ORALABS HOLDING CORP
Form 10QSB
August 18, 2006

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: June 30, 2006

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

Indicate by check mark whether the registrant is a shell Company (as defined in Rule 12b-2 of The Exchange Act).

Yes |_| |X| 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 June 30, 2006 Issuer had 4,789,015 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

| | June 30, 2006 | December 31, 2 |
|---|---|---|
| | Unaudited | |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 2,578,696 | $ 1,834,1 |
| Accounts receivable-trade, net of allowance for doubtful accounts of $67,064 (2006) and $86,639 (2005) | 1,181,107 | 1,795,8 |
| Inventories | 2,812,677 | 2,555,6 |
| Prepaid expenses | 204,401 | 173,5 |
| Deposits and other assets | 324,137 | 257,9 |
| Total current assets | 7,101,018 | 6,617,1 |
| Non-current assets | | |
| Deferred tax assets, net | | 179,000 |
| Property and equipment, net | 2,115,348 | 1,858,7 |
| Total non-current assets | 2,115,348 | 2,037,7 |
| Total assets | $ 9,216,366 | $ 8,654,9 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities | | |
| Accounts payable - trade | $ 836,652 | $ 1,021,1 |
| Deferred revenue | 85,148 | 630,0 |
| Accrued liabilities | 177,779 | 121,3 |
| Reserve for returns | 50,188 | 100,8 |
| Income tax payable | 130,365 | |
| Current portion of long-term debt | 6,300 | 6,3 |
| Deferred tax liability- current | 248,016 | 221,7 |
| Total current liabilities | 1,534,448 | 2,101,3 |
| Non-current liabilities | | |
| Long-term debt, less current portion | 3,675 | 6,8 |
| Deferred tax liability- long-term | 26,618 | |
| Total non-current liabilities | 30,293 | 6,8 |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Preferred stock, $.001 par value, 1,000,000 shares authorized; none issued and outstanding | | |
| Common stock, $.001 par value; 25,000,000 shares authorized, 4,789,015 (2006) and 4,693,015 (2005) issued and outstanding | 4,789 | 4,6 |
| Additional paid-in capital | 1,828,683 | 1,511,8 |
| Retained earnings | 5,818,153 | 5,030,2 |
| Total stockholders' equity | 7,651,625 | 6,546,7 |
| Total liabilities and stockholders' equity | $ 9,216,366 | $ 8,654,9 |

See Notes to Consolidated Financial Statements



ORALABS HOLDING CORP. AND SUBSIDIARIES

Consolidated Statements of Operations
Three Months and Six Months Ended June 30, 2006 and June 30, 2005
Unaudited

| | Three Months Ended | | Six Months End | |
|---|---|---|---|---|
| | 06/30/06 | 06/30/05 | 06/30/06 | 0 |
| Product sales, net | $4,400,146 | $2,543,188 | $8,918,855 | $6 |
| Cost of sales | 2,405,372 | 1,597,957 | 5,113,858 | 3 |
| Gross profit | 1,994,774 | 945,231 | 3,804,997 | 2 |
| Operating Expenses: | | | | |
| Engineering | 28,113 | 34,838 | 73,765 | |
| Selling and marketing costs | 431,405 | 244,949 | 864,442 | |
| General and administrative | 850,574 | 693,107 | 1,617,804 | 1 |
| Other | 4,235 | 5,554 | 30,058 | |
| Total operating expenses | 1,314,327 | 978,448 | 2,586,069 | 2 |
| Net operating income (loss) | 680,447 | (33,217) | 1,218,928 | |
| Interest and other income | 22,938 | 28,908 | 35,343 | |
| Income (loss) before provision for income taxes | 703,385 | (4,309) | 1,254,271 | |
| Income tax (expense) benefit | (249,393) | 1,383 | (466,384) | |
| Net income (loss) | $ 453,992 | $ (2,926) | $ 787,887 | $ |
| Basic and diluted income (loss) per common share | $ .10 | $ * | $ .17 | $ |
| Weighted average shares outstanding - basic | 4,777,047 | 4,669,688 | 4,735,263 | 4 |
| Weighted average shares outstanding - diluted | 4,818,368 | 4,669,688 | 4,778,253 | 4 |

