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## SEL-LEB MARKETING INC

Form 10QSB
August 14, 2001

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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, 2001
[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
        For the transition period from
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            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 NO.)
                    4 9 5 \text { 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 of each of the issuer's classes of common
equity, as of the latest practicable date: 2,261,018 shares of common stock as
of August 13, 2001
Transitional Small Business Disclosure Format (check one):
Yes [ ] No [X]
SEL-LEB MARKETING, INC. AND SUBSIDIARY

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SEL-LEB MARKETING, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 30, 2001 AND DECEMBER 31, 2000

\section*{ASSETS}
```

Current assets:
Cash and cash equivalents
Accounts receivable, less allowance for doubtful
accounts of \$229,100 and \$195,274
Inventories
Deferred tax assets, net
Prepaid expenses and other current assets
Total current assets

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Property and equipment, at cost, net of accumulated depre-
ciation and amortization of \$1,190,431 and \$1,123,601
Goodwill, net of accumulated amortization of \$181,366 and \$164,136
Other assets
Totals
LIABILITIES AND STOCKHOLDERS' EQUITY
Current liabilities:
Note payable under line of credit
Current portion of long-term debt
Accounts payable
Accrued expenses and other liabilities
Total current liabilities
Long-term debt, net of current portion
Total liabilities
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; 2,261,018 shares issued and outstanding
Additional paid-in capital
Retained earnings
Less receivable in connection with equity transactions
Total stockholders' equity
Totals
See Notes to Condensed Consolidated Financial Statements.

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    SEL-LEB MARKETING, INC. AND SUBSIDIARY
                CONDENSED CONSOLIDATED STATEMENTS OF INCOME
    SIX MONTHS ENDED JUNE 30, 2001 AND 2000
                (Unaudited)
\begin{tabular}{|c|c|c|c|c|}
\hline & \multicolumn{2}{|r|}{2001} & \multicolumn{2}{|r|}{2000} \\
\hline Net sales & \$ & 9,562,246 & \$ & 10,027,566 \\
\hline \multicolumn{5}{|l|}{Operating expenses:} \\
\hline Cost of sales & & 6,923,062 & & 7,621,393 \\
\hline Selling, general and administrative expenses & & 2,284,788 & & 2,028,479 \\
\hline Totals & & 9,207,850 & & 9,649,872 \\
\hline
\end{tabular}


See Notes to Condensed Consolidated Financial Statements.

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SEL-LEB MARKETING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED JUNE 30, 2001 AND 2000
(Unaudited)
\begin{tabular}{|c|c|c|}
\hline & 2001 & 2000 \\
\hline Net sales & \$ 4,548,449 & \$ 4,995,872 \\
\hline \multicolumn{3}{|l|}{Operating expenses:} \\
\hline Cost of sales & 3,468,229 & 3,500,338 \\
\hline Selling, general and administrative expenses & 1,041,097 & 974,705 \\
\hline Totals & 4,509,326 & 4,475,043 \\
\hline Operating income & 39,123 & 520,829 \\
\hline \begin{tabular}{l}
Other income (expense): \\
Interest expense, net of interest income of
\end{tabular} & & \\
\hline
\end{tabular}

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in 2000
Income from litigation settlement
Totals
Income before income taxes
Provision for income taxes
Net income
Net earnings per share:
Basic
Diluted
Weighted average shares outstanding:
Basic
Diluted
See Notes to Condensed Consolidated Financial Statements.
