shareholders' Equity for the Years Ended October 31, 2003, 2002 and 2001	F-5 - F-6
Consolidated Statements of Cash Flows for the Years Ended October 31, 2003, 2002 and 2001	F-7 - F-8
Notes to Consolidated Financial Statements	F-9 - F-26

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, 2004.

PART IV

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

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(a) Financial Statement Schedules

(b) Reports on Form 8-K

None.

(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 Exhibit 4.2 of 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").
- 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 June 14, 2004.
- 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

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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: June 10, 2004

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	June 10, 2004
/s/Joseph L. Murphy ----- Joseph L. Murphy	President and Director (principal executive officer)	June 10, 2004
/s/Joseph E. O'Grady ----- Joseph E. O'Grady	Secretary and Director	June 10, 2004
/s/Jerrold Walkenfeld ----- Jerrold Walkenfeld	Principal Accounting Officer (principal Financial officer)	June 10, 2004
/s/Keith Cannon ----- Keith Cannon	Director	June 10, 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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To JLM Couture, Inc.

We have audited the accompanying consolidated balance sheets of JLM Couture, Inc. (a Delaware corporation) and Subsidiaries as of October 31, 2003 and 2002 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, 2003. 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, 2003 and 2002 and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2003 in conformity with United States generally accepted accounting principles.

/s/GOLDSTEIN GOLUB KESSLER LLP

GOLDSTEIN GOLUB KESSLER LLP

New York, New York
January 21, 2004

JLM COUTURE, INC. AND
SUBSIDIARIES
Consolidated Balance Sheets as of
October 31, 2003 and 2002

	2003	2002
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 1,219,063	\$ 958,810
Accounts receivable, net of allowance for doubtful accounts, of \$301,000 at October 31, 2003 and \$326,000 at October 31, 2002	3,610,523	3,596,205
Inventories, net	4,070,192	3,747,357
Prepaid expenses and other current assets	325,283	531,712

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Deferred income taxes	20,000	-
Prepaid taxes	76,188	-
	-----	-----
Total current assets	9,321,249	8,834,084
Equipment and leasehold improvements, net of accumulated depreciation and amortization of \$515,333 at October 31, 2003 and \$412,053 at October 31, 2002	677,357	460,264
Goodwill, net of accumulated amortization of \$70,421 at October 31, 2003 and 2002	211,272	211,272
Samples, net of accumulated amortization of \$108,190 at October 31, 2003 and \$133,493 at October 31, 2002	247,120	261,037
Other assets	94,416	49,540
	-----	-----
	\$10,551,414	\$9,816,197
	=====	=====

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, 2003 and 2002
(continued)

	2003	2002
	-----	-----
Current liabilities:		
Accounts payable	\$ 1,193,570	\$1,014,241
Accrued expenses and other current liabilities	917,630	786,099
Income taxes payable	-	157,289
Deferred income taxes	-	73,000
	-----	-----
Total current liabilities	2,111,200	2,030,629
	-----	-----
Deferred income taxes	615,000	664,000
	-----	-----
Total liabilities	2,726,200	2,694,629
	-----	-----
Commitments and contingencies (Note 11)		
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 2,344,530 at October 31, 2003 and 2,330,530 at October 31, 2002; Outstanding 1,912,694 at		

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October 31, 2003 and 1,964,360 at October 31, 2002	465	465
Additional paid-in capital	3,679,542	3,653,642
Retained earnings	5,879,980	5,072,228
	-----	-----
	9,559,987	8,726,335
Less: Deferred compensation	(248,750)	(335,000)
Note receivable and accrued interest	(317,960)	(365,265)
Treasury stock, at cost: 431,836 shares at October 31, 2003 and 366,170 shares at October 31, 2002	(1,142,968)	(904,502)
Accumulated other comprehensive loss	(25,095)	-
	-----	-----
Total shareholders' equity	7,825,214	7,121,568
	-----	-----
	\$10,551,414	\$9,816,197
	=====	=====

