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CENUCO INC
Form 8-K/A
December 06, 2005

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

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 20, 2005

CENUCO, INC.

(Exact name of registrant as specified in its charter)

Delaware -----	033-25900 -----	75-2228820 -----
(State or Other Jurisdiction of Incorporation)	Commission File Number)	IRS Employer Identification No.)

2000 Lenox Drive, Suite 202, Lawrenceville, New Jersey 08648

(Address of Principal Executive Offices)

609-219-0930

(Registrant's Telephone Number, including Area Code)

(Former Name or Former Address, If Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 140.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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EXPLANATORY NOTE

This purpose of this "amended" filing is to provide the historical financial statements of the Business Acquired required by Section 9.01 of SEC Form 8-K (current report), dated May 20, 2005 and filed on May 26, 2005.

This report includes the financial statements of the Business Acquired as of and for the year ended February 28, 2005 and as of February 29, 2004 and for the period from April 25, 2003 to February 29, 2004.

We have not included the historical financial statements of the Business Acquired for the year ended February 28, 2003 and for the three months ended May 31, 2003 ("Stub Period"). Also not included is the Pro Forma Statement of Operations for the year ended February 28, 2005 for the Business Acquired, combined with the Statement of Operations for the year ended March 31, 2005 for Cenuco, Inc.

We intend to include these statements in an additional amended filing upon completion of the stub period audit for the period March 1, 2003-May 31, 2003.

The preparation and auditing of the financial statements for the year ended February 28, 2003 and for three months period ended May 31, 2003 has been complicated due primarily to this period being under predecessor ownership. It has proven even more time-consuming than had previously anticipated due in part to locating the accounting records in addition to the supporting: invoices, shipping and receiving documents, payroll records, inventory records, bank statements not only for the periods in question but three additional months to verify sales and subsequent customers payments necessary to prepare audited statements for this period. However, these have now been located, financial statements have been prepared, and the audit is in process.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements of Businesses Acquired

Attached, as F-1 through F-26, are the historical Financial Statements of the Business Acquired as required by Item 9.01(a) of Form 8-K/A filed on May 26, 2005.

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SIGNATURE

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 hereunto duly authorized.

Date: December 6, 2005

CENUCO, INC.

By: /s/ Joseph A. Falsetti

Joseph A. Falsetti
President and Chief
Executive Officer

ATTACHMENTS

F-1 through F-26. Audited Combined Financial Statements of Hermes Acquisition Company I LLC and Subsidiaries (HACI) and Hermes Real Estate I LLC (HREI) as of February 28, 2005 and February 29, 2004 and for the year ended February 28, 2005

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and for the period from April 25, 2003 to February 29, 2004.

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AUDITED COMBINED FINANCIAL STATEMENTS OF
HERMES ACQUISITION COMPANY I LLC AND SUBSIDIARIES (HACI) AND
HERMES REAL ESTATE I LLC (HREI) (D.B.A. LANDER)
AS OF FEBRUARY 28, 2005 AND FEBRUARY 29, 2004 AND
FOR THE YEAR ENDED FEBRUARY 28, 2005 AND
FOR THE PERIOD FROM APRIL 25, 2003 TO FEBRUARY 29, 2004.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hermes Acquisition Company I LLC
Lawrenceville, New Jersey

We have audited the accompanying combined balance sheet of Hermes Acquisition Company I LLC and subsidiaries and Hermes Real Estate I LLC (the "Company") as of February 28, 2005 and the related combined statements of operations, members' loss, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and

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perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Hermes Acquisition Company I LLC and subsidiaries and Hermes Real Estate I LLC at February 28, 2005, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Seidman, LLP

Woodbridge, New Jersey

August 12, 2005, except for Note 12(b) which is as of November 16, 2005

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hermes Acquisition Company I LLC:

