ORALABS HOLDING CORP
Form 10QSB
November 19, 2003

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

FORM 10-QSB

|X| Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended: September 30, 2003
or

|_| Transition Report Pursuance to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from to

Commission File Number: 000-23039

ORALABS HOLDING CORP.

(Exact name of small business issuer as specified in its charter)

Colorado	14-1623047
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2901 South Tejon, Englewood, Colorado	80110
(Address of principal executive offices)	(Zip Code)

(303) 783-9499
(Issuer's telephone number)

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

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 reports), and (2) has been subject to such filing requirements for the past 90 days.

|X| Yes |_| No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS:

Check whether the issuer filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 after the distribution of securities under a plan confirmed by a court.

|_| Yes |_| No

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of September 30, 2003 Issuer had 9,160,755 shares of common stock, $.001 Par Value, outstanding. Transitional Small Business Disclosure Format (check one)
|_| Yes |X| No

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ORALABS HOLDING CORP AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2003
Unaudited

Assets	
Current Assets	
Cash and cash equivalents	$2,177,486
Accounts receivable, net of allowance for doubtful accounts of $271,467 and $359,201 respectively	2,477,920
Inventory	2,413,952
Deferred income taxes	211,124
Prepaid expenses	109,658
Deposits	182,417
Total Current Assets	7,572,557
Property and equipment at cost, net	1,148,215
Long Term Deferred Taxes	30,273
Total Assets	8,751,045
Liabilities and Stockholders' Equity	
Current Liabilities	
Accounts Payable	747,092
Accrued liabilities	285,001
Notes Payable-Current	22,874
Reserve for Returns	501,302
Income taxes payable	191,088
Total current liabilities	1,747,357
Long Term Liabilities	
Note Payable	31,756
Total long term liabilities	31,756
Total liabilities	1,779,113
Commitments and contingencies	
Stockholders' equity	
Preferred stock, $.001 par value, 1,000,000 shares authorized; none issued and outstanding	
Common stock, $.001 par value; 100,000,000 shares authorized, 9,160,755 issued and outstanding at the end of both periods	9,160
Additional paid -in capital	1,216,905
Retained Earnings	5,745,867
Total stockholders' equity	6,971,932
Total liabilities and stockholders' equity	$8,751,045

See Notes to Consolidated Financial Statements

ORALABS HOLDING CORP AND SUBSIDIARIES

Consolidated Statements of Operations
Three Months and Nine Months ended September 30, 2003 and September 30, 2002
Unaudited

	Three Months Ended		Nine Months Ended	
	09/30/03	09/30/02	09/30/03	09/30/
Revenues:				
Product sales	$ 2,948,328	$ 3,452,786	$10,663,160	$10,381,
Total Revenues	2,948,328	3,452,786	10,663,160	10,381,
Cost of Sales	1,930,949	2,231,573	7,070,861	6,871,
Gross profit	1,017,379	1,221,213	3,592,299	3,510,
Operating Expenses:				
Engineering	61,262	96,530	185,114	297,
Selling and marketing costs	265,646	389,025	1,188,470	1,226,
General and administrative	549,386	469,703	1,742,693	1,402,
Other	7,578	1,805	22,893	20,
Total operating expenses	883,872	957,063	3,139,170	2,946,
Net Operating Income	133,507	264,150	453,129	564,
Other Income (expense)	(65,207)		(65,441)	
Interest and other income	5,486	17,082	25,455	65,
Total other income (expense)	(59,721)	17,082	(39,986)	65,
Net income before provision for income taxes	73,786	281,232	413,143	629,
Provision for income taxes				
Current	40,355	73,192	167,436	200,
Deferred	---	---	---	---
Net Income	$ 33,431	$ 208,040	$ 245,707	$ 428,
Basic income per common share	$ .00	$ .02	$ .03	$
Weighted average shares outstanding	9,160,755	9,160,755	9,160,755	9,160,
Diluted income per share	$ .00	$ .02	$ .03	$
Diluted weighted average shares outstanding	9,160,755	9,160,755	9,160,755	9,198,