\(\left.\begin{array}{rr}(104,667) \\ 280,000\end{array}\right) \quad(95,007)\)

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SEL-LEB MARKETING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2001
(Unaudited)
\begin{tabular}{|c|c|c|c|c|c|}
\hline \multirow[t]{2}{*}{} & \multicolumn{2}{|l|}{Common Stock} & \multirow[t]{2}{*}{Additional Paid-in Capital} & \multicolumn{2}{|l|}{\multirow[t]{2}{*}{\begin{tabular}{ll} 
& \begin{tabular}{l} 
Receivable in \\
Connection
\end{tabular} \\
Retained & \begin{tabular}{l} 
with Equity \\
Earnings
\end{tabular}\(\quad\) Transactions
\end{tabular}}} \\
\hline & Shares & Amount & & & \\
\hline Balance, January 1, 2001 & 2,261,018 & \$22,611 & \$6,496,359 & \$1,779,427 & \$ (42, 000 ) \\
\hline Decrease in receivable in connection with equity transaction & & & & & 3,000 \\
\hline Net income & & & & 244,770 & \\
\hline Balance, June 30, 2001 & 2,261,018 & \$22,611 & \$6,496,359 & \$2,024,197 & \$ (39,000) \\
\hline & ======== & ====== & = = = = = = = = & = = = = = = = = = = & \(=======\) \\
\hline
\end{tabular}

See Notes to Condensed Consolidated Financial Statements.

SEL-LEB MARKETING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2001 AND 2000 (Unaudited)


See Notes to Condensed Consolidated Financial Statements.

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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, 2001, their results of operations for the six and three months ended June 30, 2001 and 2000, their changes in stockholders' equity for the six months ended June 30, 2001 and their cash flows for the six months ended June 30, 2001 and 2000. Sel-Leb and Ales are referred to together herein as the "Company." Information included in the condensed consolidated balance sheet as of December 31, 2000 has been derived from the audited consolidated balance sheet included in the Company's Form \(10-K S B\) for the year ended December 31, 2000 (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 \(10-\mathrm{KSB}\).

The consolidated results of operations for the six and three months ended June 30,2001 are not necessarily indicative of the results to be expected for the full year ending December 31, 2001.

Note 2 - Earnings (loss) per share:
As further explained in Note 1 in the \(10-K S B\), the Company has adopted the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("FAS 128"), which require the presentation of "basic" earnings (loss) per common share and, if appropriate, "diluted" earnings per common share. Basic earnings (loss) per share is calculated by dividing net income (loss) 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.

Note 2 - Earnings (loss) per share (concluded):
In computing diluted earnings per share for the six and three months ended June 30, 2001 and 2000, 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:

Basic weighted average shares outstanding
Shares arising from assumed exercise of:
Stock options 57,615
Warrants

Diluted weighted average shares outstanding
\begin{tabular}{|c|c|}
\hline 2001 & 2000 \\
\hline
\end{tabular}
\(2,261,018 \quad 2,261,018\)
---------
\(2,318,633\)
\(=========\)
\(2,422,026\)
=========
\[
41,693
\]
---------

Note 3 - Note payable under revolving line of credit:
As further explained in Note 3 in the \(10-K S B\), 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 30, 2001, the Facility consists of a revolving line of credit for borrowings against the Company's eligible accounts receivable and inventories through October 31, 2001, and three term loans (see Note 4 in the \(10-K S B\) ). As of June 30, 2001, the maximum amount the Company could borrow under the line of credit was \(\$ 4,300,000\). Maximum borrowings will decrease by \(\$ 50,000\) at the end of each month from July 31, 2001 through September 30, 2001. Borrowings under the revolving line of credit, which totaled \(\$ 4,283,663\) at June 30,2001 , bear interest, which is payable monthly, at \(2.65 \%\) above the 30 -day commercial paper rate (an effective rate of \(6.38 \%\) as of June 30,2001 ). Outstanding borrowings under the Facility are secured by substantially all of the Company's assets.

Note 4 - 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 \(10-\mathrm{KSB}\). No options or warrants were granted, exercised or cancelled during the six and three months ended June 30, 2001.

Three Months
June 30

2001
\(2,261,018\)

41,959
\begin{tabular}{|c|}
\hline 2001 \\
\hline
\end{tabular}
\(2,302,977\)
=========

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SEL-LEB MARKETING, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 5 - Litigation settlement:
On May 30, 2001, the Company entered into an agreement to settle a legal action it had brought against one of its licensors for an alleged breach of contract. The accompanying condensed consolidated statements of income for the six and three months ended June 30,2001 include the Company's income from the litigation settlement which totaled \(\$ 280,000\).