We have audited the accompanying combined balance sheet of Hermes Acquisition Company I LLC and subsidiaries and Hermes Real Estate I LLC (collectively d.b.a. Lander, the Company) as of February 29, 2004, and the related combined statements of operations, members' loss, and cash flows for the period from April 25, 2003 (inception) to February 29, 2004. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Hermes Acquisition Company I LLC and subsidiaries and Hermes Real Estate I LLC (d.b.a. Lander) as of February 29, 2004, and the results of their operations and their cash flows for the period from April 25, 2003 (inception) to February 29, 2004 in

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conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Philadelphia, PA

January 21, 2005

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HERMES ACQUISITION COMPANY I LLC AND SUBSIDIARIES AND HERMES REAL ESTATE I LLC COMBINED BALANCE SHEETS

	February 28, 2005	February 29, 2004
	-----	-----
ASSETS		

Current Assets:		
Cash	\$ 31,763	\$ 1,827
Trade receivables, net of allowance for doubtful accounts of \$547,306 at February 28, 2005 and \$576,218 at February 29, 2004	8,002,867	8,661,961
Inventories	8,725,952	8,567,580
Prepaid expenses and other	564,617	428,231
	-----	-----
Total current assets	17,325,199	17,659,599
Property, plant and equipment, net ...	6,017,533	6,520,184
Other assets, net	692,817	281,476
	-----	-----
Total assets	\$ 24,035,549	\$ 24,461,259
	=====	=====
LIABILITIES AND MEMBERS' LOSS		

Current Liabilities:		
Accounts payable	\$ 10,541,956	\$ 7,759,236
Accrued expenses	2,845,485	2,032,833
Current portion of long-term debt	8,929,540	8,203,118
	-----	-----
Total current liabilities	22,316,981	17,995,187
Long-term debt, less current portion .	6,875,296	7,607,985
Long-term pension obligation	673,328	673,027
	-----	-----
Total liabilities	29,865,605	26,276,199
Members' loss:		
Accumulated members' loss	(5,705,597)	(1,716,835)
Accumulated other comprehensive loss .	(124,459)	(98,105)
	-----	-----
Total members' loss	(5,830,056)	(1,814,940)
	-----	-----
Total liabilities and members' loss ..	\$ 24,035,549	\$ 24,461,259
	=====	=====

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See accompanying notes to combined financial statements

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HERMES ACQUISITION COMPANY I LLC AND SUBSIDIARIES AND HERMES REAL ESTATE I LLC COMBINED STATEMENTS OF OPERATIONS

	FOR THE YEAR ENDED FEBRUARY 28, 2005	FOR THE PERIOD FROM APRIL 25, 2003 (INCEPTION) TO FEBRUARY 29, 2004
	-----	-----
Net sales	\$ 69,860,802	\$ 55,046,015
Costs of sales	62,369,597	48,243,281
	-----	-----
Gross profit	7,491,205	6,802,734
Operating expenses:		
Selling and marketing	3,867,105	3,084,479
General and administrative	6,380,096	4,913,210
	-----	-----
Total operating expenses	10,247,201	7,997,689
Loss from operations	(2,755,996)	(1,194,955)
Other income, net	206,097	211,335
Interest expense	(1,438,863)	(735,215)
	-----	-----
Total other income (expense) ...	(1,232,766)	(523,880)
	-----	-----
Loss before income taxes	(3,988,762)	(1,718,835)
Income tax	-	-
	-----	-----
Net loss	\$ (3,988,762)	\$ (1,718,835)
	=====	=====

See accompanying notes to combined financial statements.

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HERMES ACQUISITION COMPANY I LLC AND SUBSIDIARIES AND HERMES REAL ESTATE I LLC COMBINED STATEMENT OF MEMBERS' LOSS

	Accumulated Members' Loss	Accumulated Other Comprehensive Loss	Total Members' Loss
	-----	-----	-----
BALANCE AT APRIL 25, 2003 (INCEPTION) \$	-	\$ -	\$ -
Comprehensive loss:			
Net loss	(1,718,835)	-	(1,718,835)

