ORALABS HOLDING CORP
Form 10QSB
November 16, 2004

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, 2004

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.)

18685 East Plaza Drive, Parker, Colorado	80134
(Address of principal executive offices)	(Zip Code)

(303) 783-9499
(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 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, 2004 Issuer had 4,580,615 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, 2004 Unaudited	December 31,

Assets		
Current Assets		
Cash and cash equivalents	$ 700,334	$ 2,561,108
Accounts receivable, net of allowance for doubtful accounts of $341,983 and $415,422	1,530,670	1,896,672
Inventories	2,788,325	2,422,153
Deferred tax asset	339,440	154,952
Income taxes receivable	242,988	242,988
Prepaid expenses	171,260	143,635
Deposits and other assets	177,005	117,670
Total current assets	5,950,022	7,539,178
Non-current assets		
Deferred tax asset long-term	205,538	
Property and equipment, net	1,611,573	865,427
Total non-current assets	1,817,111	865,427
Total Assets	$ 7,767,133	$ 8,404,605
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable - trade	$ 909,086	$ 1,045,267
Accrued liabilities	271,849	146,332
Reserve for returns	358,290	396,419
Income tax payable	4,203	0
Current portion of long-term debt	16,724	22,874
Total current liabilities	1,560,152	1,610,892
Non-current Liabilities		
Long-term debt, less current portion	13,650	24,655
Deferred tax liability long-term	69,201	41,611
Total non-current liabilities	82,851	66,266
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $.001 par value, 1,000,000 shares authorized; none issued and outstanding	0	0
Common stock, $.001 par value; 100,000,000 shares authorized, 4,580,615 issued and outstanding at the end of both periods	4,581	4,581
Additional paid -in capital	1,221,484	1,221,484
Retained earnings	4,898,065	5,501,382
Total stockholders' equity	6,124,130	6,727,447
Total liabilities and stockholders' equity	$ 7,767,133	$ 8,404,605

See Notes to Consolidated Financial Statements

ORALABS HOLDING CORP AND SUBSIDIARIES

Consolidated Statements of Operations
Three Months and Nine Months ended September 30, 2004 and September 30, 2003
Unaudited

	Three Months Ended		Nin
	09/30/04	09/30/03	09/30/
Revenues:			
Product sales	$2,831,826	$2,948,328	$9,622,4
Total Revenues	2,831,826	2,948,328	9,622,4
Cost of Sales	2,173,430	1,930,949	6,943,3
Gross profit	658,396	1,017,379	2,679,0
Operating Expenses:			
Engineering	54,749	61,262	237,7
Selling and marketing costs	274,088	265,646	975,0
General and administrative	903,830	549,386	2,380,8
Other	2,901	7,578	30,8
Total operating expenses	1,235,568	883,872	3,624,4
Net operating (loss) income	(577,172)	133,507	(945,3
Other income (expense)		(65,207)	(24,1
Interest and other income	2,913	5,486	7,9
Total other income (expense)	2,913	(59,721)	(16,2
Net (loss) income before provision for income taxes	(574,259)	73,786	(961,5
Income tax benefit	214,054	40,355	358,2
Net (loss) income	$ (360,205)	$ 33,431	$ (603,3
Basic and diluted (loss) income per common share	$ (.08)	$ .01	$ (.
Weighted average shares outstanding	4,580,615	4,580,615	4,580,6

See Notes to Consolidated Financial Statements

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ORALABS HOLDING CORP AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity
For the Nine months ended September 30, 2004
Unaudited

	Preferred Shares	Stock Amount	Common Shares	Stock Amount	Addl. Pa Capit
Balance at Dec. 31, 2003			4,580,615	$4,581	$1,221,
Net loss					
Balance at September 30, 2004			4,580,615	$4,581	$1,221,

See Notes to Consolidated Financial Statements

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ORALABS HOLDING CORP AND SUBSIDIARIES

Consolidated Statements of
Cash Flow For the Nine months
ended September 30, 2004 and 2003
Unaudited

	2004
Cash flows from operating activities	
Net (loss) income	$ (603,317
Adjustments to reconcile net (loss) income to net cash used in operating Activities	
Allowance for doubtful accounts	(73,438
Depreciation	263,771
Deferred taxes	(358,232
Changes in assets and liabilities:	
Other current assets	(86,961
Accounts receivable	439,440
Inventory	(366,172
Accounts payable	(136,182
Accrued expenses	125,517
Reserve for returns	(38,129
Income taxes payable	0
	(230,386
Net cash used in operating activities	(833,703
Cash from investing activities	
Investment in property and equipment	(1,009,916
Net cash used in investing activities	(1,009,916