Note 6 - 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" cosmetics and health and beauty aid products and designer and all other fragrances.

Net sales, cost of sales and other related segment information for the six and three months ended June 30, 2001 and 2000 follows:
\begin{tabular}{|c|c|c|c|}
\hline & \multicolumn{2}{|r|}{Six Months Ended June 30,} & Three Mo Ended \(\qquad\) \\
\hline & 2001 & 2000 & 2001 \\
\hline Net sales: & & & \\
\hline Opportunity & \$4,196,761 & \$ 4,517,243 & \$1,687,601 \$ \\
\hline Cosmetics & 5,365,485 & 5,510,323 & 2,860,848 \\
\hline Total net sales & 9,562,246 & 10,027,566 & 4,548,449 \\
\hline \multicolumn{4}{|l|}{Cost of sales:} \\
\hline Opportunity & 2,635,784 & 3,153,171 & 1,077,053 \\
\hline Cosmetics & 4,287,278 & 4,468,222 & 2,391,176 \\
\hline Total cost of sales & 6,923,062 & 7,621,393 & 3,468,229 \\
\hline Selling, general and administrative expenses & \[
2,284,788
\] & 2,028,479 & 1,041,097 \\
\hline Total operating expenses & 9,207,850 & 9,649,872 & 4,509,326 \\
\hline Operating income & 354,396 & 377,694 & 39,123 \\
\hline \begin{tabular}{l}
Other income (expense): \\
Interest expense, net
\end{tabular} & \((226,446)\) & \((187,944)\) & \((104,667)\) \\
\hline
\end{tabular}

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Income from litigation settlement
Income before income taxes
\begin{tabular}{|c|c|c|c|c|c|}
\hline \multicolumn{2}{|r|}{280,000} & & & \multicolumn{2}{|r|}{280,000} \\
\hline \$ & 407,950 & \$ & 189,750 & \$ & 214,456 \\
\hline
\end{tabular}

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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, including statements concerning the adequacy of the Company's sources of cash to finance its current and future operations. 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, 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.

Consolidated Results of Operations: Six months Ended June 30, 2001 Compared to the Six Months Ended June 30, 2000:

The Company has two principal business segments (see Note 6 to the Company's Condensed Consolidated Financial Statements - Unaudited): Opportunity and Cosmetics.
\begin{tabular}{cc} 
June 30, & June 30, \\
2001 & 2000 \\
-----------------------
\end{tabular}

Net sales:
Opportunity
\begin{tabular}{|c|c|c|}
\hline \$4,196,761 & \$ 4,517,243 & \$ \\
\hline \$5,365,485 & \$ 5,510,323 & \$ \\
\hline \$9,562,246 & \$10,027,566 & \$ \\
\hline
\end{tabular}

Cost of sales:
Opportunity
\$2,635,784
\$ 3,153,171
\$

Cosmetics

Total net sales

Cosmetics

Total cost of sales
Selling general and administrative expenses

Total operating expenses

Operating income
Other income
Interest expense, net

Income before income taxes
\begin{tabular}{|c|c|c|c|}
\hline \$6,923,062 & & 7,621,393 & \$ \\
\hline \$2,284,788 & & 2,028,479 & \$ \\
\hline \$9,207,850 & \$ & 9,649,872 & \$ \\
\hline \$ 354,396 & \$ & 377,694 & \$ \\
\hline \$ 280,000 & \$ & 0 & \$ \\
\hline \$ (226,446) & \$ & (187,944) & \$ \\
\hline \$ 407,950 & \$ & 189,750 & \$ \\
\hline
\end{tabular}
(A) The "Opportunity" segment of our business is comprised of the acquisition, sale and distribution of name-brand and off-brand products which are purchased from either manufacturers, wholesalers, or retailers as a result of close-outs, overstocks and/or change-of-packaging of name-brand items. The net decrease in this segment of our business, of approximately \(\$ 320,000\), primarily resulted from a conscious decision to restrict sales, because of the Company's perception that there were severe credit issues with certain of our customers. This was partially offset by the introduction during the second quarter of 2000 of a line of specially purchased merchandise, which increased this segment's overall sales during the first quarter of 2001.