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, 2003, 2002 and 2001

	2003	2002	2001
	-----	-----	-----
Net sales	\$26,781,400	\$25,405,702	\$22,092,392
Cost of goods sold	15,487,372	14,038,477	12,385,206
	-----	-----	-----
Gross profit	11,294,028	11,367,225	9,707,186
Selling, general and administrative expenses	9,899,846	9,273,739	8,502,994
	-----	-----	-----
Operating income	1,394,182	2,066,286	1,204,192
Interest income (expense), net of interest expense of \$8,249 for 2003 and interest income of \$17,810 and \$5,111 for 2002 and 2001, respectively	8,448	(10,153)	(51,389)
Income before provision for income taxes	1,402,630	2,056,133	1,152,803
Provision for income taxes	594,878	947,000	486,440
	-----	-----	-----
Net income	\$ 807,752	\$ 1,109,133	\$ 666,363
	=====	=====	=====
Net income per weighted average number of common shares:			
Basic	\$0.42	\$0.54	\$0.34
	=====	=====	=====
Diluted	\$0.40	\$0.53	\$0.34

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	=====	=====	=====
Weighted average number of common shares outstanding:			
Basic	1,914,392	2,043,907	1,980,200
	=====	=====	=====
Diluted	1,995,823	2,098,981	1,985,833
	=====	=====	=====

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

Balance October 31, 2000	2,120,530	\$423	\$3,294,984	\$3,296,732	(101,250)	\$(432,135)	(132,420)
Purchase of Treasury Stock							(99,900)
Exercise of Stock Options	10,000	2	8,698				
Accrued Interest on Notes Receivable						(10,083)	
Payments on Notes Receivable						10,083	
Employee Stock Grant	200,000	40	349,960		(350,000)		
Amortization of Deferred Compensation					30,000		
Net Income				666,363			
	-----	---	-----	-----	-----	-----	-----
Balance October 31, 2001	2,330,530	\$465	\$3,653,642	\$3,963,095	\$(421,250)	\$(432,135)	(232,320)
	=====	===	=====	=====	=====	=====	=====

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
For the Years Ended October 31, 2003 and 2002

	Common Stock Shares	Additional Paid-in Capital	Retained Earnings	Deferred Compensation	Notes Receivable and Accrued Interest	Treasury Shares
Balance October 31, 2001	2,330,530	\$465	\$3,653,642	\$3,963,095	(421,250)	\$(432,135)
				(232,320)		

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Purchase of Treasury Stock							(133,850)
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)

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, 2003 and 2002

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Compre- hensive Loss	Deferred Compensation	Notes Receivable and Accrued Interest	T
Balance October 31, 2002	2,330,530	\$465	\$3,653,642	\$5,072,228		(335,000)	\$(365,265)	(3
Net Income				807,752				
Foreign currency translation					(25,095)			
Comprehensive Income								
Shares tendered upon option exercise			24,205					
Purchase of Treasury Stock								
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,								

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2003 2,330,530 \$465 \$3,679,542 \$5,879,980 \$(25,095) \$(248,750) \$(317,960)
 ===== ===== ===== ===== ===== =====

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, 2003, 2002 and 2001

	2003	2002	2001
	-----	-----	-----
Cash flows from operating activities:			
Net income	807,752	1,109,133	666,363
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	103,280	94,633	86,230
Provision for doubtful accounts	50,000	-	(75,000)
Foreign currency translation	(25,095)	-	-
Accrued interest income on note receivable	(3,695)	(6,700)	(10,083)
Compensation expense on issuance of stock options and common stock	86,250	86,250	30,000
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(64,318)	(161,677)	115,223
Increase in inventories	(322,835)	(31,204)	(43,619)
(Increase) decrease in prepaid expenses and other current assets	206,429	109,075	(146,185)
Increase in prepaid taxes	(76,188)	-	(152,910)
(Increase) decrease in samples and other assets	(30,959)	3,713	62,360
Increase (decrease) in accounts payable	179,329	(160,772)	(160,654)
Increase (decrease) in accrued expenses and other current liabilities	131,531	502,584	(42,605)
Increase (decrease) in income taxes payable	(157,289)	157,289	(884,108)
Increase (decrease) in deferred income taxes	(142,000)	147,000	852,721
Decrease in other long-term liabilities	-	(8,239)	(25,435)
Net cash provided by operating activities	----- 742,192	----- 1,841,085	----- 272,298
Cash flows from investing activities:			
Purchase of property and equipment	(320,373)	(341,149)	(40,356)
Net cash used in investing activities	----- (320,373)	----- (341,149)	----- (40,356)

