ORALABS HOLDING CORP
Form 10QSB
May 15, 2002

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: March 31, 2002

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 March 31, 2002 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

	March 31, 2002 Unaudited	December 31,
Assets		

Current Assets		
Cash and cash equivalents	2,365,049	$2,273,838
Accounts receivable, net of allowance for doubtful accounts of $98,330 and $174,349, respectively	2,357,591	1,937,625
Inventory	1,763,277	1,719,870
Deferred Tax Asset	223,780	223,780
Prepaid expenses	238,525	156,184
Deposits	75,691	298,807
Total Current Assets	7,023,913	6,610,104
Property and equipment, net	1,319,502	1,270,708
Deferred Tax Asset	44,993	44,993
Total Assets	8,388,408	7,925,805
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts Payable - Trade	469,943	645,567
Accrued liabilities	457,448	378,120
Reserve for Returns	395,410	425,597
Income taxes payable	400,442	182,227
Total current liabilities	1,723,243	1,631,511
Total liabilities	1,723,243	1,631,511
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	9,160
Additional paid -in capital	1,216,905	1,216,905
Retained Earnings	5,439,100	5,068,229
Total stockholders' equity	6,665,165	6,294,294
Total liabilities and stockholders' equity	$8,388,408	7,925,805

See Notes to Consolidated Financial Statements

ORALABS HOLDING CORP AND SUBSIDIARIES

Consolidated Statements of Income
Three Months ended March 31, 2002 and March 31, 2001

Unaudited

	Three Months Ended 03/31/02	03/31/01
Revenues:		
Product sales	$3,926,612	$4,759,844
Total Revenues	3,926,612	4,759,844
Cost of Sales	2,350,644	2,456,606
Gross profit	1,575,968	2,303,238
Operating Expenses:		
Engineering	102,076	98,800
Selling and marketing costs	450,675	534,777
General and administrative	455,066	430,505
Other	9,291	5,106
Total operating expenses	1,017,108	1,069,188
Net Operating Income	558,860	1,234,050
Other Income (expense)		
Interest and other income	31,088	805,777
Total other income (expense)	31,088	805,777
Net income before provision for income taxes	589,948	2,039,827
Provision for income taxes		
Current	219,077	757,490
Deferred	--	--
	219,077	757,490
Net Income	$ 370,871	$1,282,337
Basic income per common share	$ .04	$ .14
Weighted average shares outstanding	9,160,755	9,160,755
Diluted income per share	$ 0.04	$ .13
Diluted weighted average shares outstanding	9,234,880	9,636,964

See Notes to Consolidated Financial Statements

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ORALABS HOLDING CORP AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity
For the Three months ended March 31, 2002
Unaudited

	Preferred Shares	Stock Amount	Common Shares	Stock Amount	Addl. Paid-In Capital
Balance at Dec. 31, 2001			9,160,755	$9,160	$1,216,905
Net Income					
Balance at March 31, 2002			9,160,755	$9,160	$1,216,905

See Notes to Consolidated Financial Statements

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ORALABS HOLDING CORP AND SUBSIDIARIES

Consolidated Statements of Cash Flow For the
Three months ended March 31, 2002 and 2001
Unaudited

	Three Months March 31 2002	
Cash flows from operating activities		
Net Income	$ 370,871	$1
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	93,403	
Deferred Taxes		
Stock issued for services		

Changes in assets and liabilities:		
Other current assets	140,775	
Accounts receivable	(419,966)	
Inventory	(43,407)	
Accounts payable	(190,074)	
Accrued expenses	75,161	
Reserve for returns	(30,187)	
Income taxes payable	236,832	
Net cash provided by operating activities	233,408	1
Cash from investing activities		
Investment in property and equipment	(142,197)	
Net Cash (used in) investing activities	(142,197)	
Net Increase in cash and cash equivalents	91,211	1
Cash and cash equivalents, beginning of the period	2,273,838	2
Cash and cash equivalents, end of the period	$2,365,049	$3

Supplemental disclosures of cash flow information:

Cash paid for income taxes was $0 (2002) and $265,000 (2001)

See Notes to Consolidated Financial Statements

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, 2001(the "2001Form 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:

	March 31, 2002
Machinery and equipment	$1,596,500
Leasehold Improvements	654,784
	2,251,284
Less accumulated depreciation	(931,782)
	$1,319,502

Note 3 - Line-of-Credit

The Company entered into a line-of-credit agreement with a bank in the amount of $1,000,000, which expires May 2002. As of March 31, 2002, the Company had available the entire $1,000,000 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 March 31, 2002 is $395,410.