* Amount is less than $(.01) per share

See Notes to Consolidated Financial Statements

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ORALABS HOLDING CORP AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity
Six Months Ended June 30, 2006
Unaudited

| | Common Shares | Amount | Addl. Paid-In Capital | Retained Earnings | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2005 | 4,693,015 | $4,693 | $1,511,820 | $5,030,266 | $6,546, |
| Stock options exercised | 96,000 | 96 | 210,104 | | 210, |
| Tax benefit on exercise of stock options (Note 2) | | | 104,109 | | 104, |
| Stock-based compensation expense | | | 2,650 | | 2, |
| Net income | | | | 787,887 | 787, |
| Balance at June 30, 2006 | 4,789,015 | $4,789 | $1,828,683 | $5,818,153 | $7,651, |

See Notes to Consolidated Financial Statements

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ORALABS HOLDING CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Six Months Ended June 30, 2006 and 2005
Unaudited

| | 2006 | 2005 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ 787,887 | $ (18,5 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 270,843 | 275,9 |

| | | |
|---|---|---|
| Recovery of doubtful accounts | (16,575) | (140,3 |
| Deferred income taxes | 231,910 | (8,7 |
| Stock-based compensation expense | 2,650 | |
| Changes in assets and liabilities: | | |
| Accounts receivable - trade | 631,366 | 601,8 |
| Inventories | (257,043) | (308,5 |
| Prepaid expenses, deposits and other assets | (97,056) | 187,2 |
| Accounts payable - trade | (184,501) | (33,1 |
| Deferred revenue | (544,852) | |
| Accrued liabilities | 56,458 | 1,8 |
| Reserve for returns | (50,622) | (110,4 |
| Income taxes payable/receivable | 130,365 | 135,5 |
| | 172,943 | 601,2 |
| Net cash provided by operating activities: | 960,830 | 582,6 |
| Cash flows from investing activities: | | |
| Investment in property and equipment | (527,437) | (419,4 |
| Net cash used in investing activities | (527,437) | (419,4 |
| Cash flows from financing activities: | | |
| Payment on long term debt | (3,150) | (7,2 |
| Stock options exercised | 210,200 | 48,8 |
| Tax benefit on exercise of stock options (Note 2) | 104,109 | |
| Net cash provided by financing activities | 311,159 | 41,5 |
| Net increase in cash and cash equivalents | 744,552 | 204,7 |
| Cash and cash equivalents, beginning of the period | 1,834,144 | 866,4 |
| Cash and cash equivalents, end of the period | $ 2,578,696 | $ 1,071,1 |

See Notes to Consolidated Financial Statements

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ORALABS HOLDING CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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, 2005 (the "2005 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 - RECENT ACCOUNTING PROUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS 123R supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and amends SFAS No. 95, "Statement of Cash Flows". SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions and requires all share-based payments to employees, including grants of employee stock options, to be recognized as additional compensation expense in the financial statements based on the calculated fair value of the awards. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation costs to be reported as a financing cash flow. This excess amount was $104,109 for the six months ended June 30, 2006 and is shown as "Tax benefit on exercise of stock options" in the Statement of Cash Flows. We adopted this statement effective for our fiscal year beginning January 1, 2006. We have described the impact of adopting SFAS 123R in Note 6 to the consolidated financial statements.

In October 2005, the FASB issued FASB Staff Position ("FSP") 123R-2, "Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R) ("FSP 123R-2")". FSP 123R-2 provides companies with a "practical accommodation" when determining the grant date of an award that is subject to the accounting provisions in SFAS 123R. Specifically, assuming a company meets all of the other criteria in the definition of grant date in SFAS 123R, a mutual understanding (between the company and the recipient) of the key terms and conditions of an award is presumed to exist at the date the award is approved (in accordance with the company's normal corporate governance policy) if (1) the award is a unilateral grant meaning that the recipient does not have the ability to negotiate the key terms and conditions of the award, and (2) the key terms and conditions of the award are expected to be communicated to the recipient within a relatively short period of time (as defined in the FSP 123R-2) after the grant was approved. This FSP was effective upon initial adoption of SFAS 123-R on January 1, 2006.