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Foreign currency translation adjustment	-	(98,105)	(98,105)
Comprehensive loss			(1,816,940)
Equity contribution	2,000	-	2,000
BALANCE AT FEBRUARY 29, 2004	(1,716,835)	(98,105)	(1,814,940)
Comprehensive loss:			
Net loss	(3,988,762)	-	(3,988,762)
Foreign currency translation adjustment	-	(26,354)	(26,354)
Comprehensive loss			(4,015,116)
BALANCE AT FEBRUARY 28, 2005	\$ (5,707,597)	\$ (124,459)	\$ (5,830,056)

See accompanying notes to combined financial statements

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HERMES ACQUISITION COMPANY I LLC AND SUBSIDIARIES AND HERMES REAL ESTATE I LLC COMBINED STATEMENTS OF CASH FLOWS

	FOR THE YEAR ENDED FEBRUARY 28, 2005	FOR THE PERIOD FROM APRIL 25, 2003 (INCEPTION) TO FEBRUARY 29, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (3,988,762)	\$ (1,718,835)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Depreciation and amortization	983,807	652,942
Provision for bad debts	252,470	438,000
Amortization of deferred financing costs	166,246	93,825
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables	231,980	(2,967,982)
Inventories	(158,372)	1,503,944
Prepaid expenses and other	409,097	(403,194)
Other assets	(431,837)	-
Accounts payable	2,782,720	3,069,223
Accrued expenses	812,652	(1,065,972)
Long-term pension obligations	300	(53,698)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,060,301	(451,747)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deferred acquisition costs	(422,837)	-
Acquisitions, net of cash acquired	-	(11,091,456)
Purchase of property, plant & equipment	(481,157)	(4,103,373)

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NET CASH USED IN INVESTING ACTIVITIES	(903,994)	(15,194,829)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under revolving line of credit ...	729,158	7,469,777
Proceeds from machinery and equipment term loans	-	1,467,000
Proceeds from real estate term loan	-	2,450,000
Proceeds from subordinated notes	-	4,500,000
Principal payments on long-term debt	(676,853)	(240,374)
Equity contribution	-	2,000
Deferred financing costs	(93,750)	-
Principal payments on capital leases	(58,572)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(100,017)	15,648,403
EFFECT OF EXCHANGE RATES ON CASH	(26,354)	-
NET INCREASE IN CASH	29,936	1,827
Cash at beginning of period	1,827	-
CASH AT END OF PERIOD	\$ 31,763	\$ 1,827
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 984,973	\$ 661,927
Assets acquired under capital leases	-	144,860

See accompanying notes to combined financial statements

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HERMES ACQUISITION COMPANY I LLC AND SUBSIDIARIES AND HERMES REAL ESTATE I LLC (D.B.A. LANDER)

NOTES TO COMBINED FINANCIAL STATEMENTS

FEBRUARY 28, 2005 AND FEBRUARY 29, 2004

NOTE 1 - DESCRIPTION OF BUSINESS AND SUBSEQUENT REORGANIZATION

Hermes Acquisition Company I LLC and Subsidiaries and Hermes Real Estate I LLC (the Company) consists of Hermes Acquisition Company I LLC (HACI), a limited liability company organized on April 25, 2003 in the State of Delaware, and its wholly owned subsidiaries Lander Co., Inc. (Lander US) and Lander Co. Canada Limited (Lander Canada); and Hermes Real Estate I LLC (HREI), a limited liability corporation organized on May 22, 2003 in the State of New York to purchase the Lander US production plant located in Binghamton, New York. The operations and cash flows of HACI prior to the acquisition of Lander US and Lander Canada, and the operations and cash flows of HREI prior to the acquisition of the Lander US production plant were not material. On March 1, 2005, HREI became a wholly owned subsidiary of HACI. Prior thereto, HACI and HREI had the same ownership.

The Company's principal business activity is the manufacture and distribution of health, beauty and oral-care products, primarily throughout the United States and Canada.