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

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JLM COUTURE, INC. AND SUBSIDIARIES
 Consolidated Statements of Cash Flows
 For the Years Ended October 31, 2003, 2002 and 2001
 (Continued)

	2003	2002	2001
	-----	-----	-----
Cash flows from financing activities:			
Net reductions of revolving line of credit	\$ -	\$ (450,000)	\$ -
Payments on note receivable	51,000	73,570	10,083
Proceeds from stock option exercise	1,695	-	8,700
Purchase of treasury stock	(214,261)	(369,343)	(201,412)
	-----	-----	-----
Net cash used in financing activities	(161,566)	(745,773)	(182,629)
	-----	-----	-----
Net increase in cash	260,253	754,163	49,313
Cash and cash equivalents, beginning of year	958,810	204,647	155,334
	-----	-----	-----
Cash and cash equivalents, end of year	\$1,219,063	\$ 958,810	\$204,647
	=====	=====	=====

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:			
Interest	\$ 4,553	\$30,107	\$ 51,373
	=====	=====	=====
Income taxes	\$970,000	\$490,000	\$655,622
	=====	=====	=====

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, 2003, 2002 and 2001

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 England. The Company operates in one segment.

Note 2. Summary of Significant Accounting Policies

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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 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 foreign subsidiaries 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.

JLM COUTURE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2003, 2002 and 2001

No material year-end foreign currency translation adjustments were necessary at October 31, 2002 and 2001.

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 account which, at times, exceed federally insured limits. The Company has not experienced any losses on these accounts.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is determined based

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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.

Inventories

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

Prepaid Advertising and Marketing Costs

Prepaid advertising and marketing costs include 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, 2003, 2002 and 2001 were \$3,080,784, \$2,054,861 and \$2,251,308, respectively.

JLM COUTURE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2003, 2002 and 2001

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

Goodwill represents the excess of the purchase price over the fair value of the net assets of the business acquired and was being amortized on a straight-line basis over 20 years until November 1, 2002 at which time the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. See "New Accounting Standards" below for additional information relating to goodwill.

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

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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 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, 2003, 2002 and 2001

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.

See "New Accounting Standards" below regarding additional information covering Long-Lived Assets.

Fair Value of Financial Instruments

The fair value of the Company's short-term debt is estimated based on the current rates offered to the Company for debt of similar terms and maturities.

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 provide for at the time revenue is recognized.

JLM COUTURE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2003, 2002 and 2001

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Freight And Delivery Costs

The Company's freight and delivery costs are included in selling, general and administrative expenses and amounted to approximately \$773,000, \$715,000 and \$712,000 for the years ended October 31, 2003, 2002 and 2001, respectively. Amounts charged to customers for freight and delivery are included in revenues.

Reclassifications

For comparability, certain 2002 and 2001 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2003.

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.

JLM COUTURE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2003, 2002 and 2001

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:

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Year Ended October 31,	2003	2002	2001
Net income - as reported	\$807,752	\$1,109,133	\$666,363
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	57,663	35,690	71,404

Year Ended October 31,	2003	2002	2001
Net income - pro forma	\$750,089	\$1,073,440	\$594,959
Basic income per share - as reported	\$0.42	\$0.54	\$0.34
Basic income per share - pro forma	\$0.39	\$0.53	\$0.30
Diluted income per share - as reported	\$0.40	\$0.53	\$0.34
Diluted income per share - pro forma	\$0.38	\$0.51	\$0.30

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2003, 2002 and 2001

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,		
	2003	2002	2001
Weighted average market price at date of grant	\$3.66	\$2.10	\$1.75
Risk free interest rate	4.50%	4.50%	4.57%
Volatility factor	100%	100%	100%
Expected life of the stock options	5.0 yrs	5.0 yrs	3.0 yrs
Expected dividends	\$ -	\$ -	\$ -