In November 2005, the FASB issued FSP 123R-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards" ("FSP 123R-3"). FSP 123R-3 provides a practical exception when a company transitions to the accounting requirements in SFAS 123R. SFAS 123R requires a company to calculate the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to adopting SFAS 123R ("APIC Pool"), assuming the company had been following the recognition provisions prescribed by SFAS 123. The FASB learned that several companies do not have the necessary historical information to calculate the APIC pool as envisioned by SFAS 123R and accordingly, the FASB decided to allow a practical exception as documented in FSP 123R-3. This FSP was effective on its issuance date.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2006:

| | |
|---|---|
| Machinery and equipment | $ 3,963,709 |
| Construction in progress | 470,043 |
| Leasehold improvements | 146,211 |
| | ------------ |

| | |
|---|---|
| | 4,579,963 |
| Less accumulated depreciation | (2,464,615) |
| | $ 2,115,348 |

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NOTE 4 - LINE-OF-CREDIT

The Company has a $2,000,000 line-of-credit agreement with a bank secured by substantially all of the Company's assets. The line of credit expires in September 2006. As of June 30, 2006, the Company had no outstanding balance on this line-of-credit.

NOTE 5 - RESERVE FOR RETURNS AND ALLOWANCES

The reserve for returns and allowances is calculated as a percentage of sales with a consideration of historical returns. The reserve was decreased in 2005 following an evaluation of historical returns as well as an analysis of current outstanding accounts receivable and future return estimates. The rate of returns decreased during 2005 and through the first six months of 2006.

NOTE 6 - STOCK-BASED COMPENSATION

The Company has two stock option plans, an incentive stock option plan, the 1997 Stock Option Plan (the "1997 Plan"), and the 1997 Non-Employee Directors' Option Plan (the "1997 Directors' Plan"), (collectively, the "Plans"). Under the 1997 Plan, grants of incentive stock options are permitted. Incentive stock options may only be granted to employees of the Company, including officers and directors who are also employees. Under the 1997 Directors' Plan, non-qualified options may be issued to directors of the Company. The exercise price of incentive stock options granted under the 1997 Plan must be at least 100% of the fair market value of the Company's stock at the grant date. The exercise price of non-qualified options is at the fair market value of the Company's stock at the grant date. Aggregate common shares of 250,000 are reserved for issuance under the 1997 Plan. Shares forfeited can be reissued under the 1997 Plan. Options issued under the 1997 Plan vest over five years and expire ten years from the date of grant. Options issued under the 1997 Directors' Plan vest over four years and expire five years from the date of grant.

Effective January 1, 2006, the Company adopted SFAS 123R, using the modified prospective method. SFAS 123R requires the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and is measured based on the grant date fair value of the award. SFAS 123R also requires the stock option compensation expense to be recognized over the period during which an employee is required to provide service in exchange for the award (the vesting period). Prior to our adopting SFAS 123R, we accounted for our stock-based compensation plans under Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under APB 25, generally no compensation expense is recorded when the terms of the award are fixed and the exercise price of the employee stock option equals or exceeds the fair value of the underlying stock on the date of grant. We adopted the disclosure-only provision of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

For the six months ended June 30, 2006, the Company calculated compensation expense of $2,650 related to stock options.

For options granted subsequent to the adoption date of SFAS 123R on January 1, 2006, the fair value of each stock option grant will be estimated on the date of grant using the Black-Scholes option pricing model. The Company had no stock option grants during the six months ended June 30, 2006 and granted 50,500 stock options during the six months ended June 30, 2005. The weighted average fair value of stock options at the date of grant during the six months ended June 30, 2005 was $1.52.

