SEL-LEB MARKETING INC
Form 10QSB
August 14, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT For the transition period from __________________ to ____________________

Commission File Number 1-13856

SEL-LEB MARKETING, INC.

(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

NEW YORK	11-3180295
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

495 River Street, Paterson, NJ 07524
(Address of principal executive offices)
973-225-9880
(Issuer's telephone number)

Check whether the issuer (1) 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 report(s)), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

State the number of shares outstanding for each of the issuer's classes of common equity, as of the latest practicable date: 2,325,527 shares of common stock as of August 13, 2002.

Transitional Small Business Disclosure Format (check one):

Yes [ ] No [X]

SEL-LEB MARKETING, INC. AND SUBSIDIARY

SEL-LEB MARKETING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 30, 2002 AND DECEMBER 31, 2001

ASSETS	June 30, 2002	December 31, 2001
	(Unaudited)	(Note 1)
Current assets:		
Cash and cash equivalents	$ 44,581	$ 60,300
Accounts receivable, less allowance for doubtful accounts of $349,490 and $266,120	5,885,946	9,163,755
Inventories	10,038,641	8,297,918
Deferred tax assets, net	365,670	297,545
Prepaid expenses and other current assets	1,047,038	832,460
Total current assets	17,381,876	18,651,978
Property and equipment, at cost, net of accumulated depreciation and amortization of $1,200,745 and $1,153,237	190,114	164,130
Other assets	213,277	214,203
Totals	$17,785,267	$19,030,311

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Note payable under line of credit	$ 3,339,518	$ 2,622,390
Current portion of long-term debt	528,978	307,080
Accounts payable	1,931,116	4,626,583
Accrued expenses and other liabilities	1,882,502	2,080,918
Total current liabilities	7,682,114	9,636,971
Long-term debt, net of current portion	1,034,257	690,274
Total liabilities	8,716,371	10,327,245
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; 10,000,000 shares authorized; none issued	--	--
Common stock, $.01 par value; 40,000,000 shares authorized; 2,324,213 and 2,261,018 shares issued and outstanding	23,242	22,611
Additional paid-in capital	6,610,288	6,496,359
Retained earnings	2,474,366	2,223,096
Less receivable in connection with equity transactions	(39,000)	(39,000)
Total stockholders' equity	9,068,896	8,703,066
Totals	$17,785,267	$19,030,311

See Notes to Condensed Consolidated Financial Statements.

SEL-LEB MARKETING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2002 AND 2001
(Unaudited)

	2002	2001
Net sales	$10,532,970	$9,562,246
Operating expenses:		
Cost of sales	7,171,020	7,110,433
Selling, general and administrative expenses	2,813,058	2,097,417
Totals	9,984,078	9,207,850
Operating income	548,892	354,396

Other income (expense):		
Interest expense	(130,522)	(226,446)
Income from litigation settlement		280,000
Totals	(130,522)	53,554
Income before provision for income taxes	418,370	407,950
Provision for income taxes	167,100	163,180
Net income	$ 251,270	$ 244,770
Net earnings per share:		
Basic	$.11	$.11
Diluted	$.10	$.11
Weighted average shares outstanding:		
Basic	2,269,203	2,261,018
Diluted	2,433,786	2,318,633

See Notes to Condensed Consolidated Financial Statements.

SEL-LEB MARKETING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED JUNE 30, 2002 AND 2001
(Unaudited)

	2002	2001
Net sales	$4,825,113	$4,548,449
Operating expenses:		
Cost of sales	3,275,804	3,591,714
Selling, general and administrative expenses	1,400,491	917,612
Totals	4,676,295	4,509,326
Operating income	148,818	39,123

Other income (expense):		
Interest expense	(69,871)	(104,667)
Income from litigation settlement		280,000
Totals	(69,871)	175,333
Income before provision for income taxes	78,947	214,456
Provision for income taxes	38,100	85,680
Net income	$ 40,847	$ 128,776
Net earnings per share:		
Basic	$.02	$.06
Diluted	$.02	$.06
Weighted average shares outstanding:		
Basic	2,277,297	2,261,018
Diluted	2,438,283	2,302,977

See Notes to Condensed Consolidated Financial Statements.

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SEL-LEB MARKETING, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2002
(Unaudited)

	Common Stock		Additional Paid-in	Retained
	Shares	Amount	Capital	Earnings
Balance, January 1, 2002	2,261,018	$22,611	$6,496,359	$2,223,09
Exercise of stock options	63,195	631	87,499	
Effects of issuance of stock options in exchange for services			26,430	
Net income				251,27

Balance, June 30, 2002	2,324,213	$23,242	$6,610,288	$2,474,36
	=========	=======	==========	=========

See Notes to Condensed Consolidated Financial Statements.

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SEL-LEB MARKETING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2002 AND 2001
(Unaudited)

	2002	2001
Operating activities:		
Net income	$ 251,270	$ 244,770
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	47,508	116,735
Provision for doubtful accounts	187,200	33,826
Deferred income taxes	(68,125)	(35,615)
Effects of issuance of stock options in exchange for services	26,430	
Changes in operating assets and liabilities:		
Accounts receivable	3,090,609	(497,359)
Inventories	(1,740,723)	(1,249,488)
Prepaid expenses and other current assets	(214,578)	(215,924)
Other assets	926	(25,447)
Accounts payable, accrued expenses and other liabilities	(2,893,883)	1,017,830
Net cash used in operating activities	(1,313,366)	(610,672)
Investing activities - purchases of property and equipment	(73,492)	(45,237)
Financing activities:		
Proceeds from note payable under line of credit, net of repayments	717,128	879,158
Proceeds from long-term debt	750,000	
Repayments of long-term debt	(184,119)	(432,036)
Proceeds from exercise of stock options	88,130	
Decrease in receivable in connection with equity transactions		3,000
Net cash provided by financing activities	1,371,139	450,122
Net decrease in cash and cash equivalents	(15,719)	(205,787)
Cash and cash equivalents, beginning of period	60,300	213,920

Cash and cash equivalents, end of period	$ 44,581	$ 8,133
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See Notes to Condensed Consolidated Financial Statements.

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SEL-LEB MARKETING, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Organization and basis of presentation:

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of Sel-Leb Marketing, Inc. ("Sel-Leb") and its 80%-owned subsidiary, Ales Signature, Ltd. ("Ales"), as of June 30, 2002, their results of operations for the six and three months ended June 30, 2002 and 2001, their changes in stockholders' equity for the six months ended June 30, 2002 and their cash flows for the six months ended June 30, 2002 and 2001. Sel-Leb and Ales are referred to together herein as the "Company." Information included in the condensed consolidated balance sheet as of December 31, 2001 has been derived from the audited consolidated balance sheet included in the Company's Form 10-KSB for the year ended December 31, 2001 (the "10-KSB") previously filed with the Securities and Exchange Commission (the "SEC"). Pursuant to rules and regulations of the SEC, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from these consolidated financial statements unless significant changes have taken place since the end of the most recent fiscal year. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements, notes to consolidated financial statements and the other information in the 10-KSB.