(B) The "Cosmetic" segment of our business is comprised of the acquisition, sale and distribution of all other products, including "celebrity endorsed" and "tie-in" cosmetics and health and beauty aid products and designer and all other fragrances. This segment increased in certain components of the category as a result of increased sales in the electronic media portion of the business, as well as the successful continued introduction of new products and development of new customers. However, this increase did not offset the reduction in sales versus the same period last year for a specialty fragrance line which was completely sold out during the year 2000, which, in the first six months of 2000 , had sales of approximately \$1,200,000.
(C) Cost of sales for the "Opportunity" segment of our business decreased from approximately \(70 \%\) in 2000 to \(63 \%\) in 2001 . This decrease resulted primarily from significantly higher margins on the sale of a line of specially purchased merchandise, which was introduced during the second quarter of 2000.
(D) Cost of sales for the "Cosmetic" segment of our business was approximately \(81 \%\) of sales for the six months ended June 30,2000 as compared to \(80 \%\) for the six months ended June 30,2001 . The increase in margins for this segment resulted primarily from the increased sales in the electronic media portion of our business, which generally yields a higher gross profit margin.
(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 , 2001 versus the six months ended June 30,2000 is primarily the result of higher costs due to more sales being made through outside sales agencies and the electronic media, which has higher selling expenses associated with

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it.
(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 increase in interest expense during the six month period ended June 30, 2001 versus the six month period ended June 30, 2000 results primarily from additional borrowings under the credit facility to fund the increased levels of inventory, to meet anticipated sales demands.

Consolidated Results of Operations: Three months Ended June 30, 2001 Compared to the Three Months Ended June 30, 2000:

The Company has two principal business segments (see Note 6 to the Company's Condensed Consolidated Financial Statements - Unaudited): Opportunity and Cosmetics.
\begin{tabular}{|c|c|c|c|c|c|}
\hline & \[
\begin{aligned}
& \text { June } 30 \text {, } \\
& 2001
\end{aligned}
\] & \[
\begin{gathered}
\text { June 30, } \\
2000
\end{gathered}
\] & & Change & \\
\hline \multicolumn{6}{|l|}{Net sales:} \\
\hline Opportunity & \$1,687,601 & \$2,598,775 & \$ & (911,174) & (A) \\
\hline Cosmetics & \$2,860,848 & \$2,397,097 & \$ & 463,751 & (B) \\
\hline Total net sales & \$4,548,449 & \$4,995,872 & \$ & \((447,423)\) & \\
\hline \multicolumn{6}{|l|}{Cost of sales:} \\
\hline Opportunity & \$1,077,053 & \$1,521,475 & \$ & \((444,422)\) & (C) \\
\hline Cosmetics & \$2,391,176 & \$1,978,863 & \$ & 412,313 & (D) \\
\hline Total cost of sales & \$3,468,229 & \$3,500,338 & \$ & \((32,109)\) & \\
\hline Selling general and administrative expenses & \$1,041,097 & \$ 974,705 & \$ & 66,392 & (E) \\
\hline Total operating expenses & \$4,509,326 & \$4,475,043 & \$ & 34,283 & \\
\hline Operating income & \$ 39,123 & \$ 520,829 & \$ & \((481,706)\) & \\
\hline Other income & \$ 280,000 & \$ 0 & \$ & 280,000 & (F) \\
\hline Interest expense, net & \$ (104, 667) & \$ (95,007) & \$ & \((9,660)\) & (G) \\
\hline Income before income taxes & \$ 214,456 & \$ 425,822 & \$ & \((211,366)\) & \\
\hline
\end{tabular}
(A) The "Opportunity" segment of our business is comprised of the acquisition, sale and distribution of name-brand and off-brand products which are purchased from either manufacturers, wholesalers, or retailers as a result of close-outs, overstocks and/or change-of-packaging of name-brand items. The net decrease in this segment of our business, of approximately \(\$ 911,000\) resulted primarily from a conscious decision to restrict sales, because of the Company's perception that there were severe credit issues with certain of our accounts, coupled with lower sales of the new line of specially purchased merchandise versus the same period in 2000.