The expected life of stock options represents the period of time that the stock options granted are expected to be outstanding based on historical exercise trends. The expected volatility is based on the historical price volatility of our common stock. The risk-free interest rate represents the U.S. Treasury bill rate for the expected life of the related stock options. The dividend yield represents our anticipated cash dividend over the expected life of the stock options.

The following are the weighted-average assumptions used for options granted during the six months ended June 30, 2006 and 2005:

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| Approximate risk free rate | 3.74% - 6% | 3.74% |
| Average expected life | 5 years | 5 years |
| Dividend yield | 0% | 0% |
| Volatility | 65% - 80% | 81% |



A summary of stock option activity for the six months ended June 30, 2006 is presented below:

| | Shares Under Option | Weighted Average Exercise Price | Weighed Average Remaining Contractual Life | Aggrega Intrins Value |
|---|---|---|---|---|
| Outstanding at January 1, 2006 | 169,000 | $ 2.21 | | |
| Granted | -- | -- | | |
| Exercised | (96,000) | 2.19 | | |
| Forfeited | (6,250) | 1.75 | | |
| Expired | (7,500) | 4.75 | | |
| Outstanding at June 30, 2006 | 59,250 | 1.97 | 2.79 years | $90,3 |
| Exercisable at June 30, 2006 | 50,500 | 2.02 | 2.48 years | $74,6 |

A summary of the status of the Company's non-vested stock options as of and for the six months ended June 30, 2006 is presented below:

| | Non-vested Shares Under Option | Weighted Average Grant Date Fair Value |
|---|---|---|

| | | |
|---|---|---|
| Non-vested at January 1, 2006 | 18,750 | $ 1.67 |
| Granted | | |
| Vested | (3,750) | 1.80 |
| Forfeited | (6,250) | 1.67 |
| Non-vested at June 30, 2006 | 8,750 | 1.62 |

As of June 30, 2006, there was approximately $11,325 of unrecognized compensation cost related to stock options that will be recognized over a weighted average period of approximately 4 years.

Prior to January 1, 2006, the Company determined the value of stock-based compensation arrangements under the provisions of APB Opinion No. 25 "Accounting for Stock Issued to Employees" and made pro forma disclosures required under SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 permits the use of either a fair value based method or the method defined in APB No. 25 which requires the disclosure of pro forma net income (loss) and earnings per share that would have resulted from the use of the fair value based method. Had compensation expense for stock option grants been determined based on the fair value at the grant dates consistent with the method prescribed in FASB 123, the Company's net loss and net loss per share would have been adjusted to the proforma amounts below for the three- month and six-months ended June 30, 2005, as indicated below:

| | Three months ended 6/30/05 | Six months ended 6/30/05 |
|---|---|---|
| Net loss, as reported | $ (2,926) | $ (18,590) |
| Total stock-based employee compensation expense determined under fair market value method for an award | (98,931) | (98,931) |
| Net loss available to common shareholders-pro forma | $ (101,857) | $ (117,521) |
| Basic and diluted loss per common share-as reported | $ * | $ * |
| Basic and diluted loss per common share-pro forma | $ (0.02) | $ (0.03) |

* Amount is less than $(.01) per share

NOTE 7 - CUSTOMER CONCENTRATIONS

The Company's revenues are generated from customers located in the United States. The following table summarizes sales to individual customers that comprised more than 10% of the Company's sales for the periods ended June 30.

| | 3 months ended | | 6 months ended | |
|---|---|---|---|---|
| Customer | 6/30/06 | 6/30/05 | 6/30/06 | 6/30/05 |
| A | 16% | 7% | 10% | 14% |

| | | | | |
|---|---|---|---|---|
| B | 6% | 12% | 7% | 13% |
| C | - | - | 14% | - |



NOTE 8 - COMMITMENTS AND CONTINGENCIES

RELATED PARTY OPERATING LEASES

The Company leases office and manufacturing facilities under an operating lease for property controlled by the Company's President, which expires in September 2006. Rent expense recorded during both the three and six months ended June 30, 2006 and 2005 was $111,522 and $223,044, respectively, under this related party lease.