Cash from financing activities	
Payment on long term debt	(17,155
Net cash used in financing activities	(17,155
Net decrease in cash and cash equivalents	(1,860,774
Cash and cash equivalents, beginning of the period	2,561,108
Cash and cash equivalents, end of the period	$ 700,334

Cash paid for income taxes was $ 0.00 (2004) and $ 0.00 (2003)

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/A for the year ended December 31, 2003 (the "2003 Form 10-KSB/A") 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.

RECLASSIFICATIONS

Certain amounts in the prior period financial statements have been reclassified to conform to the 2004 presentation.

NOTE 2 - Property and Equipment Property and Equipment Consisted of The following:

Machinery and equipment:

	September 30, 2004
Machinery and equipment	$3,022,820
Leasehold improvements	101,870
	3,124,690
Less accumulated depreciation	(1,513,117)
	$1,611,573

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NOTE 3 - LINE-OF-CREDIT

The Company entered into a line-of-credit agreement with a bank in the amount of $2,000,000, which expires September 2005. As of September 30, 2004, 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, 2004 is $358,290.

NOTE 5- STOCK OPTIONS

On May 27, 2004, the Company granted 7500 options to certain members of the Board of Directors under the Company's 1997 non-employee directors option plan to purchase stock at $1.79 per share, fair market value at the date of grant. These options vest over four years.

ORALABS HOLDING CORP AND SUBSIDIARIES

ITEM 2 - 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, 2004. 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, 2004 as compared with the three month period ending September 30, 2003.

Product sales decreased $116,502 or 4%. While July and August 2004 showed declines, September 2004 sales were up $727,000 over 2003 sales. Sales are subject to fluctuation month to month based on timing of orders. A large order from a major customer occurred in September 2004. A large promotional expense of $240,000 was booked in July 2004 accounting for the quarterly drop in sales from 2003.

Gross profit decreased $358,983. As a percentage of sales, gross profit decreased by 11%. The reduction in gross profit is primarily due to increases in overhead, freight, and labor associated with the move into a new building and expansion projects aimed at increasing production capacity.

While engineering and selling and marketing expenses remained stable, general and administrative expenses increased $354,444 or 65%. The increase is attributed to legal fees of $184,154 relating to patent protection litigation commenced by the company as plaintiff and described in the Company's 2003 Form 10-KSB/A; salaries including payroll taxes of $51,000 for additional staffing; and increases in liability and health insurance, rent, and research and development expenses. General and administrative expenses should remain consistent going forward.

Other expense decreased due to moving expense of $64,891 incurred in September 2003.

The Company incurred a net profit for third quarter 2003 of $33,431, but incurred a net loss for the third quarter of 2004 of $360,205, as explained by the above activities. As a percentage of sales, the net operating income for the third quarter of 2003, was 4%, while the third quarter of 2004 shows a net operating loss of 20%.

Results of Operations. For the nine month period ending September 30, 2004 as compared with the nine month period ending September 30, 2003.

Product sales decreased $1,040,678 or 10%. Along with decreased volume the Company also experienced decreased margins. There was a reduction in revenues of approximately $920,000 from two significant customers. See "Trends" below.

Gross profit decreased $913,208. As a percentage of sales, gross profit decreased from 34% to 28%. The decrease in gross profit is a result of the lost revenues addressed above in product sales, as well as an increase in promotions and allowances booked in 2004. The sales addressed above were at above average selling prices and had relatively low packaging costs. Also, the cost of overhead increased as a percentage of sales extensively due to higher costs of a new building.

Engineering increases of $115,612 were offset by an adjustment for capitalized labor of $63,000 leaving a net increase of 52,612 or 28%. The increase can be attributed to additional staffing for maintenance and safety compliance, as well as equipment and building repairs associated with bringing the new building up to standards.

Selling and marketing decreased $213,448 or 18%. There was a decrease in bad debt expense as it relates to non-recurring write offs of uncollectible receivables in the amount of $252,000 in 2003. This was partially offset by an increase in advertising of approximately $23,000 in the second quarter of 2004. Selling and marketing expenses are expected to remain consistent as a percentage of product sales.