(B) The "Cosmetic" segment of our business is comprised of the acquisition, sale and distribution of all other products, including "celebrity endorsed" and "tie-in" cosmetics and health and beauty aid products and designer and all other fragrances. This segment increased in certain components of the

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category as a result of increased
sales in the electronic media portion of the business, as well as the successful continued introduction of new products and development of new customers.
(C) Cost of sales for the "Opportunity" segment of our business increased from approximately 59\% in 2000 to \(64 \%\) in 2001 . This increase resulted primarily from lower sales on the sale of a line of specially purchased merchandise, which yield significantly higher margins, versus the same period in 2000.
(D) Cost of sales for the "Cosmetic" segment of our business was approximately \(82 \%\) of sales for the three months ended June 30,2000 as compared to \(84 \%\) for the three months ended June 30, 2001. The decrease in margins for this segment resulted primarily from the Company's decision to provide sales at lower than usual margins to customers with whom the Company is hopeful of doing significant business in the future. This decrease was partially offset by increased sales in the electronic media portion of our business, which generally yields a higher gross profit margin.
(E) Selling general and administrative expenses consist principally of payroll, rent, commissions, insurance, royalties, professional fees, and travel and promotional expenses. The increase during the three months ended June 30, 2001 versus the three months ended June 30,2000 are primarily the result of higher costs due to more sales being made through outside sales agencies and the electronic media, which has higher selling expenses associated with it.
(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 increase in interest expense during the three month period ended June 30,2001 versus the three month period ended June 30,2000 results primarily from additional borrowings under the credit facility to fund the increased levels of inventory, to meet anticipated sales demands.

Liquidity and Capital Resources

At June 30, 2001 we had working capital of approximately \(\$ 8,709,000\) including cash and cash equivalents of approximately \(\$ 8,000\). Cash and cash equivalents decreased during the three months ended June 30, 2001 from approximately \(\$ 214,000\) to \(\$ 8,000\), resulting primarily from our financing activities, more fully discussed below.

During the six months ended June 30,2001 we used approximately \(\$ 611,000\) in our operations, primarily to increase inventory by approximately \(\$ 1,249,000\), in order to meet anticipated sales demands, and, to fund the increase in accounts receivable of approximately \(\$ 497,000\). These increases were partially offset by operating profits of approximately \(\$ 245,000\) and an increase in accounts payable, accrued expenses and other liabilities of approximately \(\$ 1,018,000\).

During the six months ended June 30,2001 we used approximately \(\$ 45,000\) for the acquisition of property and equipment, and received approximately \(\$ 450,000\) from our financing activities.

Our cash and cash equivalent position of approximately \(\$ 8,000\) at June 30, 2001 result primarily from our various financing activities. In December, 1998 we

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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 Note 3 of the Condensed Consolidated Financial Statements at June 30, 2001. As amended, the credit facility provides for the following:
1) A revolving line of credit with maximum borrowings of \(\$ 4,300,000\) against the Company's eligible accounts receivable and inventories through October 31, 2001. Maximum borrowings will decrease by \(\$ 50,000\) at the end of each month from July 31, 2001, through September 30, 2001. At June 30,2001 we had \(\$ 4,283,663\) outstanding under the revolving line of credit, representing a net increase in our revolving line of credit of \(\$ 879,158\) from December 31, 2000.
2) A \(\$ 900,000\) term loan originated in December 1998 payable in monthly installments of \(\$ 10,714\) plus interest through January 2006 . This term loan had an outstanding balance of \(\$ 581,126\) as of June 30, 2001.