OTHER

The Company also has one operating lease for a vehicle, which expires in June 2010. Payments under this lease are $723 per month.

LITIGATION

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse impact either individually or in the aggregate on consolidated results of operations, financial position or cash flows of the Company

DEPOSITS

At June 30, 2006 the Company had deposits of $324,137 for orders of production materials.

NOTE 9 - STOCK EXCHANGE AGREEMENT

The Company entered into a Stock Exchange Agreement (the "Agreement") dated as of March 31, 2006, as amended on July 20, 2006, with Partner Success Holdings Limited ("PSHL") under which all of the issued and outstanding shares of PSHL are to be acquired by the Company in consideration for the issuance to the owners of PSHL of common stock representing a 94% ownership interest in the Company, after giving effect to a redemption by the Company of 3,629,350 shares of its outstanding common stock owned individually by its President, Gary H. Schlatter. The redemption is to be in consideration for the transfer to Mr. Schlatter of all of the Company's outstanding common stock of its wholly-owned operating subsidiary, OraLabs, Inc. The 94% ownership interest in the Company is to be determined on a fully-diluted basis that will take into account the issuance of 300,000 shares to the non-employee directors of the Company prior to closing and after receiving shareholder approval, and any options that may be exercised by employees prior to the closing. Under the amendment, OraLabs, Inc. will pay certain tax liabilities arising out of closing the transactions and will fund all or a part of the payment by purchasing up to 100,000 shares of the Company, the domicile of the Company will be changed from Colorado to Delaware and the number of authorized shares of the Company will be increased to 62,000,000. If the closing of the Agreement occurs, PSHL will become a wholly-owned subsidiary of the Company. The closing of the Agreement is conditioned upon, among other things, customary closing conditions, including the satisfaction of both the Company and PSHL with their due diligence investigations of the other party and the receipt by the Board of Directors of the Company of a fairness opinion. There can be no assurance that closing of the transactions described in the Agreement will occur.



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 June 30, 2006. 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 work force, and changes in market conditions.

Results of Operations. For the three month period ended June 30, 2006 as compared with the three month period ended June 30, 2005.

Product sales increased $1,856,958 or 73%. This increase in revenue was primarily a result of an increase in sales due to increased customer demand and higher sales at the retail level during the second quarter of 2006. The Company received increased orders on its breath freshening products as well as new customers for its new and core products in the second quarter of 2006. The Company believes that it can supply any orders that it would reasonably expect to receive during the third quarter of 2006. The Company cannot be sure that any increased level of sales will occur.

Gross profit increased $1,049,543. As a percentage of sales, gross profit increased 8%. A greater concentration of sales were to higher margin customers resulting in increased gross profit margin. The Company's capital investment in automation continues, as it did in 2005, to make a positive impact on labor costs. The Company anticipates continued improvements in costs of operations, which will be a positive factor in managing gross profit.

Engineering costs decreased by $6,725 due to a decrease in variable labor costs to maintain and repair manufacturing equipment, as well as by an increase in the amount of engineering salaries being capitalized in second quarter 2006 toward production automation projects.

Selling and marketing increased by $186,456 due to an increase in sales commissions, sales salaries, advertising, and trade show expense. These expenses are expected to remain at the same increased level through the remainder of 2006.

Administrative expenses increased $157,467. Salaries increased in the second quarter of 2006 by $41,419. Legal fees, accounting fees and insurance costs also increased significantly from the previous period.

The Company had net income of $453,992 in the second quarter of 2006 compared to a net loss of $2,926 in the second quarter of 2005 as explained by the above activities.

The effective tax rate increased from 32% to 35% for the quarter ended June 30, 2006 compared to the quarter ended June 30, 2005. The Company's remaining net operating loss carry forwards were fully offset with taxable income resulting in income taxes payable of $130,365 as of June 30, 2006. Taxable income in the future will result in income taxes payable.