The consolidated results of operations for the six and three months ended June 30, 2002 are not necessarily indicative of the results to be expected for the full year ending December 31, 2002.

Certain accounts in the 2001 condensed consolidated financial statements have been reclassified to conform with the 2002 presentations.

Note 2 - Earnings per share:

As further explained in Note 1 in the 10-KSB, the Company has adopted the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share" which require the presentation of "basic" and, if appropriate, "diluted" earnings per common share. Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during each period. The calculation of diluted earnings per share is similar to that of basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, such as those issuable upon the exercise of stock options and warrants, were issued during the period.

SEL-LEB MARKETING, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2 - Earnings per share (concluded):

In computing diluted earnings per share for the six and three months ended June 30, 2002 and 2001, the assumed exercise of all of the Company's outstanding stock options and warrants, adjusted for the application of the treasury stock method, would have increased the weighted average number of common shares outstanding as shown in the table below:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2002	2001	2002	2001
Basic weighted average shares outstanding	2,269,203	2,261,018	2,277,297	2,261,018
Shares arising from assumed exercise of:				
Stock options	144,565	57,615	160,986	41,959
Warrants (A)	20,018			
Diluted weighted average shares outstanding	2,433,786	2,318,633	2,438,283	2,302,977

(A) The warrants expired on April 15, 2002.

Note 3 - Note payable under line of credit:

As further explained in Note 3 in the 10-KSB, during December 1998, the Company entered into a loan agreement pursuant to which Merrill Lynch Business Financial Services, Inc. ("Merrill Lynch") is providing the Company with a credit facility (the "Facility"). Based on the latest amendments to the loan agreement as of June 6, 2002, the Facility consists of a revolving line of credit, with maximum borrowings of $3,800,000 against the Company's eligible accounts receivable and inventories through October 31, 2002, and a term loan (see Note 4 herein). Borrowings under the revolving line of credit, which totaled $3,339,518 at June 30, 2002, bear interest, which is payable monthly, at 2.75% above the 30-day London Interbank Offering Rate (an effective rate of 4.58% as of June 30, 2002). Outstanding borrowings under the Facility are secured by substantially all of the Company's assets.

SEL-LEB MARKETING, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 4 - Long-term debt:

As explained in Note 4 in the 10-KSB, long-term debt at December 31, 2001 included three term loans with an aggregate principal balance of $875,000 that were payable in monthly installments to Merrill Lynch under the Facility and due to mature at various dates through January 2006. Based on the latest amendments to the loan agreement for the Facility, the Company received proceeds of $1,498,808 from a new term loan in June 2002, of which $748,808 was applied to the repayment of the remaining balances of the prior term loans and $750,000 was applied to reduction of the balance outstanding under the revolving line of credit (see Note 3 herein). The new term loan, which had a balance of $1,454,922 as of June 30, 2002, is payable in monthly installments of principal of $41,634 through July 2005 plus interest at 2.75% above the 30-day London Interbank Offering Rate (an effective rate of 4.58% as of June 30, 2002). Outstanding borrowings under the new term loan are also secured by substantially all of the Company's assets.

Note 5 - Standby letter of credit:

On July 11, 2002, the Company issued a standby letter of credit in the amount of $350,000 on behalf of one of its suppliers. The maximum amount the Company may borrow under the revolving line of credit (see Note 3 herein) is reduced by the amount guaranteed pursuant to the standby letter of credit. As of August 13, 2002, no drawings have been made against the standby letter of credit.

Note 6 - Stock options and warrants:

Descriptions of the Company's stock option plans and other information related to stock options and warrants are included in Note 5 in the 10-KSB. Certain information related to options outstanding at June 30, 2002 and changes in options outstanding during the six months ended June 30, 2002 are summarized below:

	Shares or Price	Weighted Average Exercise Price
Outstanding at January 1, 2002	650,008	$2.19

Granted	37,500(A)	2.15
Exercised	(63,195)	1.39
Canceled	(1,150)	2.50

Outstanding at June 30, 2002	623,163	$2.27
	=======	=====
Options exercisable at June 30, 2002	508,080	
	=======	

(A) Includes options to purchase 16,000 shares of common stock granted to nonemployees which had an aggregate fair value of $26,430 as of the respective dates of grant. The fair value was recorded as a charge to compensation expense and an increase in additional paid-in capital in accordance with the provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

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SEL-LEB MARKETING, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 7 - Goodwill:

As of June 30, 2002, goodwill, which is comprised of costs in excess of net assets of acquired businesses, had an immaterial carrying value that was included in other assets. Through December 31, 2001, goodwill was being amortized on a straight-line basis over periods not exceeding ten years. Goodwill amortization totaled approximately $17,000 and $8,500 in the six and three months ended June 30, 2001. In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under SFAS 142, goodwill and other intangible assets with indefinite useful lives will no longer be systematically amortized. Instead such assets will be subject to reduction only when their carrying amounts exceed their estimated fair values based on impairment tests established by SFAS 142 that will be made at least annually. The Company was required to apply the provisions of SFAS 142 and discontinue amortization effective as of January 1, 2002. The Company will also be required to make its first impairment tests no later than December 31, 2002. Management expects that these tests will not have any significant effects on the Company's consolidated financial position and results of operations.

Note 8 - Segment information:

The Company has adopted the provisions of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). Pursuant to the provisions of SFAS 131, the Company is reporting segment sales and gross margins in the same format reviewed by the Company's management (the "management approach"). The Company has two reportable segments: "Opportunity" and "Cosmetics". The Opportunity segment is comprised of the operations connected with the acquisition, sale and distribution of name-brand and off-brand products which are purchased from manufacturers, wholesalers or retailers as a result of close-outs, overstocks and/or changes in the packaging of brand name items. The Cosmetics segment is comprised of the acquisition, sale and distribution of all other products, including "celebrity endorsed" and "tie-in" and branded cosmetics and health and beauty aid products and designer and all other fragrances.

SEL-LEB MARKETING, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 8 - Segment information (concluded):

Net sales, cost of sales and other related segment information for the six and three months ended June 30, 2002 and 2001 follows:

	Six Months Ended June 30,		E
	2002	2001	200
Net sales:			
Opportunity	$ 4,294,416	$4,196,761	$1,950
Cosmetics	6,238,554	5,365,485	2,874
Totals	10,532,970	9,562,246	4,825
Cost of sales:			
Opportunity	3,118,590	2,714,051	1,424
Cosmetics	4,052,430	4,396,382	1,850
Totals	7,171,020	7,110,433	3,275
Selling, general and administrative expenses	2,813,058	2,097,417	1,400
Total operating expenses	9,984,078	9,207,850	4,676
Operating income	548,892	354,396	148
Other income (expense):			
Interest expense, net	(130,522)	(226,446)	(69
Income from litigation settlement		280,000	

Income before provision for income taxes	$ 418,370	$ 407,950	$ 78
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* * *