See Notes to Consolidated Financial Statements

ORALABS HOLDING CORP AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity
For the Nine months ended September 30, 2003
Unaudited

	Preferred Shares	Stock Amount	Common Shares	Stock Amount	Addl. Paid-In Capital
Balance at Dec. 31, 2002			9,160,755	$ 9,160	$1,216,905
Net Income					
Balance at September 30, 2003			9,160,755	$ 9,160	$1,216,905

See Notes to Consolidated Financial Statements

ORALABS HOLDING CORP AND SUBSIDIARIES

Consolidated Statements of Cash Flow For
the Nine months ended September 30, 2003 and 2002
Unaudited

	N Months Ende 2003
Cash flows from operating activities	

Net Income	$ 245,707
Adjustments to reconcile net income to net cash provided by (used in) operating activities	
Depreciation	314,106
Allowance for Doubtful Accounts	
216,592	
Changes in assets and liabilities:	
Other current assets	(20,239)
Accounts receivable	(901,475)
Prepaid taxes	96,414
Inventory	(410,409)
Accounts payable	339,391
Accrued expenses	(20,189)
Reserve for returns	(37,816)
Income taxes payable	(79,001)
Net cash (used in) provided by operating activities	(256,919)
Cash from investing activities	
Investment in property and equipment	(227,427)
Deposit	
Net Cash (used in) investing activities	(227,427)
Cash flows from financing activities	
Payments on Long Term Debt	(15,775)
Net cash (used in) provided by financing activities	(15,775)
Net Increase (decrease) in cash and cash equivalents	(500,121)
Cash and cash equivalents, beginning of the period	2,677,607
Cash and cash equivalents, end of the period	$2,177,486
Supplemental disclosures of cash flow information:	

See Notes to Consolidated Financial Statements

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ORALABS HOLDING CORP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. This report should, therefore, be read in conjunction with the Annual Report on Form 10-KSB for the year ended December 31, 2002 (the "2002 Form 10-KSB") of Oralabs Holding Corp. and Subsidiaries (the "Company").

The information included in this report is unaudited but reflects all adjustments which, in the opinion of management, are necessary to a fair statement of the results of the interim periods covered thereby. All adjustments are of a normal and recurring nature except as described herein.

Note 2 - Property and Equipment

Property and equipment consisted of the following:

Machinery and equipment:

	September 30, 2003
Machinery and equipment	$1,960,011
Leasehold Improvements	750,439
	2,710,450
Less accumulated depreciation	(1,562,235)
	$1,148,215

Note 3 - Line-of-Credit

The Company has a line-of-credit agreement with a bank in the amount of $2,000,000, which expires September 2004. As of September 30, 2003, the Company had available the entire $2,000,000 unused line-of-credit. The line-of-credit is collateralized by a first lien on all of the Company's business assets.

Note 4 - Reserve for Returns and Allowances

The Company reserves 2.75% of revenues for returns and allowances of their product. The reserve is recorded as a reduction of revenues and as a liability on the balance sheet. The amount recorded as a liability on the balance sheet at September 30, 2003 and September 30, 2002 is $501,302 and $392,814 respectively.

