

Edgar Filing: ORALABS HOLDING CORP - Form 10QSB

ORALABS HOLDING CORP  
Form 10QSB  
May 20, 2003

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

FORM 10-QSB

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

For the quarterly period ended: March 31, 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  
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ORALABS HOLDING CORP.

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

Colorado  
-----  
(State or other jurisdiction of  
incorporation or organization)

14-1623047  
-----  
(I.R.S. Employer  
Identification No.)

2901 South Tejon, Englewood, Colorado  
-----  
(Address of principal executive offices)

80110  
-----  
(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.

Yes  No

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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, 2003 Issuer had 9,160,755 shares of common stock, \$.001 Par Value, outstanding. Transitional Small Business Disclosure Format (check one)

Yes  No

## Table of Contents

Part I.	Financial Information	
Item 1.	Financial Statement	Page ----
	Consolidated Balance Sheets as of March 31, 2003 (Unaudited) And December 31, 2002.....	2
	Consolidated Statements of Income Three Months Ended March 31, 2003 and 2002 (Unaudited).....	3
	Consolidated Statement of Stockholders' Equity from December 31, 2002 Through March 31, 2003 (Unaudited).....	4
	Consolidated Statements of Cash Flows, Three Months Ended March 31, 2003 and 2002 (Unaudited).....	5
	Notes to Consolidated Financial Statements.....	6-7
Item 2.	Management's Discussion and analysis of Financial Conditions And Results of Operations.....	8-9
Item 3.	Controls and Procedures.....	9
Part II.	Other Information.....	10-15

ORALABS HOLDING CORP AND SUBSIDIARIES

Consolidated Balance Sheets  
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March 31, 2003    December 31,  
Unaudited

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Assets

Current Assets

Cash and cash equivalents	\$2,202,817	\$2,677,607
Accounts receivable, net of allowance for doubtful accounts of \$380,327 and \$359,201	2,524,959	1,793,037
Inventory	1,855,961	2,003,543
Deferred Tax Asset	305,428	305,428
Prepaid expenses	235,597	143,068
Deposits	228,800	128,768

Total Current Assets	7,353,562	7,051,451
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Property and equipment, net	1,175,447	1,234,893
Deferred Tax Asset	32,383	32,383

Total Assets	8,561,392	8,318,727
--------------	-----------	-----------

Liabilities and Stockholders' Equity

Current Liabilities

Accounts Payable - Trade	423,657	407,701
Accrued liabilities	441,043	305,190
Reserve for Returns	397,645	539,118
Income taxes payable	355,909	270,089
Current portion of long-term debt	22,349	22,349

Total current liabilities	1,640,603	1,544,447
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Non-current Liabilities

Long Term Debt	43,911	48,055
----------------	--------	--------

Total liabilities	1,684,514	1,592,502
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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	5,650,813	5,500,160

Total stockholders' equity	6,876,878	6,726,255
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Total liabilities and stockholders' equity	\$8,561,392	8,318,727
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See Notes to Consolidated Financial Statements

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ORALABS HOLDING CORP AND SUBSIDIARIES  
 Consolidated Statements of Income  
 Three Months ended March 31, 2003 and March 31, 2002

Unaudited

	Three Months Ended	
	03/31/03	03/31/02
Revenues:		
Product sales	\$4,240,398	\$3,926,612
Total Revenues	4,240,398	3,926,612
Cost of Sales	2,636,148	2,350,644
Gross profit	1,604,250	1,575,968
Operating Expenses:		
Engineering	62,688	36,382
Selling and marketing costs	670,513	484,390
General and administrative	639,769	487,045
Other	4,310	9,291
Total operating expenses	1,377,280	1,017,108
Net Operating Income	226,970	558,860
Other Income (expense)		
Interest and other income	9,475	31,088
Total other income (expense)	9,475	31,088
Net income before provision for income taxes	236,445	589,948
Provision for income taxes		
Current	85,792	219,077
Deferred	--	--
	85,792	219,077
Net Income	\$ 150,653	\$ 370,871
Basic income per common share	\$ .02	\$ .04
Weighted average shares outstanding	9,160,755	9,160,755
Diluted income per share	\$ 0.02	\$ .04
Diluted weighted average shares outstanding	9,160,755	9,234,880

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See Notes to Consolidated Financial Statements

3

ORALABS HOLDING CORP AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity  
For the Three months ended March 31, 2003  
Unaudited