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis of the Company's results of operations, liquidity and financial condition should be read in conjunction with the Condensed Consolidated Financial Statements of the Company and related notes thereto. This Quarterly Report on Form 10-QSB contains certain forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements due to a number of factors, including but not limited to general trends in the retail industry (both general as well as electronic outlets), the ability of the Company to extend its financing arrangements (or obtain satisfactory alternative financing) on favorable terms, or at all, the ability of the Company to successfully implement its expansion plans, consumer acceptance of any products developed and sold by the Company, the ability of the Company to develop its "celebrity" product business, the ability of the Company to sell its specially purchased merchandise at favorable prices, on a timely basis or at all, and other factors set forth herein or in reports and other documents filed by the Company with the SEC. In addition, quarterly results in the Company's two business segments do not necessarily indicate trends in the Company's overall business operations, due to the timing of special purchases, special sales and large sales to any one particular customer.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to accounts receivable, inventories, property and equipment, stock based compensation, income taxes and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Except as related to accounting for Goodwill, which is described below, the accounting policies and estimates used as of December 31, 2001 and as outlined in the Company's previously filed Form 10-KSB, have been applied consistently for the six months ended June 30, 2002.

Goodwill is comprised of costs in excess of net assets of acquired businesses that were being amortized on a straight line basis over periods not exceeding ten years. In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other

Intangible Assets" ("SFAS 142"). Under SFAS 142, goodwill and other intangible assets with indefinite useful lives will no longer be systematically amortized. Instead such assets will be subject to reduction only when their carrying amounts exceed their estimated fair values based on impairment tests established by SFAS 142 that will be made at least annually. The Company began to apply the provisions of SFAS 142 effective January 1, 2002, and discontinued amortization effective as of that date. During the six months and three months ended June 30, 2001, Goodwill amortization totaled approximately $17,000 and $8,500, respectively. The Company will also be required to make its first impairment tests no later than December 31, 2002. The effects of these tests on the Company's consolidated financial position and results of operations has not been determined. As of June 30, 2002, goodwill had an immaterial carrying value that was included in other assets.

CONDENSED CONSOLIDATED RESULTS OF OPERATIONS: Six Months Ended June 30, 2002 Compared to the Six Months Ended June 30, 2001

The Company has two principal business segments (see Note 8 to the Company's Condensed Consolidated Financial Statements - Unaudited) - Opportunity and Cosmetics.

	JUNE 30, 2002	JUNE 30, 2001	$ CHANGE
Net sales:			
Opportunity	$ 4,294,416	$4,196,761	$ 97,655(A)
Cosmetics	$ 6,238,554	$5,365,485	$ 873,069(B)
Total net sales	$10,532,970	$9,562,246	$ 970,724
Cost of sales:			
Opportunity	$ 3,118,590	$2,714,051	$ 404,539(C)
Cosmetics	$ 4,052,430	$4,396,382	$(343,952)(D)
Total cost of sales	$ 7,171,020	$7,110,433	$ 60,587
Selling, general and administrative expenses	$ 2,813,058	$2,097,417	$ 715,641(E)
Total operating expenses	$ 9,984,078	$9,207,850	$ 776,228
Operating income	$ 548,892	$ 354,396	$ 194,496
Other Income	$ 0	$ 280,000	$(280,000)(F)
Interest expense, net	$ (130,522)	$ (226,446)	$ 95,924(G)
Total Other Income (Expense)	$ (130,522)	$ 53,554	$(184,076)
Income before income taxes	$ 418,370	$ 407,950	$ 10,420

(A) The net increase in sales in this segment of our business in the six months ended June 30, 2002 resulted primarily from sales of a product line that was introduced during the third quarter of 2001. This was partially offset by the decline in sales of a line of specially purchased merchandise that neared complete sell-off in the fourth quarter of 2001.

(B) During the six months ended June 30, 2002, as compared to the six months ended June 30, 2001, sales for this segment of our business increased primarily as a result of growth in the branded cosmetics and designer fragrances portion of our business.

(C) Cost of sales for the "Opportunity" segment of our business increased to approximately 73% of sales in the six months ended June 30, 2002 from approximately 65% of sales in the six months ended June 30, 2001. The increased cost resulted primarily from reduced sales of the line of specially purchased merchandise that had yielded higher margins.

(D) Cost of sales for the "Cosmetic" segment of our business decreased to approximately 65% of sales for the six months ended June 30, 2002 as compared to approximately 82% of sales for the six months ended June 30, 2001. This resulted primarily from higher sales of branded cosmetics and designer fragrances, which typically yield higher margins.

(E) Selling, general and administrative expenses consist principally of payroll, rent, commissions, royalties, insurance, professional fees, and travel and promotional expenses. The increase during the six months ended June 30, 2002 as compared with the six months ended June 30, 2001 is primarily the result of higher costs due to more sales being made through outside sales agencies and the electronic media, which have higher associated selling expenses.

(F) Other income represents proceeds from the settlement of a legal action brought against one of the Company's licensors for an alleged breach of contract.

(G) The decrease in interest expense during the six month period ended June 30, 2002 versus the six month period ended June 30, 2001 resulted primarily from less borrowings outstanding, coupled with reductions in the borrowing rate.

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CONDENSED CONSOLIDATED RESULTS OF OPERATIONS: Three Months Ended June 30, 2002 Compared to the Three Months Ended June 30, 2001

The Company has two principal business segments (see Note 8 to the Company's Condensed Consolidated Financial Statements - Unaudited) - Opportunity and Cosmetics.

	JUNE 30, 2002	JUNE 30, 2001	$ CHANGE
Net sales:			
Opportunity	$1,950,337	$1,717,601	$ 232,736(A)
Cosmetics	$2,874,776	$2,830,848	$ 43,928(B)

Total net sales	$4,825,113	$4,548,449	$ 276,664
Cost of sales:			
Opportunity	$1,424,926	$1,123,730	$ 301,196(C)
Cosmetics	$1,850,878	$2,467,984	$(617,106)(D)
Total cost of sales	$3,275,804	$3,591,714	$(315,910)
Selling, general and administrative expenses	$1,400,491	$ 917,612	$ 482,879(E)
Total operating expenses	$4,676,295	$4,509,326	$ 166,969
Operating income	$ 148,818	$ 39,123	$ 109,695
Other Income	$ 0	$ 280,000	$(280,000)(F)
Interest expense, net	$ (69,871)	$ (104,667)	$ 34,796(G)
Total Other Income (Expense)	$ (69,871)	$ 175,333	$(245,204)
Income before income taxes	$ 78,947	$ 214,456	$(135,509)

(A) The net increase in sales in this segment of our business resulted primarily from sales of a product line that was introduced during the third quarter of 2001. This was partially offset by the decline in sales of a line of specially purchased merchandise that neared complete sell-off in the fourth quarter of 2001.

(B) The change in cosmetic sales represents less than a 2% difference versus the 2nd quarter of 2001. This change was primarily due to changes in the sales mix.

(C) Cost of sales for the "Opportunity" segment of our business increased to 73% of sales in the second quarter of 2002 from approximately 65% of sales in the second quarter of 2001. The increased cost resulted primarily from reduced sales of the line of specially purchased merchandise that had yielded higher margins.