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ORALABS HOLDING CORP AND SUBSIDIARIES

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 Quarter Ended March 31, 2002

	Income (Numerator)	Shares (Denominator)
Net Income	$370,871	

	Income (Numerator)	Shares (Denominator)
Basic EPS		
Weighted average beginning shares outstanding		9,160,755
Income available to stockholders	$370,871	9,160,755
Effect of Dilutive Common Stock Options		74,125
Diluted EPS		
Income available to common stockholders plus assumed		
Plus assumed conversions	$370,871	9,234,880

For the Quarter Ended March 31, 2001

	Income (Numerator)	Shares (Denominator)
Net Income	$ 1,282,337	
Basic EPS		
Weighted average beginning shares outstanding		9,160,755
Weighted average options shares issued		
Weighted average shares issued for services		
Income available to stockholders	$ 1,282,337	9,160,755
Effect of Dilutive Common Stock Options		476,209
Diluted EPS		
Income available to common stockholders plus assumed		
Plus assumed conversions	$ 1,282,337	9,636,964

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 March 31, 2002. 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 period ending March 31, 2002 as compared with the period ending March 31, 2001.

Product sales decreased $833,231 or 18%. This was due to a combination of decreases of sales for lip balm, sours and breath fresheners, and nutritional supplements of approximately $360,000, $360,000 and $145,000 respectively. Lip balm sales were slowed by loss of revenues in connection with Kmart Corporation's bankruptcy, sours and breath fresheners had large orders held over to second quarter. Some of the nutritional supplement products became unprofitable and the Company chose to drop those brands. The brands remaining had slower sales. Please refer to the trends section below for a more detailed explanation.

Gross profit decreased $727,270. As a percentage of sales gross profit decreased from 48% to 40%. The first quarter of 2001 had higher than normal gross profit substantially because of higher selling prices and volume for lip balm packaged in the traditional sticks and sold at retail in the more economical loose counter display as opposed to in the more costly blister packed product. The first quarter of 2002 gross profit of 40% is more in line with the annual gross profit margin of 40% for the year 2001 and the annual gross profit margin 41% for the year 2000.

Selling and marketing decreased $84,102. The decrease can be substantially attributed to the decrease in product sales because a decrease in marketing commissions directly related to the decrease in product sales.

Interest and Other Income decreased $774,689. This was almost entirely due to the one-time transaction in the first quarter of 2001in which the Company sold its entire minority interest in a company that acquired ownership of Pecos Pharmaceuticals, a vendor of nutritional supplements.

Net income decreased by $911,466, or 71% as explained by the above activities. As a percentage of sales, net operating income, which excludes Interest, Other Income and Income taxes, decreased from 26% to 14%.

Liquidity and Capital Resources. Balance Sheet as of March 31, 2002 Compared to December 31, 2001.

At March 31, 2002, the Company had $2,365,049 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.

The Company generated $233,408 of cash flows from operating activities for the quarter ended March 31, 2002 versus $1,886,038 for the quarter ended March 31, 2001. This decrease in cash flow from operating activities was primarily due to changes in various working capital items, higher operating income for the quarter ended March 31, 2001 and the gain on the sale of our minority interest in the company that owned Pecos Pharmaceuticals for the quarter ended March 31, 2001.

Accounts receivable increased $419,966 net of allowance for doubtful accounts. This is substantially due to timing of receivables due shortly after the end of the first quarter for 2002.

Inventory increased $43,407. The modest increase in Inventory can be substantially attributed to an increase of work in process manufactured for anticipated orders. Work in process may substantially increase in the second quarter of 2002 as the Company builds inventory for the anticipated higher sales volume of the third and fourth quarters.

Prepaid expenses increased $82,341. This increase was substantially due to Company insurance premiums paid in advance for the year 2002.

Deposits decreased $223,116. The decrease is substantially due to a deposit on raw materials being produced abroad specifically for the Company was made in the fourth quarter of 2001 and subsequently used to pay for the raw materials when received in the first quarter of 2002.

Accounts payable decreased $175,624. 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 2001 as compared to the end of first quarter 2002 on its Trade payables.

Accrued liabilities increased $79,328. This can be attributed to increases in reserves for commissions of approx. $30,000 and for payroll and bonuses totaling approx. $50,000. The reserve is for commissions against accounts receivable, which are adjusted by customer receipts.