Note 5- Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share (EPS) computations:

For the Three Months Ended September 30, 2003

	Income (Numerator)	Shares (Denominator)	Per Share Am

Net Income	$ 33,431		
Basic EPS			
Weighted average beginning shares outstanding		9,160,755	
Income available to stockholders	$ 33,431	9,160,755	$
Effect of Dilutive Common Stock Options			
Diluted EPS			
Income available to common stockholders Plus assumed conversions	$ 33,431	9,160,755	$

For the Three Months Ended September 30, 2002

	Income (Numerator)	Shares (Denominator)	Per Share Amt
Net Income	$ 208,040		
Basic EPS			
Weighted average beginning shares outstanding		9,160,755	
Income available to stockholders	$ 208,040	9,160,755	$
Effect of Dilutive Common Stock Options			
Diluted EPS			
Income available to common stockholders Plus assumed conversions	$ 208,040	9,160,755	$

ORALABS HOLDING CORP AND SUBSIDIARIES

For the Nine Months Ended September 30, 2003

	Income (Numerator)	Shares (Denominator)	Per Share Am

Net Income	$ 245,707		
Basic EPS			
Weighted average beginning shares outstanding		9,160,755	
Income available to stockholders	$ 245,707	9,160,755	$
Effect of Dilutive Common Stock Options			
Diluted EPS			
Income available to common stockholders Plus assumed conversions	$ 245,707	9,160,755	$

For the Nine Months Ended September 30, 2002

	Income (Numerator)	Shares (Denominator)	Per Share Amt
Net Income	$ 428,936		
Basic EPS			
Weighted average beginning shares outstanding		9,160,755	
Income available to stockholders	$ 428,936	9,160,755	$
Effect of Dilutive Common Stock Options		37,615	
Diluted EPS			
Income available to common stockholders Plus assumed conversions	$ 428,936	9,198,370	$

ORALABS HOLDING CORP AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Special Note on Forward-Looking Statements

Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, provide a safe harbor for certain forward-looking statements. This quarterly report contains statements that are forward-looking. Forward looking statements include those which are not historical facts, including without limitation statements about management's expectations for any period beyond the fiscal quarter ended September 30, 2003. Words such as "expect", "anticipate", "believe", "intend" and "estimate" and similar expressions are examples of words which identify forward looking statements. While these statements reflect the Company's beliefs as of the date of this report, they are subject to assumptions, uncertainties and risks that could cause actual results to differ materially and adversely from the results contemplated, forecast or estimated in the forward-looking statements included in this report. These factors include, but are not necessarily limited to, the impact of competitive products, the acceptance of new products or product lines in the marketplace, the Company's ability to manage growth, the availability of an adequate workforce and changes in market conditions.

Results of Operations. For the three month period ending September 30, 2003 as compared with the three month period ending September 30, 2002.

Product sales decreased $504,458 or 15%. Please refer to gross profit below for explanation.

Gross profit decreased $203,834. As a percentage of sales gross profit was 35% for both periods. Since gross profit percentage was equal the significant impact to gross profit comes from decreased revenues. One major customer had a promotional display for this period in year 2002 that they did not repeat in year 2003, and another major customer deferred a couple of promotional orders from the third quarter of year 2003 to the fourth quarter of 2003.

Engineering decreased $35,268. The decrease is primarily due to a temporary reduction in staffing.

Selling and marketing decreased $123,379. The decrease can be attributed to a reduction in Sales Commissions of approximately $107,000 due to the combination of reduced revenues and a significant amount of non-commissioned sales by the President of the Company. Also, Advertising expenses decreased approximately $42,000.

Other Income/Expense decreased $76,803. This decrease is substantially due to initial costs associated with the move to a new facility.

Provisions for income taxes decreased $32,837. This decrease is as a result of reduced net taxable income.

Net income decreased by $174,609 or 84% as explained by the above activities. As a percentage of sales, net operating income, which excludes Interest, Other Income and Income taxes, increased from 8% to 5%.

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Results of Operations. For the nine month period ending September 30, 2003 as compared with the nine month period ending September 30, 2002.

Product sales increased $281,197 or 3%. Please refer to the Trends section for a detailed explanation.

Gross profit increased $82,156. As a percentage of sales gross profit was 34% for both periods. Gross profit percentage was equal and the increase in revenues is a modest 3%, therefore gross profit for this nine month comparison has not been materially impacted.

Engineering decreased $111,928. The decrease is primarily due to a temporary decrease in staffing.