(D) Cost of sales for the "Cosmetic" segment of our business decreased to approximately 64% of sales for the second quarter of 2002 from approximately 87% of sales for the second quarter of 2001. This resulted primarily from higher sales of branded cosmetics and designer fragrances, which typically yield higher margins.

(E) Selling, general and administrative expenses consist principally of payroll, rent, commissions, royalties, insurance, professional fees, and travel and promotional expenses. The increase during the three months ended June 30, 2002 as compared with the three months ended June 30, 2001 is primarily the result of higher costs due to more sales being made through outside sales agencies and the electronic media, which have higher associated selling expenses.

(F) Other income represents proceeds from the settlement of a legal action brought against one of the Company's licensors for an alleged breach of contract.

(G) The decrease in interest expense during the three month period ended June 30, 2002 as compared with the three month period ended June 30, 2001 resulted primarily from lower outstanding borrowing levels, coupled with reductions in the borrowing rate.

Liquidity and Capital Resources

At June 30, 2002 we had working capital of approximately $9,700,000. This balance included cash and cash equivalents, which decreased during the six months ended June 30, 2002 from approximately $60,000 to $45,000, resulting from our operating, investing and financing activities, as more fully discussed below.

During the six months ended June 30, 2002, our operating activities used cash and cash equivalents of approximately $1,313,000. This consisted primarily of paying down accounts payable, accrued expenses and other liabilities of approximately $2,894,000 and the acquisition of additional inventories of approximately $1,741,000, offset by net income of approximately $251,000 and net collections of accounts receivable of approximately $3,091,000.

During the six months ended June 30, 2002, our investing activities used cash and cash equivalents of approximately $73,000 for the acquisition of property and equipment.

During the six months ended June 30, 2002, our financing activities provided cash and cash equivalents of approximately $1,371,000. This consisted primarily of increased borrowings under our credit line of approximately $717,000 and proceeds from new long-term debt of $750,000, more fully discussed in Notes 3 and 4 of the Condensed Consolidated Financial Statements at June 30, 2002. These additional borrowings were partially offset by payments of principal on long-term debt of approximately $184,000. Proceeds from issuance of shares in connection with the exercise of options were approximately $88,000.

In December, 1998 we entered into a credit facility ("Facility") with Merrill Lynch Business Financial Services, Inc. ("Merrill Lynch"), as more fully described in Notes 3 and 4 to the annual report which has been previously filed on Form 10-KSB, and in Notes 3, 4 and 5 of the Condensed Consolidated Financial Statements at June 30, 2002. At June 30, 2002, the credit facility provided for the following:

1) A revolving line of credit through October 31, 2002 with maximum borrowings of $3,800,000 (with $350,000 allocated for a standby letter of credit, more fully described below) against the Company's eligible accounts receivable and inventories through October 31, 2002. At June 30, 2002 we had $3,339,518 outstanding under the revolving line of credit, representing a net increase in our borrowings under the revolving line of credit of $717,128 from December 31, 2001. As of August 13, 2002 the outstanding balance under the revolving line of credit was $3,109,453. On July 11, 2002, the Company issued a standby letter of credit in the amount of $350,000 on behalf of one of its suppliers. The maximum amount the company may borrow under the revolving line of credit (see Note 3 to the attached Condensed Consolidated Financial Statements) is reduced by the amount guaranteed pursuant to the standby letter of credit. As of August 13, 2002, no drawings have been made against the standby letter of credit.

2) A $1,498,808 term loan originated in June, 2002. Of the total proceeds, $748,808 was applied to the repayment of the remaining balances of prior term loans, and $750,000 was applied to reduction of the balance outstanding under the revolving line of credit. The loan is payable in monthly installments of $41,634 plus interest through July 2005. The loan had an outstanding balance of $1,454,922 as of June 30, 2002.

The Facility requires interest to be paid monthly at 2.75% above the 30 day London Interbank Offering (LIBOR) rate (an effective rate of 4.58% at June 30, 2002).

The Company intends to engage in discussions with Merrill Lynch with a view to extending and increasing the Facility and presently believes that it will be able to reach such an agreement with Merrill Lynch. In the event Merrill Lynch does not extend the Facility, however, the Company intends to contact other banks and financing sources and believes that it would then be able to arrange adequate alternative financing, although there can be no assurance of such. If the Company is unable to extend the current Facility and cannot obtain adequate alternative financing, and its cash available from operations is insufficient to satisfy the Company's obligations then due to Merrill Lynch, Merrill Lynch would be entitled to exercise all remedies available to it as a secured lender.

In addition to the Merrill Lynch credit facility, on September 26, 1997 and December 28, 1999, the Company entered into two other 6% term loans in the amount of $100,000 each. As of June 30, 2002, $38,173 and $70,140 were outstanding under the 1997 loan and 1999 loan, respectively.

As of August 13, 2002, the outstanding balance under all term loans was $1,516,826.

The tables below summarize our long term debt and our lease commitments as of June 30, 2002:

PAYMENTS DUE BY PERIOD

Long term Obligations As of June 30, 2002	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Merrill Lynch	$1,455,000	$500,000	$955,000	--	--
Other	$ 108,000	$ 29,000	$ 79,000	--	--

AMOUNT OF COMMITMENT EXPIRATION PER PERIOD

Total Lease Commitments As of June 30, 2002	Total Amounts Committed	Less than 1 year	1-3 years	4-5 years	Over 5 years
495 River Street	$ 497,000	$275,000	$222,000	--	--

The Company anticipates that its working capital, together with anticipated cash flow from the Company's operations, will be sufficient to satisfy the Company's cash requirements for at least twelve months assuming that the Company's Facility is extended or adequate alternative financing arrangements are obtained by the Company. In the event the Company's plans change, due to unanticipated expenses or difficulties or otherwise, or if the working capital and projected cash flow otherwise are insufficient to fund operations, or if the Company's Facility is not extended on satisfactory terms, or at all, the Company could be required to seek financing sooner than currently anticipated. Except for the revolving credit portion of the Facility, which expires on October 31, 2002, and the various term loans, the Company has no current arrangements with respect to, or sources of, financing. Accordingly, there can be no assurance that financing will be available to the Company when needed, on commercially reasonable terms, or at all. The Company's inability to obtain adequate financing when needed would have a material adverse effect on the Company. In addition, any equity financing obtained by the Company could involve substantial dilution to the interests of the Company's stockholders.

PART II OTHER INFORMATION

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

The Annual Meeting of Shareholders of the Company (the "Annual Meeting") was held on May 30, 2002. At the Annual Meeting, the shareholders of the Company voted upon the election of six directors with all six nominees being elected. The votes cast with respect to the election of directors are set forth below. No other directors' term of office continued after the Annual Meeting.