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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 assuming dilution is as follows:

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2003, 2002 and 2001

	Years Ended October 31,		
	2003	2002	2001
	-----	-----	-----
Basic weighted average common shares outstanding	1,914,392	2,043,907	1,980,200
Effect of dilutive securities:			
Stock options	81,796	55,074	5,633
Diluted weighted average common shares outstanding	----- 1,996,188	----- 2,098,981	----- 1,985,833
	=====	=====	=====

Comprehensive Income

In 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income". This standard establishes requirements for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income is the total of net income and all other non owner changes in equity. The objective of this statement is to report a measure of all changes in equity of a company that result from transactions and other economic events in the period other than transactions with owners. The Company adopted SFAS No. 130 during the first quarter of Fiscal

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1999.

New Accounting Standards

In July 2001, the Financial Accounting Standards Board issued 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." The Company adopted its provisions for its fiscal year beginning November 1, 2002.

JLM COUTURE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the Years Ended October 31, 2003, 2002 and 2001

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". 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 adopted its provisions for its fiscal year beginning November 1, 2002.

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

Cost of Goods Sold

The cost of goods sold include 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 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

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salary costs (as well as related fringe benefits) not directly related to the production of dresses are charged to SG&A.

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2003, 2002 and 2001

Note 3. Inventories

Inventories consisted of the following:

	October 31,	
	2003	2002
	-----	-----
Raw materials	\$3,319,321	\$2,782,515
Work-in-process	180,816	354,114
Finished goods	570,055	610,728
	-----	-----
	\$4,070,192	\$3,747,357
	=====	=====

Raw materials are shown net of a \$150,000 and \$260,000 obsolescence reserve at October 31, 2003 and 2002 respectively.

Note 4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	October 31,	
	2003	2002
	-----	-----
Prepaid advertising and marketing costs	\$ 285,948	\$ 493,586
Other	39,335	38,126
	-----	-----
	\$ 325,283	\$ 531,712
	=====	=====

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2003, 2002 and 2001

Note 5. Equipment and Leasehold Improvements

Equipment and leasehold improvements are summarized as follows:

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	October 31,	
	2003	2002
Furniture and equipment	\$ 542,608	\$ 450,770
Leasehold improvements	601,259	421,547
Transportation equipment	48,823	-
	-----	-----
	1,192,690	872,317
Less: Accumulated depreciation and amortization	(515,333)	(412,053)
	-----	-----
Equipment and leasehold improvements, net	\$ 677,357	\$ 460,264
	=====	=====

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 at that date. No impairment charges resulted from this evaluation since the fair value of the reporting unit exceeded the carrying amount.

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2003, 2002 and 2001

The following pro-forma information reconciles net income reported for the years ended October 31, 2003, 2002 and 2001 to adjusted net income reflecting the adoption of SFAS No. 142.

	2003	2002	2001
	-----	-----	-----
Reported net income	\$807,752	\$1,109,133	\$666,363
Addback: Goodwill amortization	-	14,084	14,084
	-----	-----	-----
Adjusted net income	\$807,752	\$1,123,217	\$680,447
	=====	=====	=====
Basic income per share:			
Reported net income	0.42	0.54	0.34
Addback: Goodwill amortization	-	0.01	-
	-----	-----	-----

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Adjusted net income	0.42	0.55	0.34
	=====	=====	=====
Diluted income per share:			
Reported net income	0.40	0.53	0.34
Addback: Goodwill and amortization	-	0.01	-
	-----	-----	-----
Adjusted net income	0.40	0.54	0.34
	=====	=====	=====

Note 7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities are summarized as follows:

	October 31,	
	2003	2002
	-----	-----
Payroll and related expenses	\$ 420,738	\$ 569,694
Other	496,892	216,405
	-----	-----
	\$ 917,630	\$ 786,099
	=====	=====

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2003, 2002 and 2001

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, 2003, \$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% at October 31, 2003). The line of credit agreement will automatically renew each year unless either party provides 60 days notice to terminate the line of credit agreement. Interest expense charged to operations related to the IDB line of credit facility totaled \$21,623 and \$53,167 for the years ended October 31, 2002 and 2001, respectively. At October 31, 2003 and 2002, the Company had no outstanding borrowings under the line of credit agreement.