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HACI was formed to acquire the business activities of Lander US and Lander Canada. Effective May 31, 2003, HACI purchased certain assets and assumed certain liabilities associated with the Lander US business operations and acquired 100% of the outstanding stock of Lander Canada for an aggregate purchase price of \$11,091,456, including acquisition costs of \$1,160,456. In addition, HREI purchased the Lander US production plant located in Binghamton, New York for a purchase price of \$3,304,864, including acquisition costs of \$254,864, on October 15, 2003 (collectively the "Acquisitions"). Property, plant and equipment was recorded at fair value reduced by the excess of fair value of net assets acquired over the purchase price of \$1,095,813. In accounting for these acquisitions, the Company followed the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations". This Statement requires the purchase method of accounting be used for all business combinations and provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the effective date of the acquisition by HACI:

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Current assets	\$16,662,185
Property, plant, and equipment	4,020,599

Total assets acquired	20,682,784

Current liabilities	7,755,374
Long-term debt	13,416
Long-term pension obligations	726,725

Total liabilities assumed	8,495,515

Estimated fair value of net assets acquired	12,187,269
Excess of fair value of net assets acquired over purchase price ..	1,095,813

Purchase price of net assets	\$11,091,456
	=====

The Company is subject to various risks, including, but not limited to, (i) the ability to obtain adequate financing to fund operations, (ii) a limited operating history, (iii) reliance on certain markets, and (iv) reliance on key personnel.

On May 20, 2005, Hermes Holding Company, Inc., a newly formed wholly owned subsidiary of Cenuco, Inc., ("Cenuco", a public company traded on the American Stock Exchange under the symbol, "ICU") merged (the "Merger") with HACI. The Merger was completed through the issuance of 2,553.7 shares of Cenuco's Series A Junior Participating Preferred Stock (representing 65% of the outstanding voting power of Cenuco capital stock) in exchange for all the outstanding membership units of HACI. As a consequence of the Merger, HACI, together with its wholly owned subsidiaries Lander Co., Inc., a Delaware corporation ("Lander US"), Hermes Real Estate I LLC, a New York limited liability company ("HREI"), and Lander Co. Canada Limited, an Ontario corporation ("Lander Canada" and together with Lander US and HREI, "Lander") became wholly owned subsidiaries of Cenuco.

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Following the Merger, Cenuco's business consists of the Health and Beauty Care ("HBC") Division and the Wireless Application Development ("WAD") Division. The HBC Division is doing business as Lander. Lander's principal business activity is the manufacture and distribution of health, beauty and oral-care products, primarily throughout the United States and Canada. The WAD Division is doing business as Cenuco, Inc. and has primary focus on wireless application development. WAD is engaged in the wireless application technology business, primarily related to the transmission of secure and non-secured video onto cellular platforms via proprietary technologies. This is also known as remote video monitoring via cellular device. In this wireless segment, WAD provides cellular carriers, Internet Service Providers, resellers, and distributors a host of wireless video streaming products that can generate an increase in subscriber adoption of wireless data services, as well as broadband internet services.

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For financial reporting purposes, the Merger was treated as a recapitalization of HACI followed by the reverse acquisition of Cenuco by HACI for a purchase price equivalent to the total market value of Cenuco stock outstanding prior to the Merger (approximately \$45.3 million). Consistent with the accounting and presentation for reverse acquisitions, the historical financial statements of Cenuco prior to the date of the Merger reflect the financial position and results of operations of HACI and HREI, with the results of operations of Cenuco being included commencing on May 20, 2005. Effective with the completion of the Merger, Cenuco changed its fiscal year end to be the last day of February, consistent with HACI's fiscal year.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ESTIMATES: The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates the estimates and may adjust them based upon the latest information available. These estimates generally include those related to product returns, bad debts, inventory reserves for excess and discontinued products, income taxes, estimated useful lives and realization of property, plant and equipment, and contingencies. The Company bases the estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities. Actual results could differ from these estimates.

BASIS OF COMBINATION: The accompanying combined financial statements include the accounts of HACI and its wholly owned subsidiaries and of HREI. All intercompany accounts have been eliminated in combination.

ACCOUNTS RECEIVABLE: Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which would increase our operating costs.