The votes were cast as follows:

PROPOSAL NO. 1

NAME	NUMBER OF VOTES FOR	NUMBER OF VOTES WITHHELD
Harold Markowitz	1,555,545	3,948
Paul Sharp	1,555,545	3,948
Jorge Lazaro	1,555,545	3,948
Jack Koegel	1,551,545	7,948
Stanley R. Goodman	1,551,545	7,948
Edward C. Ross	1,551,545	7,948

PART II OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits

10.1 Merrill Lynch Term Loan and Security Agreement
10.2 Merrill Lynch Collateral Installment Note
10.3 Merrill Lynch Unconditional Guaranty
10.4 Merrill Lynch Security Agreement
99.1 Certification Pursuant to 18 U.S.C. Section 1350

B. Reports on Form 8-K

No reports on Form 8-K were filed by the registrant during the three month period ended June 30, 2002.

Signatures

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEL-LEB MARKETING, INC.

/s/ George Fischer

George Fischer
Chief Financial Officer
As both duly authorized
officer of the registrant and
as principal financial officer
of registrant

August 14, 2002

font style="DISPLAY: inline; FONT-SIZE: 10pt">Series 2012A, 5.500%, 8/15/47

940

California Municipal Finance Authority, Mobile Home Park Revenue Bonds, Caritas Projects

8/22 at 100.00
A1
1,094,433

Series 2012B, 7.250%, 8/15/47

California Municipal Finance Authority, Mobile Home Park Senior Revenue Bonds, Caritas

Affordable Housing, Inc. Projects, Series 2014A:

80

5.250%, 8/15/39

8/24 at 100.00
BBB
86,994
220

5.250%, 8/15/49

8/24 at 100.00
BBB
238,614
205

Independent Cities Lease Finance Authority, California, Mobile Home Park Revenue Bonds,

5/16 at 100.00
N/R
208,089

San Juan Mobile Estates, Series 2006B, 5.850%, 5/15/41

3,150

Total Housing/Multifamily

3,500,141

Housing/Single Family – 3.2% (2.3% of Total Investments)

5,775

California Housing Finance Agency, California, Home Mortgage Revenue Bonds, Series 2006M,

2/16 at 100.00
A
5,776,732

4.650%, 8/01/31 (Alternative Minimum Tax)

1,490

California Housing Finance Agency, California, Home Mortgage Revenue Bonds, Series 2007G,

2/17 at 100.00
A
1,518,474

5.050%, 2/01/29 (Alternative Minimum Tax)

65

California Housing Finance Agency, Home Mortgage Revenue Bonds, Series 2006H, 5.750%,

2/16 at 100.00
A
67,700

8/01/30 – FGIC Insured (Alternative Minimum Tax)

7,330

Total Housing/Single Family

7,362,906

Industrials – 0.0% (0.0% of Total Investments)

3,175

California Statewide Communities Development Authority, Revenue Bonds, EnerTech Regional

No Opt. Call
N/R
10,954

Biosolids Project, Series 2007A, 5.500%, 12/01/33 (Alternative Minimum Tax) (4)

Tax Obligation/General – 31.1% (22.1% of Total Investments)

1,300

Alhambra Unified School District, Los Angeles County, California, General Obligation Bonds,

8/22 at 100.00
Aa3
1,473,784

Refunding Series 2012A, 5.000%, 8/01/29 – AGM Insured

10,000

California State, General Obligation Bonds, Series 2006CD, 4.600%, 12/01/32 (Alternative

12/15 at 100.00
AA
10,155,299

Minimum Tax)

675

California State, General Obligation Bonds, Various Purpose Refunding Series 2015,

2/25 at 100.00

AA–
781,441

5.000%, 8/01/32

13,850

California State, General Obligation Bonds, Various Purpose Series 2009, 6.000%, 4/01/38
4/19 at 100.00
AA–
16,273,888

California State, General Obligation Bonds, Various Purpose Series 2010:

2,000

6.000%, 3/01/33
3/20 at 100.00
AA–
2,425,900
1,000

5.250%, 11/01/40
11/20 at 100.00
AA–
1,167,880

California State, General Obligation Bonds, Various Purpose Series 2011:

4,850

5.250%, 10/01/28
No Opt. Call
AA–
5,642,636
2,300

5.000%, 9/01/41
9/21 at 100.00
AA–
2,561,878
2,190

5.000%, 10/01/41
10/21 at 100.00
AA–
2,442,376

California State, General Obligation Bonds, Various Purpose Series 2013:

2,500

5.000%, 2/01/43

No Opt. Call
AA–
2,782,300
2,240

5.000%, 11/01/43

11/23 at 100.00
AA–
2,514,467

California State, General Obligation Bonds, Various Purpose Series 2014:

2,000

5.000%, 5/01/32

5/24 at 100.00
AA–
2,294,180
1,815

5.000%, 10/01/44

10/24 at 100.00
AA–
2,044,071
32,730

Desert Community College District, Riverside County, California, General Obligation Bonds,

No Opt. Call
AA
6,455,993

Election 2004 Series 2007C, 0.000%, 8/01/46 – AGM Insured

1,285

Los Angeles Unified School District, Los Angeles County, California, General Obligation Bonds,

7/19 at 100.00
Aa2
1,464,630

Series 2009D, 5.000%, 7/01/27

1,265

Palomar Pomerado Health, California, General Obligation Bonds, Election of 2004, Series 2007A,

8/17 at 100.00
AA–
1,344,417

5.000%, 8/01/32 – NPFG Insured

2,000

Puerto Rico, General Obligation Bonds, Public Improvement Series 2002A, 5.500%, 7/01/20 –

No Opt. Call
AA–
2,115,960

NPFG Insured

21,000

San Marcos Unified School District, San Diego County, California, General Obligation Bonds,

No Opt. Call
AA–
4,101,090

2010 Election, Series 2012B, 0.000%, 8/01/51

1,000

Southwestern Community College District, San Diego County, California, General Obligation

8/21 at 100.00
Aa2
1,125,270

Bonds, Election of 2008, Series 2011C, 5.250%, 8/01/36

1,600

Yuba Community College District, California, General Obligation Bonds, Election 2006 Series

8/21 at 100.00
Aa2
1,760,496

2011C, 5.250%, 8/01/47

107,600

Total Tax Obligation/General

70,927,956

Tax Obligation/Limited – 28.9% (20.5% of Total Investments)

7,000

California State Public Works Board, Lease Revenue Bonds, Department of Corrections &

9/23 at 100.00
A+

8,216,530

Rehabilitation, Various Correctional Facilities Series 2013F, 5.250%, 9/01/31

3,525

California State Public Works Board, Lease Revenue Bonds, Department of Corrections &

9/24 at 100.00
A+
3,963,510

Rehabilitation, Various Correctional Facilities Series 2014A, 5.000%, 9/01/39

3,770

California State Public Works Board, Lease Revenue Bonds, Various Capital Projects, Series

11/22 at 100.00
A+
4,201,891

2012G, 5.000%, 11/01/37

4,520

California State Public Works Board, Lease Revenue Bonds, Various Capital Projects, Series

9/24 at 100.00
A+
5,082,288

2014E, 5.000%, 9/01/39

435

Capistrano Unified School District, Orange County, California, Special Tax Bonds, Community