Note 9. Income Taxes

The provision for income taxes for the years ended October 31, 2003, 2002 and 2001, consist of the

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following:

	2003	2002	2001
	-----	-----	-----
Current:			
Federal	\$564,665	\$592,183	\$380,898
State and local	172,213	206,817	121,814
	-----	-----	-----
	\$736,878	\$799,000	\$502,712
	-----	-----	-----
Deferred:			
Federal	(93,000)	113,000	246,020
State and local	(49,000)	35,000	(262,292)
	-----	-----	-----
	(142,000)	148,000	(16,272)
	-----	-----	-----
	\$594,878	\$947,000	\$486,440
	=====	=====	=====

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2003, 2002 and 2001

Note 9. Income Taxes (continued)

A reconciliation of the statutory Federal income tax rate to the effective income tax rate for the years ended October 31, 2003, 2002 and 2001, is as follows:

	2003	2002	2001
	----	----	----
Statutory federal income tax at applicable rates	34%	34%	34%
State and local taxes, net of federal tax benefit	8%	7%	6%
Nondeductible expenses	2%	3%	3%
Other	(2%)	2%	(1%)
	---	---	---
	42%	46%	42%
	===	===	===

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

	October 31,	
	2003	2002
	-----	-----
Deferred tax assets:		
Allowance for doubtful accounts	\$ 132,000	\$ 133,000
Other liabilities and accruals	14,000	13,000
	-----	-----
Total deferred tax assets	146,000	146,000
	-----	-----
Deferred tax liabilities:		
Prepaid advertising and		

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marketing expenses	(126,000)	(219,000)	
Intercompany reimbursement taxed in different period	(593,000)	(664,000)	
Accumulated depreciation and amortization	(22,000)	-	
	-----	-----	
Total deferred tax liabilities	(741,000)	(883,000)	
	-----	-----	
Net deferred tax liability	\$ (595,000)	\$ (737,000)	
	=====	=====	

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2003, 2002 and 2001

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 2003, 2002 and 2001, the Company repurchased 61,000, 133,850 and 99,900 shares of Common Stock, respectively, in the open market at a cost of \$214,261, \$369,343 and \$201,412, 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 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

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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For the Years Ended October 31, 2003, 2002 and 2001

to incentive options granted to an employee who owns 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 (1) remaining available for issuance as of the effective date of the 2003 Plan under the 1996 Plan.

F-25

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2003, 2002 and 2001

The following table summarizes data relating to non-incentive plan options and incentive plan options:

Incentive						
	2003	Average Exercise Price	2002	Average Exercise Price	2001	Average Exercise Price
Options outstanding at the beginning of the year	48,000	2.10	122,500	3.32	132,500	3.28
Options granted	22,000	3.66	48,000	2.10	-	-
Options expired	(6,000)	-	(122,500)	3.32	(10,000)	2.75
Options exercised	-	2.10	-	-	-	-
Options outstanding at the end of the year	64,000	2.64	48,000	2.10	122,500	3.32
Options exercisable at the end of the year	-	-	-	-	122,500	3.32
Non-Incentive						
	2003	Weighted Average Exercise Price	2002	Weighted Average Exercise Price	2001	Weighted Average Exercise Price
Options outstanding at the beginning of the year	354,000	2.33	408,000	3.11	413,000	3.02
Options granted	-	-	124,000	2.10	30,000	1.75

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Options expired	200,000)	2.56	(178,000)	3.95	(25,000)	0.87
Options exercised	(14,000)	1.85	-	-	(10,000)	0.87
	-----	----	-----	----	-----	----
Options outstanding at the end of the year	140,000	2.05	354,000	2.33	408,000	3.11
	=====	=====	=====	=====	=====	=====
Options exercisable at the end of the year	20,000	1.75	230,000	2.46	408,000	3.11
	=====	=====	=====	=====	=====	=====

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2003, 2002 and 2001

The weighted average fair value of options granted during the years ended October 31, 2003, 2002 and 2001 was \$3.66, \$1.20 and \$1.10, respectively.