INVENTORIES: Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method. Inventories consist of raw materials used to manufacture the Company's health, beauty and oral care products, as well as, finished goods that consist of the Company's product lines sold to its customers. The Company writes down inventory for estimated excess and discontinued products equal to the difference between cost and estimated

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market value based upon assumptions about future demand and market conditions. Excess and discontinued product inventory could arise due to numerous factors, including but not limited to, the competitive nature of the market and product demand by consumers. If market conditions are less favorable than those anticipated by management, additional write-downs may be required, including provisions to reduce inventory to net realizable value.

PROPERTY, PLANT AND EQUIPMENT: Property, plant and equipment are stated at cost less accumulated depreciation and amortization. The costs of major additions and improvements are capitalized and maintenance and repairs that do not improve or extend the life of the respective assets are charged to operations as incurred.

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Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to twenty-five years. Leasehold improvements are amortized over the shorter of the term of the lease or their estimated useful lives. If the Company determines that a change is required in the useful life of an asset, future depreciation/amortization is adjusted accordingly. Property, plant and equipment related to the acquisitions are recorded at their estimated fair value, reduced by the excess of the fair value of net assets acquired over the purchase price (see Note 1).

IMPAIRMENT OF LONG-LIVED ASSETS: Accounting for the impairment of long-lived assets, including property, plant and equipment, requires that long-lived assets and certain identifiable intangibles to be held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Under such circumstances, the accounting principles require that such assets be reported at the lower of their carrying amount or fair value less costs to sell. Accordingly, when events or circumstances indicate that long-lived assets may be impaired, the Company estimates the assets' future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the asset.

OTHER ASSETS, NET: Other assets, net at February 28, 2005 consist of deferred acquisition costs of \$422,837 that primarily relate to costs associated with the reverse acquisition of Cenuco (see Note 1) and deferred financing costs that are being amortized using the straight-line method over the expected term of the revolving line of credit (see Note 5). Net deferred financing costs included in other assets totaled \$208,980 at February 28, 2005 and \$281,476 at February 29, 2004. Amortization expense related to deferred financing costs was \$166,246 for the year ended February 28, 2005 and \$93,825 for the period from April 25, 2003 (inception) to February 29, 2004.

FAIR VALUE OF FINANCIAL INSTRUMENTS: The carrying amounts reported in the accompanying balance sheet for accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term nature of these accounts. The carrying amount for debt (see Note 5) approximates fair value because the debt is subject to short-term variable interest rates that were reflective of market rates of interest.

REVENUE RECOGNITION: Revenue from product sales is recognized when the related goods are shipped, all significant obligations of the Company have been satisfied, persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable and collection is reasonably assured. The Company records reductions to revenue for estimated returns based on historical experience. If future returns are less than historical experience, reduction in estimated reserves would increase revenue. Alternatively, should returns exceed

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historical experience, additional allowances would be required, which would reduce revenue.

Amounts billed to customers related to shipping and handling are classified as revenues. The cost of shipping products to the customer is recognized at the time the products are shipped and is included in cost of sales.

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FOREIGN CURRENCY TRANSLATION: In accordance with SFAS No. 52, "Foreign Currency Translation", the financial statements are measured using local currency as the functional currency. Assets and liabilities of Lander Canada have been translated at U.S. dollars at the fiscal year-end exchange rates. Revenues and expenses have been translated at average exchange rates for the related period. Net translation gains and losses are included in accumulated other comprehensive loss, which is a separate component of members' loss, until there is a sale or liquidation of the underlying foreign investment. Foreign currency gains and losses resulting from transactions are included in the combined statement of operations.

CONCENTRATION OF CREDIT RISK: The Company provides credit to its customers in the normal course of business and does not require collateral. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions.

Five trade customers comprised 46% of the Company's net sales for the year ended February 28, 2005, with one customer comprising 25% and a second comprising 13%. At February 28, 2005 the same five trade customers comprised 51% of trade receivables, with one customer comprising 32% and the other four at less than 10% each.

Five trade customers comprised 58% of the Company's net sales, with two customers comprising more than 10%, for the period from April 25, 2003 (inception) to February 29, 2004. These same five trade customers represented 49% of receivables, with three of the customers comprising more than 10% each, at February 29, 2004.