9/15 at 100.00
AA–
439,502

Facilities District 98-2, Series 2005, 5.000%, 9/01/24 – FGIC Insured

960

Fontana Redevelopment Agency, San Bernardino County, California, Tax Allocation Bonds, Jurupa

10/15 at 100.00
A–
968,909

Hills Redevelopment Project, Refunding Series 1997A, 5.500%, 10/01/27

10,000

Golden State Tobacco Securitization Corporation, California, Enhanced Tobacco Settlement
6/25 at 100.00
A1
10,947,499

Asset-Backed Revenue Bonds, Series 2015A, 5.000%, 6/01/45

1,785

Hawthorne Community Redevelopment Agency, California, Project Area 2 Tax Allocation Bonds,
9/16 at 100.00
N/R
1,828,036

Series 2006, 5.250%, 9/01/36 – SYNCORA GTY Insured

1,800

Hesperia Unified School District, San Bernardino County, California, Certificates of
2/17 at 100.00
A–
1,895,940

Participation, Capital Improvement, Series 2007, 5.000%, 2/01/41 – AMBAC Insured

1,500

Hesperia Unified School District, San Bernardino County, California, Certificates of
2/23 at 100.00
AA
1,622,895

Participation, Series 2013A, 5.000%, 2/01/38 – BAM Insured

870

Inglewood Redevelopment Agency, California, Tax Allocation Bonds, Merged Redevelopment
5/17 at 100.00
BBB+
903,025

Project, Subordinate Lien Series 2007A-1, 5.000%, 5/01/23 – AMBAC Insured

Irvine Unified School District, California, Special Tax Bonds, Community Facilities District

Series 2006A:

205

5.000%, 9/01/26
9/16 at 100.00

N/R
208,503
470

5.125%, 9/01/36

9/16 at 100.00
N/R
477,576
415

Lammersville School District, San Joaquin County, California, Special Tax Bonds, Community

9/16 at 100.00
N/R
426,894

Facilities District 2002 Mountain House, Series 2006, 5.125%, 9/01/35

800

Los Angeles Community Redevelopment Agency, California, Lease Revenue Bonds, Manchester

9/15 at 100.00
A1
803,856

Social Services Project, Series 2005, 5.000%, 9/01/37 – AMBAC Insured

1,350

Los Angeles County Public Works Financing Authority, California, Lease Revenue Bonds, Multiple

No Opt. Call
AA
1,486,391

Capital Facilities Project II, Series 2012, 5.000%, 8/01/42

750

Lynwood Redevelopment Agency, California, Project A Revenue Bonds, Subordinate Lien Series

9/21 at 100.00
A–
931,185

2011A, 7.000%, 9/01/31

475

National City Community Development Commission, California, Tax Allocation Bonds, National

8/21 at 100.00
A–
595,071

City Redevelopment Project, Series 2011, 6.500%, 8/01/24

175

Novato Redevelopment Agency, California, Tax Allocation Bonds, Hamilton Field Redevelopment

9/21 at 100.00
BBB+
211,094

Project, Series 2011, 6.750%, 9/01/40

200

Patterson Public Finance Authority, California, Revenue Bonds, Community Facilities District

9/23 at 100.00
N/R
217,026

2001-1, Subordinate Lien Series 2013B , 5.875%, 9/01/39

Patterson Public Financing Authority, California, Revenue Bonds, Community Facilities District

2001-1, Senior Series 2013A:

1,200

5.250%, 9/01/30

9/23 at 100.00
N/R
1,294,872
1,080

5.750%, 9/01/39

9/23 at 100.00
N/R
1,180,192
3,085

Pittsburg Redevelopment Agency, California, Tax Allocation Bonds, Los Medanos Community

9/18 at 100.00
BBB–
3,385,171

Development Project, Refunding Series 2008A, 6.500%, 9/01/28

6,275

Puerto Rico Sales Tax Financing Corporation, Sales Tax Revenue Bonds, Series 2007A, 0.000%,

No Opt. Call
AA–
885,905

8/01/45 – NPFG Insured

550

Rancho Santa Fe CSD Financing Authority, California, Revenue Bonds, Superior Lien Series

9/21 at 100.00
BBB+
623,244

2011A, 5.750%, 9/01/30

100

Riverside County Redevelopment Agency, California, Tax Allocation Bonds, Jurupa Valley Project

10/21 at 100.00
A–
123,392

Area, Series 2011B, 6.500%, 10/01/25

San Buenaventura Redevelopment Agency, California, Merged Project Areas Tax Allocation Bonds,

Series 2008:

1,000

7.750%, 8/01/28

8/16 at 102.00
A
1,090,270
1,325

8.000%, 8/01/38

8/16 at 102.00
A
1,450,531
2,600

San Diego County Regional Transportation Commission, California, Sales Tax Revenue Bonds,

4/24 at 100.00
AAA
2,992,288

Series 2014A, 5.000%, 4/01/36

990

San Diego, California, Special Tax Bonds, Community Facilities District 4 Black Mountain Ranch

9/15 at 103.00
N/R

1,025,125

Villages, Series 2008A, 6.000%, 9/01/37

210

San Francisco City and County Redevelopment Agency Successor Agency, California, Special Tax

No Opt. Call
N/R
225,548

Bonds, Community Facilities District 7, Hunters Point Shipyard Phase One Improvements,

Refunding Series 2014, 5.000%, 8/01/39

80

San Francisco Redevelopment Finance Authority, California, Tax Allocation Revenue Bonds,

2/21 at 100.00
A–
96,809

Mission Bay North Redevelopment Project, Series 2011C, 6.750%, 8/01/41

San Francisco Redevelopment Financing Authority, California, Tax Allocation Revenue Bonds,

Mission Bay South Redevelopment Project, Series 2011D:

85

7.000%, 8/01/33

2/21 at 100.00
BBB+
102,333
105

7.000%, 8/01/41

2/21 at 100.00
BBB+
126,412

San Jose Redevelopment Agency, California, Tax Allocation Bonds, Merged Area Redevelopment

Project, Series 2006C:

1,100

5.000%, 8/01/24 – NPFG Insured

8/17 at 100.00
AA–
1,185,206

765

5.000%, 8/01/25 – NPFG Insured

8/17 at 100.00
AA–
824,257
995

San Jose Redevelopment Agency, California, Tax Allocation Bonds, Merged Area Redevelopment

8/17 at 100.00
BBB+
1,066,740

Project, Series 2006D, 5.000%, 8/01/23 – AMBAC Insured

1,530

San Marcos Public Facilities Authority, California, Tax Allocation Bonds, Project Areas 2 and 3,

8/15 at 100.00
A–
1,532,739

Series 2005C, 5.000%, 8/01/35 – AMBAC Insured

140

Signal Hill Redevelopment Agency, California, Project 1 Tax Allocation Bonds, Series 2011,

4/21 at 100.00
N/R
158,341

7.000%, 10/01/26

930

Temecula Public Financing Authority, California, Special Tax Bonds, Community Facilities