General and administrative expenses increased $638,156 or 37%. The increase can be attributed to salaries and related payroll expenses, which increased approximately $169,000 due in large part to additional staffing; legal fees increased approximately $276,000 predominantly related to patent protection litigation. Addtionally, increases in outside labor, insurance, research and development, and rent also contributed to the increase. The patent protection litigation will not incur any significant additional costs in the fourth quarter. Other general and administrative cost should remain consistent with the third quarter 2004 going forward.

Interest and other income decreased $17,513 or 69%. This was due to reduced royalty income of approximately $12,000 and decreased interest income of approximately $3,000.

Other expense decreased due to moving expense of $64,891 incurred in September 2003.

The Company had an after tax loss of $603,317 in the first nine months of 2004 compared to income of $245,707 for the same period in 2003. The effective tax rate decreased from 40% to 37% due to non-deductible expenses in 2003 that the Company did not have in 2004. For the year ended December 31, 2003, the Company recognized a tax benefit related to the completion of the Company's previous year's tax return and recognized the impact of previous tax credits related to enterprise zone credits and foreign territorial income exclusions not previously reflected. The change in the estimate of these credits and exclusions resulted in a one time effective tax rate of 101%.

Liquidity and Capital Resources. Balance Sheet as of September 30, 2004 compared to December 31, 2003.

At September 30, 2004, the Company had $700,334 of cash and its current ratio was nearly 4 to 1. The Company believes its current capital resources are sufficient to fund operations for the next twelve months.

Net cash used in operating activities in the amount of $833,703 consists of the following:

Accounts receivable, net of allowance for doubtful accounts, decreased $366,002. Decreased sales and write-offs of aged receivables for customer returns and allowances previously accrued accounts for the decrease in accounts receivable.

Inventory increased $366,172 due to higher volumes of raw materials and work in process, as well as an increase in labor and overhead allocated to inventory.

Other current assets increased $86,961, attributable to increases in deposits and prepaid expenses.

Accounts payable decreased $136,182. This is due to timing differences for purchases of raw materials.

Accrued expenses increased $125,517 due to increases in payroll taxes and accrued payroll.

Reserve for returns decreased $38,129 consistent with the decrease in revenue. The company reserves 2.75% of revenues, on an annualized basis, for returns and allowances of their product. See note 4 of the financial statements.

Cash from investing activities:

Investment in property and equipment was $1,009,916. This is comprised of customized building and leasehold improvements associated with the move into the Company's new facility as well as equipment additions geared toward reducing production labor costs. During the fourth quarter, a move of sales and accounting offices to another unoccupied location within the facility is anticipated to create additional production space. Additional equipment additions are planned for the fourth quarter.

TRENDS. Lip balm revenues were down to $7,874,100 in the first nine months of 2004 as compared to $8,417,703 in the first nine months of 2003. Although the Company had reduced lip balm revenue from two major customers of approximately $920,000 through the first nine months, the Company has orders and anticipated orders from other customers that will utilize new retail point of sale displays accenting OraLabs(TM) quality products at value prices. The Company shares its customers' enthusiasm and optimism that consumers will be attracted to this display and purchase OraLabs(TM) lip balm products. Test marketing results have been positive. Third quarter lip balm sales were up over last year's level by $192,182 and the Company is well positioned to manage growth in the fourth quarter should such growth occur.

Sales of sour drops and breath fresheners were $1,419,318 in the first nine months of 2004 as compared to $1,779,035 in the first nine months of 2003, or a 20% decrease. The Company continues to maintain a solid base of customers. The Company remains uncertain about opportunities which would likely come from dollar stores or convenience stores.

The nutritional supplements, on a relatively smaller scale, showed a nominal decline in revenue. Revenues were $329,064 in the first nine months of 2004 as compared to $466,421 in the first nine months of 2003, or a 29% decrease. Third quarter revenues were $67,291showing a small decline from the previous five quarters dating back to the first quarter of 2003. The Company does not expect much change as its products have consistent sales predominantly with a customer who has purchased from the Company for over six years.

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 3%) of revenues and could be negatively impacted by inflation.