OTHER INCOME: Other income consists primarily of Lander Canada's foreign exchange gains related to debt denominated in U.S. dollars.

INCOME TAXES: As a limited liability corporation, the Company has elected to be treated as a corporation for income tax purposes. Income taxes are accounted for under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. A valuation allowance at February 28, 2005 and February 29, 2004 has been recorded by management to offset related net deferred tax assets, due to the uncertainty that future income will be realized.

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RECENT ACCOUNTING PRONOUNCEMENTS:

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs - an amendment of Accounting Research Bulletin No. 43" ("SFAS 151"), which is the result of the FASB's efforts to converge U.S. accounting standards for inventories with International Accounting Standards. SFAS 151 requires idle facility expenses, freight, handling costs and wasted material (spoilage) costs to be recognized as current period charges. SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities, with unfavorable fixed production overhead cost variances to be charged to operations currently and favorable fixed production overhead cost variances to be included in the cost of conversion. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, but earlier adoption is permitted. The Company has elected to adopt the provisions of SFAS 151 effective March 1, 2005. Based on the Company's internal projections and assessments, the Company currently believes there will be no material impact on its results of operations from the adoption of SFAS 151. However, if actual results are materially less than the Company's projections and expectations and as a result of production levels are less than the range of normal capacity, certain provisions of SFAS 151 may have a material impact on the Company's results of operations. Such impact will only be determinable based on the actual facts and circumstances.

NOTE 3 - INVENTORIES

Inventories consisted of the following:

	February 28, 2005	February 29, 2004
	-----	-----
Raw materials	\$ 2,900,803	\$ 2,562,611
Finished goods	5,825,149	6,004,969
	-----	-----
	\$ 8,725,952	\$ 8,567,580
	=====	=====

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NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	February 28, 2005	February 29, 2004
	-----	-----
Land	\$ 660,000	\$ 660,000
Computer equipment and software ..	890,020	853,447
Furniture and fixtures	252,717	214,167
Building	2,644,864	2,644,864
Machinery and equipment	2,961,469	2,518,469
Dies and molds	75,731	76,650
Leasehold improvements	118,571	113,434
Construction in progress	77,959	127,542
	-----	-----
	7,681,331	7,208,573
Less accumulated depreciation and amortization	(1,663,798)	(688,389)
	-----	-----

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\$ 6,017,533	\$ 6,520,184
=====	=====

Depreciation and amortization expense related to property, plant and equipment totaled \$983,807 for the year ended February 28, 2005 and \$652,942 for the period from April 25, 2003 (inception) to February 29, 2004.

As of February 28, 2005 and February 29, 2004, machinery and equipment includes assets under capital leases totaling \$153,559 and \$206,564, respectively, net of accumulated amortization of \$24,314 and \$8,958, respectively. Amortization expense related to capital leases is included in depreciation and amortization expense.

Independent appraisals were obtained to determine the estimated fair value of substantially all property, plant, and equipment acquired as of May 31, 2003. The fair values were reduced by the excess of fair value of net assets acquired over the purchase price of \$1,095,813.

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NOTE 5 - LONG-TERM DEBT

Long-term debt consisted of the following:

	February 28, 2005	February 29, 2004
	-----	-----
Revolving line of credit loans ...	\$ 8,198,935	\$ 7,469,777
Machinery and equipment term loans	1,039,125	1,283,625
Real estate term loan	1,981,618	2,413,971
Subordinated note	4,500,000	4,500,000
Capital leases	85,158	143,730
	-----	-----
	15,804,836	15,811,103
Less current portion	(8,929,540)	(8,203,118)
	-----	-----
	\$ 6,875,296	\$ 7,607,985
	=====	=====

In connection with the Acquisitions, the Company obtained long-term financing commitments (the "Financing Arrangement") from a financial institution comprised of the following (collectively, the "Loans"):