	Preferred Shares	Stock Amount	Common Shares	Stock Amount	Addl. Paid-In Capital	Retaine Earning
Balance at Dec. 31, 2002			9,160,755	\$9,160	\$1,216,905	\$5,500,
Net Income						150,
Balance at March 31, 2003			9,160,755	\$9,160	\$1,216,905	\$5,650,

See Notes to Consolidated Financial Statements

4

ORALABS HOLDING CORP AND SUBSIDIARIES

Consolidated Statements of Cash Flow For the  
Three months ended March 31, 2003 and 2002  
Unaudited

	Three Months March 31 2003
Cash flows from operating activities	
Net Income	\$ 150,653
Adjustments to reconcile net income to net cash provided by (used in) operating Activities:	
Depreciation	101,729

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Changes in assets and liabilities:	
Other current assets	(192,561)
Accounts receivable	(731,922)
Inventory	147,582
Accounts payable	15,956
Accrued expenses	135,853
Reserve for returns	(141,473)
Income taxes payable	85,820
	-----
Net cash (used in) provided by operating activities	(428,363)
	-----
Cash from investing activities	
Investment in property and equipment	(42,283)
	-----
Net Cash (used in) investing activities	(42,283)
	-----
Cash from financing activities	
Payment on long term debt	(4,144)
	-----
	(4,144)
	-----
Net Increase in cash and cash equivalents	(474,790)
Cash and cash equivalents, beginning of the period	2,677,607
	-----
Cash and cash equivalents, end of the period	\$2,202,817
	=====

### Supplemental disclosures of cash flow information:

Cash paid for income taxes was \$0 (2003) and \$0 (2002)

See Notes to Consolidated Financial Statements

5

## ORALABS HOLDING CORP AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### Note 1 - Organization and Summary of Significant Accounting Policies

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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.

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Note 2 - Property and Equipment

Property and equipment consisted of the following:

Machinery and equipment:

	March 31, 2003
Machinery and equipment	\$1,821,288
Leasehold Improvements	719,920
	-----
	2,541,208
	-----
Less accumulated depreciation	(1,365,761)
	-----
	\$1,175,447
	=====

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 2003. As of March 31, 2003, 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, 2003 is \$397,645.

6

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, 2003

Income (Numerator)	Shares
-----------------------	--------

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(Denominator) Per Share Amt

Net Income	\$150,653	
Basic EPS		
Weighted average beginning shares outstanding		9,160,755
Income available to stockholders	\$150,653	9,160,755
Effect of Dilutive Common Stock Options		
Diluted EPS		
Income available to common stockholders plus assumed		
Plus assumed conversions	\$150,653	9,160,755

For the Quarter Ended March 31, 2002

(Denominator) Per Share Amt	Income (Numerator)	Shares
Net Income	\$370,871	
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



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## ORALABS HOLDING CORP AND SUBSIDIARIES

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

#### Special Note on Forward-Looking Statements

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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, 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 period ending March 31, 2003 as compared with the period ending March 31, 2002.

Product sales increased \$313,786 or 8%. The Company's loss of revenues in connection with Kmart Corporation's bankruptcy in the first quarter of 2002 was regained through revenues of approximately \$589,000 from Kmart Corporation in the first quarter of 2003.

Gross profit increased \$28,282. As a percentage of sales gross profit decreased from 40% to 38%, which can be attributed to higher cost of raw materials. The higher costs of raw materials are primarily as a result of a change in product mix where products were sold at a lower profit.

Selling and marketing increased \$186,123. An increase in Bad Debt Expense for non-reoccurring write offs of uncollectible receivables in the amount of \$261,000 was partially offset by decreases in Advertising and Sales Commissions.

General and administrative expenses increased \$152,724. Salaries increased approximately \$90,000 due in large part to additional staffing; Legal fees increased approximately \$25,000; Research and Development increased approximately \$16,000; and the remainder can be substantially attributed to modest increases in insurance, dues and subscriptions, office expenses, and travel.

Net income decreased by \$220,218, or 59% as explained by the above activities. As a percentage of sales, Net Operating Income, which excludes Interest, Other Income and Income taxes, decreased from 14% to 5%.

Liquidity and Capital Resources. Balance Sheet as of March 31, 2003 Compared to December 31, 2002.

At March 31, 2003, the Company had \$2,202,817 of cash and its current ratio was approximately 4 to 1. The Company believes its current capital resources are

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sufficient to fund operations for the next twelve months.