9/15 at 101.00
N/R
928,754

District 03-02 Roripaugh, Series 2006, 5.500%, 9/01/36

240

Yorba Linda Redevelopment Agency, Orange County, California, Tax Allocation Revenue Bonds,

9/21 at 100.00
A–
291,130

Yorba Linda Redevelopment Project, Subordinate Lien Series 2011A, 6.500%, 9/01/32

65,390

Total Tax Obligation/Limited

66,016,880

Transportation – 10.4% (7.4% of Total Investments)

2,000

Bay Area Toll Authority, California, Revenue Bonds, San Francisco Bay Area Toll Bridge, Series

4/23 at 100.00
AA–
2,247,240

2013S-4, 5.250%, 4/01/48

2,240

Foothill/Eastern Transportation Corridor Agency, California, Toll Road Revenue Bonds,

1/24 at 100.00
BB+
2,666,698

Refunding Junior Lien Series 2013C, 6.500%, 1/15/43

Foothill/Eastern Transportation Corridor Agency, California, Toll Road Revenue Bonds,

Refunding Series 2013A:

4,940

5.750%, 1/15/46

1/24 at 100.00
BBB–
5,729,411
4,935

6.000%, 1/15/53

1/24 at 100.00
BBB–
5,774,542
4,000

Los Angeles Harbors Department, California, Revenue Bonds, Refunding Series 2014B,

8/24 at 100.00
AA
4,520,680

5.000%, 8/01/44

Port of Oakland, California, Revenue Bonds, Refunding Series 2012P:

1,545

5.000%, 5/01/29 (Alternative Minimum Tax)

No Opt. Call
A+
1,729,643
1,000

5.000%, 5/01/31 (Alternative Minimum Tax)

No Opt. Call
A+
1,108,330
20,660

Total Transportation

23,776,544

U.S. Guaranteed – 10.2% (7.3% of Total Investments) (5)

1,930

Bay Area Toll Authority, California, Revenue Bonds, San Francisco Bay Area Toll Bridge, Series

4/16 at 100.00
AA (5)
2,005,096

2006F, 5.000%, 4/01/31 (Pre-refunded 4/01/16) (UB)

1,430

Bay Area Toll Authority, California, Revenue Bonds, San Francisco Bay Area Toll Bridge, Tender

4/18 at 100.00
AA (5)
2,039,609

Option Bond Trust 3211, 13.391%, 10/01/32 (Pre-refunded 4/01/18) (IF)

125

California Educational Facilities Authority, Revenue Bonds, University of the Pacific, Series

11/15 at 100.00
A2 (5)
127,364

2006, 5.000%, 11/01/21 (Pre-refunded 11/02/15)

2,945

California State Public Works Board, Lease Revenue Bonds, University of California Regents,

3/18 at 100.00
Aaa
3,601,147

Tender Option Bond Trust 1065, 9.211%, 3/01/33 (Pre-refunded 3/01/18) (IF)

2,225

California Statewide Communities Development Authority, Revenue Bonds, ValleyCare Health

7/17 at 100.00
AA+ (5)
2,390,496

System, Series 2007A, 5.125%, 7/15/31 (Pre-refunded 7/15/17)

1,400

Castaic Lake Water Agency, California, Certificates of Participation, Series 2006C, 5.000%,

8/16 at 100.00
AA– (5)
1,475,628

8/01/36 (Pre-refunded 8/01/16) – NPFG Insured

545

Healdsburg Public Financing Authority, California, Wastewater Revenue Bonds, Series 2006,

4/16 at 100.00
AA (5)
563,252

5.000%, 4/01/36 (Pre-refunded 4/01/16) – NPFG Insured

2,000

Loma Linda, California, Hospital Revenue Bonds, Loma Linda University Medical Center, Series

12/17 at 100.00
BBB– (5)
2,362,820

2008A, 8.250%, 12/01/38 (Pre-refunded 12/01/17)

355

Roseville Joint Union High School District, Placer County, California, General Obligation

8/15 at 100.00
AA (5)
357,879

Bonds, Series 2006B, 5.000%, 8/01/27 (Pre-refunded 8/01/15) – FGIC Insured

Merced Irrigation District, California, Electric System Revenue Bonds, Series 2005:

790

5.125%, 9/01/31 (Pre-refunded 9/01/15) – SYNCORA GTY Insured

9/15 at 100.00
N/R (5)
799,757
1,500

5.250%, 9/01/36 (Pre-refunded 9/01/15) – SYNCORA GTY Insured

9/15 at 100.00
N/R (5)
1,519,005
475

North Natomas Community Facilities District 4, Sacramento, California, Special Tax Bonds,

9/15 at 101.00
N/R (5)
482,610

Series 2006D, 5.000%, 9/01/33 (Pre-refunded 9/01/15)

2,000

Puerto Rico Public Finance Corporation, Commonwealth Appropriation Bonds, Series 2002E,

No Opt. Call
CCC– (5)
2,572,860

6.000%, 8/01/26 (ETM)

750

Sacramento County Sanitation Districts Financing Authority, California, Revenue Bonds, Series

6/16 at 100.00
AA (5)
785,325

2006, 5.000%, 12/01/31 (Pre-refunded 6/01/16) – FGIC Insured

825

San Mateo Union High School District, San Mateo County, California, Certificates of

12/17 at 100.00
N/R (5)
911,171

Participation, Phase 1, Series 2007A, 5.000%, 12/15/30 (Pre-refunded 12/15/17) – AMBAC Insured

1,315

University of California, Limited Project Revenue Bonds, Series 2007D, 5.000%, 5/15/41

5/16 at 101.00
AA– (5)
1,386,497

(Pre-refunded 5/15/16) – FGIC Insured

20,610

Total U.S. Guaranteed

23,380,516

Utilities – 10.7% (7.6% of Total Investments)

2,355

Long Beach Bond Finance Authority, California, Natural Gas Purchase Revenue Bonds, Series

No Opt. Call
A
2,632,631

2007A, 5.000%, 11/15/35

14,000

Los Angeles Department of Water and Power, California, Power System Revenue Bonds, Series

7/22 at 100.00
AA–
15,539,719

2012B, 5.000%, 7/01/43

1,500

Southern California Public Power Authority, California, Revenue Bonds, Apex Power Project

7/24 at 100.00
AA–
1,702,575

Series 2014A, 5.000%, 7/01/38

4,000

Southern California Public Power Authority, Natural Gas Project 1 Revenue Bonds, Series 2007A,

No Opt. Call
A
4,568,560

5.000%, 11/01/33

21,855

Total Utilities

24,443,485

Water and Sewer – 14.0% (9.9% of Total Investments)

5,240

California Pollution Control Financing Authority, Water Furnishing Revenue Bonds, Poseidon

No Opt. Call
Baa3
5,497,808

Resources Channelside LP Desalination Project, Series 2012, 5.000%, 11/21/45 (Alternative

Minimum Tax)

1,400

East Bay Municipal Utility District, Alameda and Contra Costa Counties, California, Water