Selling and marketing decreased $37,547. The decrease can be attributed to a reduction in Sales Commissions due to the combination of reduced revenues and a significant amount of non-commissioned sales by the President of the Company.

General and administrative expenses increased $340,286. The increase can be substantially attributed to Salaries and related payroll expenses due in large part to additional staffing.

Other Income/Expense decreased $105,128. This decrease is substantially due to initial costs associated with the move to a new facility and to a lesser degree reduced interest income and royalties.

Net income decreased by $183,229 or 43 % as explained by the above activities. As a percentage of sales net operating income, which excludes Interest, Other Income and Income taxes, decreased from 5% to 4%.

Liquidity and Capital Resources. Balance Sheet as of September 30, 2003 compared to December 31, 2002.

At September 30, 2003, the Company had $2,177,486 of cash and its current ratio was approximately 4 to 1. The Company believes its current capital resources are sufficient to fund operations for the next twelve months.

Accounts receivable increased $684,883. There were timing differences which created increased receivables as of September 30, 2003 compared to December 31, 2002. In addition, approximately $175,000 of the aged receivables is from a customer, some of whose assets will be purchased by the Company in consideration for the write-off of the receivables.

Inventory increased $410,410. The Company invested in materials for a lip balm product primarily sold in specialty stores that is being introduced into mass retail, and the Company expanded purchasing for anticipated growth in the fourth quarter.

Prepaid expenses decreased $33,410. The decrease is due primarily to the expiration of an agreement for advertising which expired during the third quarter of year 2003 .

Deposits increased $53,649. The Company made additional deposits used to pay for inventory to be received in the fourth quarter.

Accounts payable increased $339,393. This is substantially due to the timing of invoices and payments to high volume vendors, which had the effect of the Company holding larger balances at the end of 2002 as compared to the end of third quarter 2003 on its Trade payables.

Income taxes payable decreased $79,002. This decrease was significantly from tax payments made in June, 2003 in combination with reduced liability as it relates to reduced net income before tax.

Retained earnings increased $245,705 as a result of net income.

Trends. Lip balm revenues increased to $8,691,889 in the first nine months of 2003 as compared to $8,195,118 in the first nine months of 2002, or a 6% increase. Third quarter sales for year 2003 were lower than for the same period in year 2002. The move into a larger and better equipped facility will be accomplished in stages and actually enhance growth in the fourth quarter and beyond. That coupled with increased promotional orders and anticipated success with replenishment items with designated retail space give cause for optimism of sustained growth. The Company is in the process of aggressively pursuing increased business to take advantage of the new facility, but still can not predict with certainty what growth will take place or if and when it may occur.

Sales of sour drops and breath fresheners were $1,779,035 in the first nine months of 2003 as compared to $1,852,210 in the first nine months of 2002, or a 4% decrease. Although a new combo pack of sour drops and sour candy produced an approximately $120,000 in additional revenue in the third quarter of year 2003 it was not significant enough to have a material impact on this category. It is still too soon to predict the success or failure of this new product. Other products in this category remain fairly consistent without much change in revenue anticipated.

The nutritional supplements, on a relatively smaller scale, showed decline in revenue. Revenues were $466,421 in the first nine months of 2003 as compared to $434,632 in the first nine months of 2002, or a 7% increase. Fluctuations in this category from quarter to quarter have not been significant and there is no major growth or decline expected.

Impact of Inflation. The Company's financial condition has not been affected by the modest inflation of the recent past. The Company believes that revenues will not be materially affected by inflation. The Company's lip care and oral care products are primarily very low retail price points and impulse items. The nutritional supplements are a small part (approximately 4%) of revenues and could be negatively impacted by inflation.

