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JLM COUTURE INC
Form 10QSB
March 24, 2003

FORM 10-QSB

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended January 31, 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 (IRS Employer)
incorporation or organization) Identification No.)

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

(Address of principal executive offices)

(212) 921-7058

(Registrant's telephone number, including area code)

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

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

Yes No

The number of shares outstanding of the issuer's common stock, par value \$.0002 per share, as of March 21, 2003 was 1,897,760.

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The Exhibit Index is located on Page 17.

JLM COUTURE, INC.

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INDEPENDENT ACCOUNTANT'S REPORT

To JLM Couture, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of JLM Couture, Inc. and Subsidiaries as of January 31, 2003, and the related condensed consolidated statements of income and cash flows for the three-month periods ended January 31, 2003 and 2002. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of JLM Couture, Inc. and Subsidiaries as of October 31, 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein), and in our report dated January 23, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of October 31, 2002 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it is derived.

/S/GOLDSTEIN GOLUB KESSLER LLP
New York, New York

March 11, 2003

PART I. FINANCIAL INFORMATION

JLM COUTURE, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

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	January 31, 2003 ----- (Unaudited)	October 31, 2002 -----
Current assets:		
Cash and cash equivalents	\$ 489,699	\$ 958,810
Accounts receivable, net of allowance for doubtful accounts, trade discounts and allowances - \$501,000 at January 31, 2003 and \$451,000 at October 31, 2002	4,358,871	3,596,205
Inventories, net	4,249,351	3,747,357
Prepaid expenses and other current assets	533,922	531,712
Prepaid taxes	62,911	-
	-----	-----
Total current assets	9,694,754	8,834,084
Equipment and leasehold improvements, net of accumulated depreciation and amortization of \$432,718 at January 31, 2003 and \$412,053 at October 31, 2002		
	445,496	460,264
Goodwill	211,272	211,272
Samples, net of accumulated amortization of \$213,081 at January 31, 2003 and \$133,493 at October 31, 2002	181,449	261,037
Other Assets	49,540	49,540
	-----	-----
Total Assets	\$10,582,511 =====	\$9,816,197 =====

See accompanying notes to condensed consolidated financial statements.

JLM COUTURE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	January 31, 2003 ----- (Unaudited)	October 31, 2002 -----
Current liabilities:		
Accounts payable	\$ 2,072,187	\$1,014,241
Accrued expenses and other current liabilities	577,774	786,099
Income taxes payable	-	157,289
Deferred income taxes	73,000	73,000
	-----	-----
Total current liabilities	2,722,961	2,030,629
	-----	-----
Deferred income taxes	664,000	664,000
	-----	-----

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Total liabilities	3,386,961	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 January 31, 2003 and October 31, 2002;		
Outstanding 1,920,110 at January 31, 2003 and 1,964,360 at October 31, 2002	465	465
Additional paid-in capital	3,653,642	3,653,642
Retained earnings	5,272,733	5,072,228
	-----	-----
	8,926,840	8,726,335
Less: Deferred compensation	(313,438)	(335,000)
Notes receivable and accrued interest	(369,203)	(365,265)
Treasury stock at cost: 410,420 shares at January 31, 2003 and 366,170 at October 31, 2002	(1,048,649)	(904,502)
	-----	-----
Total shareholders' equity	7,195,550	7,121,568
	-----	-----
Total Liabilities and Shareholders' Equity	\$10,582,511	\$9,816,197
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

	2003	2002
	-----	-----
Net sales	\$5,481,833	\$4,500,276
Cost of goods sold	3,240,696	2,684,820
	-----	-----
Gross profit	2,241,137	1,815,456
Selling, general and administrative expenses	1,893,499	1,524,310
	-----	-----
Operating income	347,638	291,146
Interest Income (expense), net	2,867	(3,302)
	-----	-----
Income before provision for income taxes	350,505	287,844

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Provision for income taxes	150,000	120,000
	-----	-----
Net income	\$ 200,505	\$ 167,844
	=====	=====

Net income per weighted average number of common shares:

Basic	\$ 0.10	\$ 0.08
	=====	=====
Diluted	\$ 0.10	\$ 0.08
	=====	=====

Weighted average number of common shares outstanding:

Basic	1,932,034	2,098,210
	=====	=====
Diluted	2,066,347	2,104,748
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

	2003	2002
	-----	-----
Cash Flows From Operating Activities:		
Net Income	\$ 200,505	\$167,844
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	20,665	20,028
Provision for doubtful accounts	50,000	-
Accrued interest on note receivable	(3,938)	-
Compensation expense on issuance of stock options and common stock	21,562	25,312
Changes in operating assets and liabilities		
Increase in accounts receivable	(812,666)	(747,640)
Increase in inventories	(501,994)	(543,005)
(Increase) Decrease in prepaid expenses and other current assets	(2,210)	41,046
(Increase) Decrease in prepaid taxes	(62,911)	120,000
Decrease in samples	79,588	71,906
Increase in accounts payable	1,057,946	509,501
Decrease in accrued expenses and other current liabilities	(208,325)	(51,923)
Decrease in long term liabilities	-	(8,239)
Decrease in income taxes payable	(157,289)	-
	-----	-----
Net Cash Used In Operating Activities	(319,067)	(395,170)

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Cash Flows From Investing Activities -	-----	-----
Purchase of property and equipment	(5,897)	(10,641)
	-----	-----
Cash Flows from Financing Activities:		
Net proceeds from		
revolving line of credit	-	300,000
Purchase of treasury stock	(144,147)	-
	-----	-----
Net Cash (used in) provided by		
Financing Activities	(144,147)	300,000
	-----	-----
Net decrease in cash and cash equivalents	(469,111)	(105,811)
Cash and cash equivalents,		
beginning of period	958,810	204,647
	-----	-----
Cash and cash equivalents,		
end of period	\$ 489,699	\$ 98,836
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

Supplemental Disclosures of Cash Flow Information:

	2003	2002
	-----	-----
Cash paid during the period for:		
Interest	\$ 5,704	\$ 9,830
	=====	=====
Income taxes	370,000	20,000
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

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Note 1. Basis of Presentation

The condensed consolidated balance sheet as of January 31, 2003 and the condensed consolidated statements of income and cash flows for the three month periods ended January 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 January 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.