3) A \(\$ 500,000\) term loan originated in October 1999 payable in monthly installments of \(\$ 8,333\) plus interest through November 2004 . This term loan had an outstanding balance of \(\$ 341,668\) as of June 30, 2001 .

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4) A \(\$ 600,000\) term loan originated in December 2000 payable in monthly installments of \(\$ 50,000\) plus interest through December 2001. This term loan had an outstanding balance of \(\$ 300,000\) as of June 30, 2001.

Each of the aforementioned loans with Merrill Lynch require interest to be paid monthly at \(2.65 \%\) above the 30 -day commercial paper rate (an effective rate of \(6.38 \%\) at June 30, 2001).

In addition to the Merrill Lynch credit facility, on September 26, 1997 the Paterson Restoration Corporation provided us with a \(\$ 100,000\) term loan, which bears interest at \(6 \%\) and provides for monthly installments in the amount of \(\$ 1,461\) through October 1, 2004. On December 28, 1999 the Paterson Restoration Corporation provided us with an additional \(\$ 100,000\) term loan, which bears interest at \(6 \%\) and provides for monthly installments of \(\$ 1,461\) through January 1, 2007. As of June \(30,2001 \$ 52,932\) and \(\$ 83,050\) were outstanding under the 1997 loan and the 1999 loan, respectively.

Pursuant to the terms of the term loans, we made principal payments of \(\$ 432,036\) during the six months ended June 30, 2001.

As of August 13, 2001, the outstanding balance under the Revolving Line of Credit was \(\$ 4,098,486\) and under the term loans, including the Paterson Restoration Corporation was \$1,284,930.

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, the Company could be required to seek financing sooner than currently anticipated. Except for the Facility, which expires on October 31, 2001, and the term loans under the Facility, 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

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Company when needed, on commercially reasonable terms, or at all. The Company's inability to obtain adequate financing when needed could 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. The Company believes that it will be able to extend the current Facility, although there can be no assurance of such.

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 July 25, 2001. At the Annual Meeting, the shareholders of the Company voted upon the election of directors (Proposal No. 1), with seven 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.

In addition, at the Annual Meting, the shareholders of the Company authorized a proposal to amend the Company's Certificate of Incorporation to effect a reverse stock split of the Company's common stock of not greater than 1 for 8 (Proposal No. 2).

The votes were cast as follows:

PROPOSAL NO. 1

\section*{NAME}
-----
Harold Markowitz
Paul Sharp
Jorge Lazaro
Jack Koegel
Stanley R. Goodman
Edward C. Ross
L. Douglas Bailey
\begin{tabular}{cc} 
NUMBER OF VOTES & NUMBER OF VOTES \\
FOR & WITHHELD
\end{tabular}

\title{
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}
\begin{tabular}{ccc} 
NUMBER OF VOTES & NUMBER OF VOTES & \\
FOR & AGAINST & ABSTENTIONS \\
------------- & \(-------------------------1, ~\) & 1,550
\end{tabular}

ITEM 5. OTHER INFORMATION

On July 22, 2001, Jan S. Mirsky, Executive Vice President - Finance and a Director of the Company, passed away. The Company is currently seeking to fill the vacancy in the position of principal financial officer.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K
A. Exhibits
10.1 Extension of Temporary Increase and Renewal for the WCMA Line of Credit
B. Reports on Form 8-K

On May 2, 2001 the registrant filed a current report on Form 8-K in which the Company reported, pursuant to item 5 thereof, that it had issued a press release announcing the potential delisting of the registrant's securities from Nasdaq.

On May 29, 2001 the registrant filed a current report on Form 8-K in which the Company reported, pursuant to item 5 thereof, that it had issued a press release announcing the potential delisting of the registrant's securities from Nasdaq.

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.
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SEL-LEB MARKETING, INC.
/s/ Jack Koegel
Jack Koegel
Vice Chairman and Chief Operating Officer
As duly authorized officer of the registrant
/s/ George Fischer
George Fischer
Controller
As chief accounting officer of the registrant

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