Item 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, the Company conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, The Company did experience turnover in selected accounting personnel during the quarter coupled with activities related to moving the corporate facilities during that same time period. During that period the operation of internal control systems were such that our system failed to generate accurate financial information on a timely basis. The major areas affected were inventory and accounts receivable and their related income statement accounts. Subsequent to September 30, 2003 management corrected the weaknesses in the operation of our internal control systems and will continue to monitor them.

PART II - OTHER INFORMATION

Item No. 1. Legal Proceedings. The Company is not a party to any material pending legal proceedings to which either it or its subsidiary is a party or to which any of its property is subject.

Item No. 2. Changes in Securities. None.

Item No. 3. Defaults Upon Senior Securities. None.

Item No. 4. Submission of Matters to a Vote of Security Holders. None.

Item No. 5. Other Information. Effective September 4, 2003, the Company's Subsidiary entered into a Lease for office warehouse space. The Landlord is an affiliate of Gary H. Schlatter. The Company's Subsidiary has been seeking a larger space in which it could consolidate its operations that are currently being conducted at two separate facilities. At such time as the Company's Subsidiary vacates each of the current facilities, which are also leased from Gary H. Schlatter directly or from an affiliate of his, the Company's Subsidiary will be relieved of any remaining obligations under those leases. The Company's Subsidiary is leasing approximately 88,000 rentable square feet in the new facility, compared to a total number of approximately 40,000 square feet that was being leased under the two former leases. The Company believes that its rental rate is comparable to that which would be paid to an unaffiliated party. The Company expects that the relocation will be completed by the end of February 2004.

Item No. 6. Exhibits and Reports on Form 8-K.

(a) Exhibits required to be filed are listed below: Certain of the following exhibits are hereby incorporated by reference pursuant to Rule 12(b)-32 as promulgated under the Securities and Exchange Act of 1934, as amended, from the reports noted below:

Exhibit No.	Description
4(1)	Specimen Certificate for Common Stock
10.1(1)	1997 Stock Plan
10.2(1)	1997 Non-Employee Directors' Option Plan
10.4(1)	Form of Stock Option Grant under 1997 Non-Employee Directors' Option Plan
10.5(i)(2)	Business Lease Between the Company's Subsidiary and Gary Schlatter (September 1, 2000)
10.5(ii)(3)	Amended Business Lease Between the Company's Subsidiary and 2780 South Raritan, LLC effective October 15, 2000.
10.5(iii)(4)	Lease between the Company's Subsidiary and 18501 East Plaza Drive, LLC dated September 4, 2003
10.10(5)	Amended and Restated Employment Agreement Between the Company's Subsidiary and Gary Schlatter dated May 1, 2003.
11	No statement re: computation of per share earnings is required since such computation can be clearly determined from the material contained in this Report on Form 10-QSB
31.1(4)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Gary H Schlatter

31.2(4)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Emile J Jordan
32(4)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Gary H Schlatter and Emile J Jordan

1 Incorporated herein by reference to the Company's Form 10-K filed for fiscal year 1997.
2 Incorporated herein by reference to the Company's Form 10-QSB filed for the quarter ended September 30, 2000.
3 Incorporated herein by reference to the Company's Form 10-KSB filed for fiscal year 2000.
4 Filed herewith.
5. Incorporated herein by reference to the Company's Form 10-QSB filed for the quarter ended June 30, 2003.

(b) Reports on Form 8-K were filed on August 14, 2003, August 28, 2003 and September 30, 2003 during the quarter reported upon in this report.

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SIGNATURES

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

ORALABS HOLDING CORP.

By: /s/ Gary H. Schlatter

Gary H. Schlatter, President

By: /s/ Emile J. Jordan

Emile J. Jordan, Chief Financial Officer

Dated November 19, 2003

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Exhibit Index

Exhibit No.	Description
10.5(iii)	Lease between the Company's Subsidiary and 18501 East Plaza Drive,

	LLC dated September 4, 2003
31.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Gary H Schlatter
31.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Emile J Jordan
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Gary H Schlatter and Emile J Jordan