Results of Operations. For the six month period ending June 30, 2006 as compared with the six month period ending June 30, 2005.

Product sales increased $2,794,831 or 46%. This increase in revenue was primarily a result of an increase in sales due to increased customer demand and higher sales at the retail level. The Company received increased orders on its breath freshening products as well as new customers for its new and core products. Future sales to its new customers are uncertain at this time. The Company believes that the second half of the year will bring a higher level of sales due to the seasonality of our primary product line. The Company believes that it is now in a position to fill a higher level of orders, should they occur. The Company cannot be sure that any increased level of sales will occur.

Gross profit increased $1,659,444. As a percentage of sales, gross profit increased 8%. A greater concentration of sales were to higher margin customers, thereby reducing the cost of materials as a percentage of sales. The increase in gross profit is also, but to a lesser extent, due to decreased costs of labor and overhead and materials. The Company's capital investment in automation made a positive impact on labor costs during 2006. The Company anticipates continued improvements in cost of operations and is hopeful that gross profit will continue to make small incremental improvement, although no assurances can be given.



Engineering expenses decreased $53,944 due to an increased amount of engineering salaries being capitalized in 2006 towards production automation projects.

Selling and marketing expenses increased $208,031 due to an increase in salaries, commissions, and advertising. These costs should remain stable through the end of the year.

Administrative expenses increased $214,682 due to an increase in salaries, legal fees, accounting fees, and insurance. The Company expects a decrease in legal fees related to corporate reorganization transactions in the last six months of 2006, as compared to the first six months, but other administrative expenses should remain consistent.

Other expense increased $4,151, remaining stable from 2005 to 2006. Other expenses are expected to remain stable going forward.

The Company had net income of $787,887 in the first six months of 2006 compared to a net loss of $18,590 for the same period in 2005. The effective tax rate for the first six months of 2005 was 32%, while the rate for the first six months of 2006 was 37% consistent with management's expectations.

Liquidity and Capital Resources. Balance Sheet as of June 30, 2006 compared to December 31, 2005.

At June 30, 2006, the Company had $2,578,696 of cash and its current ratio was 4.6 to 1. The Company believes its current capital resources are sufficient to fund operations for the next twelve months.

Net cash provided by operating activities during the six months ended June 30, 2006 in the amount of $960,830 consists of the following:

Accounts receivable, net of allowance for doubtful accounts, decreased $614,791. While A/R decreased by $631,366, the allowance for doubtful accounts decreased by $13,575. The Company collected past due receivables by over $200,000 from December 31, 2005 to June 30, 2006 and is working towards comprehensive customer account reconciliations to reduce the amount of allowances against open past due balances. The Company anticipates the third quarter to have similar revenue to the second quarter and therefore expects accounts receivable to remain consistent.

Inventory increased $257,043, due to an increase in anticipated sales. Inventory is anticipated to remain stable throughout the last half of 2006.

Prepaid expenses and deposits increased $97,056 due primarily to a greater volume of purchases requiring wire pre-payment, as well as a large outlay for insurance premiums.

Accounts payable decreased $184,501 due to timing of payments.

Accrued liabilities increased $56,458 due to accruals for sales commission, payroll, and workman's compensation.

Reserve for returns decreased $50,622 due to an expected decrease in customer deductions for returns based on historical trends of actual returns. It is anticipated that the reserve for returns will remain stable going forward.

Deferred revenue decreased $544,852 due to the sale in first quarter to a customer that had prepaid in fourth quarter 2005. The prepayment in 2005 was recorded as deferred revenue.

Income taxes payable increased $130,365. The Company's remaining net operating loss carry forwards were fully offset with taxable income during the six months ended June 30, 2006. As a result, future taxable income, if any, will result in income taxes payable.

Cash from investing activities:

Investment in property and equipment was $527,437. This is comprised of various automation projects designed to reduce production labor costs and increase capacity. Equipment additions of approximately $100,000 are planned for the third quarter.