The following table summarizes information about stock options outstanding and exercisable at October 31, 2003:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exerc- isable	Weighted Average Exercise Price
-----	-----	-----	-----	-----	-----
\$1.75 - \$2.10	182,000	3 years	\$2.06	20,000	\$1.75
\$3.66 - \$3.66	22,000	4 years	\$3.66	-	-
=====	=====	=====	=====	=====	=====

At October 31, 2003, 680,000 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 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, 2003

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and 2002 was \$39,710 and \$45,890, respectively.

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2003, 2002 and 2001

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, 2003 and 2002 was \$278,250 and \$319,375, 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.

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2003, 2002 and 2001

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,	

2004	\$ 551,051
2005	577,445
2006	572,170
2007	562,796
2008	587,401

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Thereafter	2,452,066

	\$5,302,929
	=====

Rent expense charged to operations for the foregoing lease and short-term rentals for the years ended October 31, 2003, 2002 and 2001 amounted to \$614,401, \$520,640 and \$419,305, 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, 2003 and 2002, the Company was committed under a stand-by letter of credit issued by the bank on its behalf for approximately \$160,299.

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2003, 2002 and 2001

Employment Agreements

The Company has employment agreements with four of its key employees terminating from March 2004 to October 2013. Total compensation expense under the terms of these agreements for the years ended October 31, 2003, 2002 and 2001 was \$769,704, \$941,650 and \$678,026, respectively.

Future minimum commitments under these employment agreements are as follows:

	Year Ending October 31,

2004	\$ 627,500
2005	481,475
2006	329,834
2007	341,068
2008	352,691
Thereafter	1,342,666

	\$3,475,234
	=====

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2003, 2002 and 2001

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Note 13. Valuation and Qualifying Accounts

Years ended October 31, 2003, 2002 and 2001 (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, 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)	\$300	\$294	-	\$268	\$326
Year ended October 31, 2001, allowance for doubtful accounts (deducted from accounts receivable)	\$375	\$100	-	\$100	\$300

(1) Accounts deemed to be uncollectible.

JLM COUTURE, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Years Ended October 31, 2003, 2002 and 2001

Note 14. Interim Financial Information (Unaudited)

2003	Three-Month Period Ended			
	January 31	April 30	July 30	October 31
	-----	-----	-----	-----
Revenue	\$5,653,948	\$8,021,560	\$7,847,951	\$5,257,941
Gross profit	2,241,137	3,120,905	3,084,764	2,107,229
Net income (loss)	200,505	392,985	481,105	(266,843)
Basic earnings per share	0.10	0.21	0.25	(0.14)
Diluted earnings per share	0.10	0.19	0.24	(0.13)

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2002	Three-Month Period Ended			
	January 31	April 30	July 30	October 31
Revenue	\$4,643,091	\$7,801,100	\$7,745,328	\$5,216,183
Gross profit	1,815,456	2,800,252	2,896,517	3,150,864
Net income	167,844	380,959	475,569	84,761
Basic earnings per share	0.08	0.19	0.23	0.03
Diluted earnings per share	0.08	0.19	0.23	0.03

2001	Three-Month Period Ended			
	January 31	April 30	July 30	October 31
Revenue	\$4,373,945	\$6,501,792	\$6,550,415	\$4,666,240
Gross profit	1,604,065	2,481,214	2,398,198	2,614,659
Net income (loss)	158,553	313,531	307,658	(113,379)
Basic earnings per share	0.08	0.16	0.16	(0.06)
Diluted earnings per share	0.08	0.16	0.16	(0.06)

EXHIBIT INDEX

- 4.2 Form of 2003 Stock Incentive Plan, as amended, incorporated by reference to Exhibit 4.2 of the Company's Annual Report on Form 10-K for its fiscal year ended October 31, 2003.
- 21 List of Subsidiaries of the Company.
- 23.1 Consent of Goldstein Golub Kessler LLP dated June 14, 2004.
- 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.