6/25 at 100.00
AAA
1,663,116

System Revenue Bonds, Refunding Series 2015A, 5.000%, 6/01/31

4,265

Escondido Joint Powers Financing Authority, California, Revenue Bonds, Water System Financing,

3/22 at 100.00
AA–
4,668,170

Series 2012, 5.000%, 9/01/41

10,390

Los Angeles Department of Water and Power, California, Waterworks Revenue Bonds, Series 2014A,

7/24 at 100.00
AA
11,749,531

5.000%, 7/01/44

1,160

Metropolitan Water District of Southern California, Waterworks Revenue Bonds, Tender Option

7/19 at 100.00
AAA
1,786,910

Bond Trust 09-8B, 17.656%, 7/01/35 (IF) (6)

5,825

Sacramento, California, Wastewater Revenue Bonds, Series 2013, 5.000%, 9/01/42

9/23 at 100.00
AA
6,490,682
28,280

Total Water and Sewer

31,856,217
$ 346,275

Total Long-Term Investments (cost $296,093,577)

319,786,225

Principal

Optional Call

Amount (000)

Description (1)

Provisions (2)
Ratings (3)
Value

SHORT-TERM INVESTMENTS – 0.7% (0.5% of Total Investments)

MUNICIPAL BONDS – 0.7% (0.5% of Total Investments)

Health Care – 0.7% (0.5% of Total Investments)

$ 1,320

California Statewide Community Development Authority, Revenue Bonds, Daughters of Charity

No Opt. Call
N/R
$ 1,323,260

Health System, Series 2014A, 6.000%, 7/10/15 (7)

125

California Statewide Community Development Authority, Revenue Bonds, Daughters of Charity	No Opt. Call N/R 125,309
Health System, Series 2014B, 6.000%, 7/10/15 (7)	
	200
California Statewide Community Development Authority, Revenue Bonds, Daughters of Charity	No Opt. Call N/R 200,494
Health System, Series 2014C, 6.000%, 7/10/15 (7)	
	$ 1,645
Total Short-Term Investments (cost $1,645,000)	
	1,649,063
Total Investments (cost $297,738,577) – 140.7%	
	321,435,288
Floating Rate Obligations – (0.4)%	
	(965,000)
Variable Rate Demand Preferred Shares, at Liquidation Value – (42.9)% (8)	
	(98,000,000)
Other Assets Less Liabilities – 2.6%	
	5,994,119
Net Assets Applicable to Common Shares – 100%	
	$ 228,464,407

Fair Value Measurements

Fair value is defined as the price that would be received upon selling an investment or transferring a liability in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. A three-tier hierarchy is used to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability. Observable inputs are based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Unobservable inputs are based on the best information available in the circumstances. The following is a summary of the three-tiered hierarchy of valuation input levels.

Level 1 – Inputs are unadjusted and prices are determined using quoted prices in active markets for identical securities.

Level 2 – Prices are determined using other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

Level 3 – Prices are determined using significant unobservable inputs (including management's assumptions in determining the fair value of investments).

The inputs or methodologies used for valuing securities are not an indication of the risk associated with investing in those securities. The following is a summary of the Fund's fair value measurements as of the end of the reporting period:

	Level 1	Level 2	Level 3	Total
Long-Term Investments:				
Municipal Bonds	$ —	$319,786,225	$ —	$319,786,225
Short-Term Investments:				
Municipal Bonds	—	—	1,649,063	1,649,063
Total	$ —	$319,786,225	$1,649,063	$321,435,288

Income Tax Information

The following information is presented on an income tax basis. Differences between amounts for financial statement and federal income tax purposes are primarily due to timing differences in recognizing taxable market discount, timing differences in recognizing certain gains and losses on investment transactions and the treatment of investments in inverse floating rate securities reflected as financing transactions, if any. To the extent that differences arise that are permanent in nature, such amounts are reclassified within the capital accounts on the Statement of Assets and Liabilities presented in the annual report, based on their federal tax basis treatment; temporary differences do not require reclassification. Temporary and permanent differences do not impact the net asset value of the Fund.

As of May 31, 2015, the cost of investments was $296,733,752.

Gross unrealized appreciation and gross unrealized depreciation of investments as of May 31, 2015, were as follows:

Gross unrealized:	
Appreciation	$28,264,427
Depreciation	(4,527,891)

Net unrealized appreciation (depreciation) of investments	$23,736,536

(1) All percentages shown in the Portfolio of Investments are based on net assets applicable to common shares unless otherwise noted.

(2) Optional Call Provisions: Dates (month and year) and prices of the earliest optional call or redemption. There may be other call provisions at varying prices at later dates. Certain mortgage-backed securities may be subject to periodic principal paydowns.

(3) Ratings: Using the highest of Standard & Poor's Group ("Standard & Poor's"), Moody's Investors Service, Inc. ("Moody's") or Fitch, Inc. ("Fitch") rating. Ratings below BBB by Standard & Poor's, Baa by Moody's or BBB by Fitch are considered to be below investment grade. Holdings designated N/R are not rated by any of these national rating agencies.

(4) As of, or subsequent to, the end of the reporting period this security is non-income producing. Non-income producing, in the case of a fixed-income security, generally denotes that the issuer has (1) defaulted on the payment of principal or interest, (2) is under the protection of the Federal Bankruptcy Court or (3) the Fund's Adviser has concluded that the issue is not likely to meet its future interest payment obligations and has ceased accruing additional income on the Fund's records.

(5) Backed by an escrow or trust containing sufficient U.S. Government or U.S. Government agency securities, which ensure the timely payment of principal and interest. Certain bonds backed by U.S. Government or agency securities are regarded as having an implied rating equal to the rating of such securities.

(6) Investment, or portion of investment, has been pledged to collateralize the net payment obligations for investments in inverse floating rate transactions.

(7) Investment valued at fair value using methods determined in good faith by, or at the discretion of, the Board. For fair value measurement disclosure purposes, investment classified as Level 3.

(8) Variable Rate Demand Preferred Shares, at Liquidation Value as a percentage of Total Investments is 30.5%.

(ETM) Escrowed to maturity.

(IF) Inverse floating rate investment.

(UB) Underlying bond of an inverse floating rate trust reflected as a financing transaction.

Item 2. Controls and Procedures.

a. The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rule 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934 (17 CFR 240.13a-15(b) or 240.15d-15(b)).

b. There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d)) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

File as exhibits as part of this Form a separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the 1940 Act (17 CFR 270.30a-2(a)), exactly as set forth below: See EX-99 CERT attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Nuveen California Dividend Advantage Municipal Fund 2

By (Signature and Title) /s/ Kevin J. McCarthy
Kevin J. McCarthy
Vice President and Secretary

Date: July 30, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title) /s/ Gifford R. Zimmerman
Gifford R. Zimmerman
Chief Administrative Officer (principal executive officer)

Date: July 30, 2015

By (Signature and Title) /s/ Stephen D. Foy
Stephen D. Foy
Vice President and Controller (principal financial officer)

Date: July 30, 2015