ITEM 3. CONTROLS AND PROCEDURES

Control deficiencies have been identified by management in consultation with Ehrhardt Keefe Steiner & Hottman PC, the Company's independent auditors. Certain matters involving internal control deficiencies considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants have been reported to the audit committee of the board of directors. In the March 31, 2004 10-QSB filing the Company reported conditions surrounding the following: accounts receivable processing, inventory accounting, timely accounting reconciliations, and lack of qualified accounting personnel due to turnover and operational requirements. The Company has hired a Controller who meets the Company's qualification requirements to satisfy this position. Monthly meetings between sales and accounting have been implemented to improve communication towards timely processing of charge-backs from customers against receivables. Management and warehouse staff were trained in the second quarter and are receiving on-going training to perform process audits of inventory transactions. This, combined with planned monthly physical inventories starting in the third quarter and the facility and technology improvements already made, should improve the Company's inventory controls. In addition, the aforementioned accounting software package will provide more comprehensive transaction detail and controls.

During the second and third quarters, Management has and is continuing to actively address the internal control deficiencies identified and such efforts include: instituting new controls, enforcing existing policies and providing oversight with respect to inventory valuation and accounts receivable processing, timely accounting reconciliations, and hiring a Controller, inventory manager, and production manager. During the third quarter, the company began implementation of an improved software package the company expects to be fully implemented in the fourth quarter of 2004.

Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c) and 15d-14(c) as of a date within 90 days of the filing date of this quarterly report on Form 10-QSB (the "Evaluation Date")), have concluded that as of the Evaluation Date, and except as provided above, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this quarterly report on Form 10-QSB was being prepared.

PART II - OTHER INFORMATION

Item No. 1. Legal Proceedings. The Company is not a party, nor are its properties subject to, any material pending legal proceedings other than ordinary routine litigation incidental to the Company's business and the matters described in the Company's 2003 Annual Report on Form 10-KSB/A.

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. None.

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
3.1(i)(1)	Articles of Incorporation
3.1(ii)(2)	Amended and Restated Bylaws
3.1(ii)(3)	Second Amended and Restated Bylaws 4(2) Specimen Certificate for Common Stock
10.1(2)	1997 Stock Plan
10.2(2)	1997 Non-Employee Directors' Option Plan 10.4(2) Stock Option Grant under 1997 Non-Employee Directors' Option Plan
10.5(i)(4)	Business Lease Between the Company's Subsidiary and Gary Schlatter (September 1, 2000)
10.5(iii)(5)	Amended Business Lease between the Company's Subsidiary and 2780 South Raritan, LLC effective October 15, 2000.
10.5(iv)(6)	Lease Between the Company's Subsidiary and 18501 East Plaza

	Drive, LLC dated September 4, 2003
10.5(v)(9)	Lease Termination Agreement for Business Lease described in Exhibit 10.5(i)
10.5(vi)(9)	Lease Termination Agreement for Business Lease described in Exhibit 10.5(iii)
10.10(7)	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 filed as computation can be clearly determined from the material contained in this Report on Form 10-QSB.
14.1(8)	Code of Ethics
21(2)	List of Subsidiaries of the Company
31.1(10)	Certification of President Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 302 Of The Sarbanes-Oxley Act of 2002
31.2(10)	Certification of Chief Financial Officer Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 302 of The Sarbanes-Oxley Act Of 2002
32.1(10)	Certification of President Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes-Oxley Act of 2002
32.2(10)	Certification of Chief Financial Officer Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of The Sarbanes-Oxley Act Of 2002

1. Incorporated herein by reference to Exhibit C of the Definitive Information Statement filed by the Company's predecessor, SSI Capital Corp., on July 24, 1997.

2. Incorporated herein by reference to the Company's Form 10-K filed for fiscal year 1997.

3. Incorporated herein by reference to the Company's Form 10-KSB filed for fiscal year 1998.

4. Incorporated herein by reference to the Company's Form 10-QSB filed for the quarter ended September 30, 2000.

5. Incorporated herein by reference to the Company's Form 10-KSB filed for fiscal year 2000.

6. Incorporated herein by reference to the Company's Form 10-QSB filed for the quarter ended September 30, 2003.

7. Incorporated herein by reference to the Company's Form 10-QSB filed for the quarter ended June 30, 2003.

8. Incorporated herein by reference to the Company's Form 10-KSB/A filed for fiscal year 2003.

9. Incorporated herein by reference to the Company's Form 10-QSB filed for the quarter ended June 30, 2004.

10. Filed herewith.

(b) No report on Form 8-K was filed by the Company 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 16, 2004

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Exhibit Index

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