Cash flows from financing activities:

Long-term debt decreased $3,150 due to payments made on the vehicle note.

Stock options were exercised in the second quarter resulting in cash flow of $210,200.

A benefit of $104,109 for tax deductions in excess of recognized compensation costs was recorded during the six-months ended June 30, 2006, which will result in less taxes owed by the Company.

Trends. Revenues from sales of lip balm, the Company's major product line, were $6,926,352 in the first 6 months of 2006 compared to $4,829,343 for the same period in 2005, or a 43% increase. As stated above in results of operations, this increase in revenue was primarily a result of sales to new customers. Since these new sales do not have any historical information, it is uncertain whether there will be additional future revenue. The Company believes that the third quarter of the year will bring increased sales, as it has historically. However, the Company cannot be sure that any increased level of sales will occur. The Company expects that its product line has been trimmed where appropriate and new items added such that it is in a position for an increased sales trend. However, the Company has no assurances of these increases and there are many outside influences from a competitive standpoint that the Company has little control over.

Sales of sour drops and breath fresheners in the first 6 months of 2006 were $1,291,392 compared to $927,927 for the same period in 2005, or a 39% increase. The Company continues to maintain a solid base of customers. The increase from 2005 to 2006 is attributed to the addition of new breath freshening products. The Company anticipates growth in the third quarter 2006 and beyond.

Sales of sterile products, $238,169 in the first 6 months of 2006, represented 3% of the overall revenue. The Company anticipates that sales of this product will increase over time. The Company has made a capital investment of approximately $270,000 to purchase equipment and for plant and equipment modification during the first half of 2006.

The nutritional supplements provided revenues of $68,688. Revenues were down $106,838 in the first six months of 2006 compared to 2005, or a 61% decrease. The Company is in the process of discontinuing this product line.

Sales of hand sanitizers were $394,254 in the first 6 months compared to $174,295 in the first 6 months of 2005. The sales in first six months of 2005 were not material to the company's overall sales and therefore were not broken out as a separate group. The Company anticipates a continued steady increase in hand sanitizers in 2006.

Impact of fuel increases. The Company has seen a continued increase in its cost of plastic components and an increase in fuel surcharges by freight companies. If these trends continue, which the Company expects, the Company could see future erosion on margins.

Impact of Inflation. The Company's financial condition has been affected by the recent modest inflation. However, it is not certain to what extent. The Company has been receiving many raw material price increases. At this time the Company does not believe that revenues will 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 following table shows aggregated information about contractual obligations as of June 30, 2006:

| | Payments Due by Period | | | |
|---|---|---|---|---|
| | Total | Less Than 1 Year | 1-3 Years | 4-5 Years |
| Long-Term Debt | $9,975 | $6,300 | $3,675 | |
| Building Lease | $111,522 | $111,522 | | |
| Vehicle | $34,704 | $8,676 | $26,028 | |
| Total | $156,201 | $126,498 | $29,703 | |

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Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS 123R supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and amends SFAS No. 95, "Statement of Cash Flows". SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions and requires all share-based payments to employees, including grants of employee stock options, to be recognized as additional compensation expense in the financial statements based on the calculated fair value of the awards. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation costs to be reported as a financing cash flow. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. We adopted this statement effective for our fiscal year beginning January 1, 2006. We have described the impact of adopting SFAS 123R in Note 5 to the consolidated financial statements.

In October 2005, the FASB issued FASB Staff Position ("FSP") 123R-2, "Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R) ("FSP 123R-2")". FSP 123R-2 provides companies with a "practical accommodation" when determining the grant date of an award that is subject to the accounting provisions in SFAS 123R. Specifically, assuming a company meets all of the other criteria in the definition of grant date in SFAS 123R, a mutual understanding (between the company and the recipient) of the key terms and conditions of an award is presumed to exist at the date the award is approved (in accordance with the company's normal corporate governance policy) if (1) the award is a unilateral grant meaning that the recipient does not have the ability to negotiate the key terms and conditions of the award, and (2) the key terms and conditions of the award are expected to be communicated to the recipient within a relatively short period of time (as defined in the FSP 123R-2) after the grant was approved. This FSP was effective upon initial adoption of SFAS 123-R on January 1, 2006.