Reserve for returns decreased $30,187. This decrease is the net result of reducing the allowance from 3.5% to 2.75% of sales and the difference in sales dollars applied to the allowance. The sales dollars are for the twelve months through the end of the accounting period and the allowance percentage is based on management analysis of historical and anticipated returns.

Income tax payable increased $218,215. This increase can be substantially attributed to the tax liability accrued in the fourth quarter of 2001 that is not due to be paid until the second quarter of 2002.

Retained earnings increased $370,871 as a result of net income.

Trends. Lip balm revenues declined to $3,103,684 in the first quarter of 2002 as compared to $3,462,620 in the first quarter of 2001, or a 10% decrease. Kmart Corporation's bankruptcy filing negatively impacted revenues in the first quarter. Although revenues should increase from Kmart throughout the current year, the Company does not expect it to reach levels obtained in year 2001. As a whole in this category, the second quarter should maintain levels similar to that of 2001, while new packaging and anticipated expanded distribution to existing customers gives optimism that there will be growth in this category in the third and fourth quarters of year 2002.

The sour drops and breath fresheners showed a significant decline, as the combined revenues were $577,690 in the first quarter of 2002 as compared to $954,539 in the first quarter of 2001, or a 38% decrease. Although overall sales were slower than the comparable quarter of year 2001, some large orders (approximately $300,000) were carried over from the first quarter of 2002. Delayed shipments could cause adverse effects with a key customer, although improvements in projections and automation may help future sales. This category continues to be small relative to the lip balm category, and with additional pressure from new sour and breath products, the popularity of our established brands will be challenged, making it difficult for the Company to project revenues for this year.

The nutritional supplements, on a relatively smaller scale, showed decline in revenue. Revenues were $159,571 in the first quarter of 2002 as compared to $304,008 in the first quarter of 2001, or a 48% decrease. The Company has discontinued Healthy Bears(TM) and Dreanalean(TM), while Cheat & Lean(R) and 5-HTP continue to produce steady revenue. The other brands, Glucosamine + MSM, MSM, and Breast Plus(TM), have not produced significant revenue and the future of these brands is uncertain. We do not anticipate revenues in this category on a quarterly basis to grow or decline significantly throughout year 2002 from the first quarter of this year.

The Company revenues from international business were $301,624 in the first quarter of 2002 as compared to $412,429 in the first quarter of 2001, or a 27% decrease. The Company has experienced adverse effects from unsettled markets internationally, but has been proactive in building relationships in several key areas giving the Company optimism for future growth. We anticipate consistent revenue from our distributors in Canada and Europe and have prospective growth from South America and Asia through the course of year 2002.

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.

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 of 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. 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
4(1)	Specimen Certificate for Common Stock
10.1(1)	1997 Stock Plan
10.2(1)	1997 Non-Employee Directors' Option Plan
10.3(2)	Amended and Restated Employment Agreement Between the Company's Subsidiary and Gary Schlatter
10.4(1)	Form of Stock Option Grant under 1997 Non-Employee Directors' Option Plan
10.5(i)(5)	Business Lease Between the Company's Subsidiary and Gary Schlatter (September 1, 2000)
10.5(ii)(6)	Amended Business Lease Between the Company's Subsidiary and 2780 South Raritan, LLC effective October 15, 2000.
10.6(3)	Agreement between the Company, Creative Business LLC and Allen R. Goldstone dated August 24, 1999, as amended
10.9(4)	Agreement (effective May 1, 2000 amending the Employment Agreement listed above as Exhibit 10.3)
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

1 Incorporated herein by reference to the Company's Form 10-K filed for fiscal year 1997.
2 Incorporated herein by reference to Exhibit B of the Form 8-K filed by the Company's predecessor, SSI Capital Corp., on May 14, 1997.
3 Incorporated herein by reference to the Company's Form 10-KSB filed for fiscal year 1999.
4 Incorporated herein by reference to the Company's Form 10-QSB filed for the quarter ended March 31, 2000.
5 Incorporated herein by reference to the Company's Form 10-QSB filed for the quarter ended September 30, 2000.
6 Incorporated herein by reference to the Company's Form 10-KSB filed for fiscal year 2000.

(b) The Company filed a Form 8-K on March 7, 2002, which disclosed in Item 5 of the Form ("Other Events") an additional aspect of the business of the Company. No financial statements were included in the filing.

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 Schlatter

Gary Schlatter, President

By: /s/ Emile Jordan

Emile Jordan, Chief Financial Officer

DATED: May 15, 2002