Note 2. Inventories

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

Inventories consisted of the following:

	January, 31, 2003 (Unaudited)	October 31, 2002
	-----	-----
Raw materials	\$2,529,964	\$2,782,515
Work-in-process	806,988	354,114
Finished goods	912,399	610,728
	-----	-----
	\$4,249,351	\$3,747,357
	=====	=====

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

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

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

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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 will be performing an impairment test in the current period.

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

	Three Months Ended	
	January 31,	
	2003	2002
	-----	-----
Reported net income	\$200,505	\$167,844
Addback: Goodwill amortization	-	3,521
Adjusted net income	\$200,505	\$171,365
Basic income per share:		
Reported net income	\$.10	\$.08
Addback: Goodwill amortization	-	-
Adjusted net income	\$.10	\$.08
Diluted income per share:		
Reported net income	\$.10	\$.08
Addback: Goodwill and amortization	-	-
Adjusted net income	\$.10	\$.08

Note 4. Revolving Line of Credit

The Company has an available line of credit of up to \$1,250,000 with a financial institution. Borrowings are collateralized by the Company's cash, accounts receivable, securities, deposits and general intangibles. At January 31, 2003 and October 31, 2002, the Company had no outstanding balances under the revolving line of credit.

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

Note 5. Treasury Stock

During the three month period ended January 31, 2003, the Company purchased 44,250 shares of Common Stock at a total cost of \$144,147. Treasury stock is reflected on the balance sheet as a reduction of shareholders equity.

JLM COUTURE, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial

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Condition and Results of Operations.

Critical Accounting Policies

The preparation of our 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 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 January 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 January 31, 2003 and October 31, 2002 we maintained an obsolescence reserve of \$260,000.

JLM COUTURE, INC. AND SUBSIDIARIES

- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
(Continued)

Impairment of Goodwill

In determining the recoverability of goodwill, assumptions must be made regarding estimated future cash flows and other

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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 will be performing an impairment test in the current period.

Results of Operations

Three months ended January 31, 2003 as compared to three months ended January 31, 2002.

For the first three months of the Company's fiscal year ending October 31, 2003 ("Fiscal 2003"), revenues increased to \$5,481,833 from \$4,500,276, an increase of 21.8% 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 41.0% from 40.3% as there were economies of scale attributed to the higher volume. Net income was \$200,505, an increase of 19.5% from net income of \$167,844 in the first three months of fiscal 2002. Per share earnings for this period was \$0.10 per basic and diluted share, as compared to \$0.08 last year. Selling, general and administrative expenses as a percentage of sales increased to 34.5% of sales as compared to 33.9%, as there were increased marketing costs.

Liquidity and Capital Resources

The Company's working capital increased to \$6,971,793 at January 31, 2003 from \$6,803,455 at October 31, 2002. The Company's current ratio decreased to 3.6 to 1 at January 31, 2003 from 4.4 to 1 at October 31, 2002.

During the three months ended January 31, 2002, the Company used \$319,067 of cash from operating activities, as compared to using \$395,170 during the year earlier period. The Company used \$5,897 for investing activities in the current year compared to

JLM COUTURE, INC. AND SUBSIDIARIES

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

(Continued)

using \$10,641 a year ago. The Company used \$144,147 from financing activities, principally to purchase treasury stock as compared to having been provided \$300,000 of cash from financing activities during the three months ended January 31, 2002 when the Company drew down on its revolving credit facility.

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On December 22, 1998, the Company issued an executive of the Company 200,000 shares of Common Stock at a price of \$2.25 per share, which was the fair value on the issuance date. The executive executed a ten-year promissory note due to the Company in the amount of \$450,000, with \$45,000 principal and accrued interest payments due annually on December 22, until repaid. The promissory note bears interest at 5% per annum. The outstanding principal and interest balance at January 31, 2003 and October 31, 2002 was \$319,375 and \$323,313 respectively. The annual principal payment of \$45,000 due on December 22, 2002 was paid.

Safe Harbor Statement

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

Item 3. Controls and Procedures.

Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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, incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-KSB filed

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for its fiscal year ended October 31, 1995.

- 3.2 By-Laws of the Company incorporated by reference to Exhibit 3.03 of Registration Statement No. 33-10278 NY filed on Form S-18.
- 10.1 Amendment No. 1 dated August 14, 2001 to Employment Agreement between the Company and Joseph L. Murphy dated May 19, 1998 incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the period ended July 31, 2001.
- 99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (b) Reports on Form 8-K.

None.

SIGNATURE

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

Dated: March 19, 2003

JLM COUTURE, INC.,
Registrant

By:/s/Joseph L. Murphy

Joseph L. Murphy
President (Authorized
officer and Principal
Financial Officer)

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

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I, Joseph L. Murphy, certify that:

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 19, 2003

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/s/Joseph L. Murphy

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

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

I, Jerrold Walkenfeld, certify that:

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 19, 2003

/s/Jerrold Walkenfeld

Name: Jerrold Walkenfeld
Title: Financial Accounting Officer
(Principal Financial Officer)