In November 2005, the FASB issued FSP 123R-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards" ("FSP 123R-3"). FSP 123R-3 provides a practical exception when a company transitions to the accounting requirements in SFAS 123R. SFAS 123R requires a company to calculate the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to adopting SFAS 123R ("APIC Pool"), assuming the company had been following the recognition provisions prescribed by SFAS 123. The FASB learned that several companies do not have the necessary historical information to calculate the APIC pool as envisioned by SFAS 123R and accordingly, the FASB decided to allow a practical exception as documented in FSP 123R-3. This FSP was effective on its issuance date.

## ITEM 3. CONTROLS AND PROCEDURES

Control deficiencies were identified by management in 2004 in consultation with EKS&H, the Company's previous independent auditors. EKS&H advised the Company of a material weakness relating to controls over the inventory process and reportable conditions relating to financial reporting and lack of oversight in the accounting process. The Company implemented new software at the end of 2004 along with training staff on the Company's new systems. However, the perpetual inventory contained costing and lot tracking errors with the data conversion from the previously used software, which was absent of immediate correction and caused problems with processing of raw material usage and manufactured items. As the Company worked through the associated auditing and processing issues quarterly physical inventories were performed. The physical inventories were internally audited for costing in detail to assure an accurate representation of inventory and the related cost of materials in 2005. The Company's investment in a widely used, mid-sized business accounting and inventory system along with retention and ongoing training of its accounting staff has successfully minimized processing and control deficiencies. The CEO and CFO have been and remain actively involved in the daily operations of the business and analyze financial data on a daily basis.

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 the last day of the period of the accompanying financial statements (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.

Our external auditors have not issued an attestation report on management's assessment of the Company's internal control over financial reporting, as it is not required for the Company at this time.



## PART II - OTHER INFORMATION

Item No. 1. Legal Proceedings.

The Company is not a party to any material pending legal proceedings, and to the best of its knowledge, no such proceedings by or against the Company have been threatened.

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 May 1, 2006, the Amended and Restated Employment Agreement between OraLabs, Inc. and Gary Schlatter dated May 1, 2003, was extended for one year (i.e., until April 30, 2007), at an annual salary of $522,610.00.

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(iv)(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 |
| 10.11(6) | Agreement as of May 1, 2006, extending Amended and Restated Employment Agreement between the Company's Subsidiary and Gary Schlatter |
| 10.12(7) | Stock Exchange Agreement between the Company and Partner Success Holdings Limited as of March 31, 2006 |
| 11 | No statement re: computation of per share earnings is required since such earnings computation can be clearly determined from the material contained in this Quarterly Report on Form 10-QSB. |
| 21(2) | List of Subsidiaries of the Company |



| | |
|---|---|
| 31.1(6) | Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 302 Of The Sarbanes-Oxley Act Of 2002 |
| 31.2(6) | Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 302 Of The Sarbanes-Oxley Act Of 2002 |
| 32.1(6) | Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002 |
| 32.2(6) | Certification 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, 2003.

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

6 Filed herewith.

7 Incorporated herein by reference to the Company's Form 8-K filed April 6, 2006.

(b) Reports on Form 8-K were filed by the Company on April 6, 2006, concerning Item 1.01 (Entry into a Material Definitive Agreement) and on July 25, 2006 concerning Item 1.01 with respect to a First Amendment to the Stock Exchange Agreement.

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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
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Gary H. Schlatter, President

By: /s/ Emile J. Jordan
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Emile J. Jordan, Chief Financial Officer

Dated: August 18, 2006

Exhibit Index

| Exhibit No. | Description |
|---|---|
| 10.11 | Agreement as of May 1, 2006, extending Amended and Restated Employment Agreement between the Company's Subsidiary and Gary Schlatter |
| 31.1 | 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 | 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 | 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 | 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 |