Net cash used in operating activities in the amount of \$428,363 consists of the following:

Accounts Receivable increased \$731,922. The increase is from a combination of increased revenues and extended terms of payment for a customer that had purchases of approximately \$589,000 during the first quarter of 2003.

Prepaid Expense increased \$92,529. This increase is substantially from prepaid insurance premiums of approximately \$100,000.

Deposits increased \$100,032. The increase is substantially due to a deposit on raw materials that will subsequently be used to pay for the raw materials when received in the second quarter of 2003.

Accrued Liabilities increased \$135,853. Accrued payroll increased approximately \$71,000 due to timing of check disbursement. Reserves for commissions increased \$63,000 as it relates to increased receivables.

Reserve for returns decreased \$141,473. The Company made a specific allowance in the amount of \$150,000 in the fourth quarter of 2002. These products were returned in the first quarter of 2003, which was absorbed by the specific allowance, taking the reserve for returns back to 2.75% of revenues.

Income taxes payable increased \$85,820. This is due to timing differences of income tax payments to be made.

Retained earnings increased \$150,653 as a result of net income.

8

Trends. Lip balm revenues increased to \$3,422,105 in the first quarter of 2003 as compared to \$3,103,684 in the first quarter of 2002, or a 10% increase. Decreased lip balm revenues related to Kmart Corporation's bankruptcy in the first quarter of 2002 were substantially regained in the first quarter of 2003. The Company anticipates slowed sales and increased expenses late in the second quarter or in the third quarter as operations are planned to move to a larger and better equipped facility, which will afford the Company an opportunity to better serve existing customers and provide the capacity in warehousing and production to ultimately accommodate growth.

The sour drops and breath fresheners combined revenues increased to \$693,133 in the first quarter of 2003 as compared to \$577,690 in the first quarter of 2002, or a 20% increase. The Company continues to receive revenues from established customers, but without the uncertain introduction of new products in this category, continued growth for the remainder of 2003 is doubtful.

The nutritional supplements, on a relatively smaller scale, showed decline in revenue. Revenues were \$124,201 in the first quarter of 2003 as compared to \$159,571 in the first quarter of 2002, or a 22% decrease. The remainder of year 2003 may see a continued downward trend in this category. As stated in the 2002 10-KSB Trends section, "New business is needed for a reversal of fortune in this category, but none can be anticipated with any certainty in year 2003."

The Company revenues from international business were \$266,709 in the first quarter of 2003 as compared to \$301,624 in the first quarter of 2002, or a 12% decrease. The Company has continued to maintain and expand relationships with distributors in other countries through travel to international trade shows and face to face meetings, and although unstable conditions exist, the Company is

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seeking to make gains in this sector of business in the second half of year 2003.

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

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, 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.

Changes in Internal Controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's disclosure controls and procedures subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such disclosure controls and procedures requiring corrective actions. As a result, no corrective actions were taken.

## 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. 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:

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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)(4)	Business Lease Between the Company's Subsidiary and Gary Schlatter (September 1, 2000)
10.5(ii)(5)	Amended Business Lease Between the Company's Subsidiary and 2780 South Raritan, LLC effective October 15, 2000.
10.9(3)	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
99.1(6)	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
99.2(6)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Emile Jordan
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-QSB filed for the quarter ended March 31, 2000.
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	Filed herewith.

(b) There was one report on Form 8-K filed during the quarter reported upon in this report. The Form 8-K was filed on March 27, 2003 and concerned a notification from NASDAQ that the Company had not maintained a minimum market value of publicly-held shares ("MVPHS") of \$1,000,000.00 as required for continued inclusion by Marketplace Rule 4310(c)7 (the "Rule"). The Company subsequently received written notice from NASDAQ that the Company had regained compliance with the Rule.

10

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.

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By:/s/ Gary H. Schlatter

-----  
Gary H. Schlatter, President

By:/s/ Emile R. Jordan

-----  
Emile R. Jordan, Chief Financial Officer

Dated May 19, 2003

CERTIFICATIONS

I, Gary H. Schlatter, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of OraLabs Holding Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Acts Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 19, 2003

By: /s/ Gary H. Schlatter

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Gary H. Schlatter, President

11

I, Emile R. Jordan, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of OraLabs Holding Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Acts Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: May 19, 2003

By: /s/ Emile R. Jordan

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Emile R. Jordan, Chief Financial Officer

12

Exhibit Index

Exhibit No. -----	Description -----
99.1	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
99.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Emile R. Jordan