- o Revolving line of credit facility of \$11,000,000 with a three-year term expiring in June 2006. Annual renewals of the facility are available in one-year increments after the initial term. Available borrowings are determined by a borrowing base calculation using eligible trade receivables and inventories of Lander US and Lander Canada, which are the collateral for this facility. As of February 28, 2005, unused availability under the borrowing base calculation amounted to \$567,995. Interest on the outstanding balance is payable monthly. For purposes of classifying the outstanding debt in the balance sheets, the Company has reflected borrowings under the revolving line of credit facility as a current liability, since it is subject to collection lock-box arrangements and contains a subjective acceleration clause.
- o Machinery and equipment term loans with initial principal amounts aggregating \$1,467,000 have six-year amortization terms expiring in June 2009. Such loans are subject to termination upon the expiration of the

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revolving line of credit and are collateralized by the machinery and equipment of Lander US and Lander Canada. Principal payments aggregating \$20,375 plus interest are payable monthly.

- o Real estate term loan with initial principal amount of \$2,450,000 has a six-year amortization term expiring in December 2009. Such loan is subject to termination upon the expiration of the revolving line of credit and is collateralized by the Lander US production plant located in Binghamton, New York. Principal payments aggregating \$36,029 plus interest are payable monthly.

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The interest rates on the Loans bear an annual interest rate of a national bank's prime rate (5.25% at February 28, 2005) plus 1.25%. The Company has the option of converting all or a portion of the Loans outstanding to an annual interest rate of the one-, two- or three-month London Inter-Bank Offered Rate ("LIBOR") plus 3.75%. As of February 28, 2005, the one-, two- and three-month LIBOR rates were 2.72%, 2.80%, and 2.92%, respectively. Accordingly, the interest rate on the Loans was 6.50% at February 28, 2005. As of February 29, 2004, the national bank prime rate was 4% and the one-, two-, and three-month LIBOR rates were 1.09%, 1.11%, and 1.12%, respectively. The interest rate on the Loans was 5.25% at February 29, 2004. To date, the Company has not exercised the option of converting the prime rate to LIBOR.

The Loans contain financial and non-financial covenants including a limitation on capital expenditures during any fiscal year and maintaining, on a monthly basis, a fixed charge coverage ratio. The fixed charge coverage ratio is calculated by dividing earnings before interest, depreciation and amortization less any unfunded capital expenditures and improvements by fixed charges. Fixed charges include interest expense, capital lease obligations, principal payments on indebtedness and payments for income tax obligations.

The Company was not in compliance with the fixed charge coverage ratio and the limitation on capital expenditures during various periods in fiscal 2004 and fiscal 2005 and subsequent periods. In June and December 2004, the Financing Arrangement was amended and the events of noncompliance were waived by the financial institution. As part of the second amendment to the Financing Arrangement, the fixed charge coverage ratio was revised and the fiscal-year capital expenditure limitation was increased to \$1,250,000. Subsequently, the Company failed to comply with the revised fixed charge coverage ratio and certain non-financial covenants for the months January through May 2005. In July 2005, the Financing Arrangement was amended and these events of noncompliance were waived by the financial institution. As part of this third amendment to the Financing Arrangement, the fixed charge coverage ratio was revised to 1.0 to 1.0 commencing with the month ended June 30, 2005 and continuing on an accumulated basis until June 30, 2006 when such calculation shall be made on a rolling twelve-month basis. Additionally, under this third amendment, the fixed charge coverage ratio covenant requirement is only triggered when availability under the revolving line of credit is less than \$2,000,000.

As part of the Company's acquisition of the Lander US business, the Company also has long-term financing from the seller in the form of a \$4,500,000 subordinated note ("Seller Note") with a three-year term expiring in June 2006. The Seller Note is subordinate to the Financing Arrangement. Interest is payable quarterly at an annual interest rate of 10%. Annual principal payments of \$1,166,667 are required under the terms of this Seller Note; however, a provision permits the Company to defer principal payments if certain financial targets, pursuant to the Financing Arrangement, are not achieved by the Company as of fiscal year-end. As a result of the Company not achieving these financial targets in fiscal 2004 and 2005, principal payments due in June 2004 and June 2005 have

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been deferred until June 2006. Additionally, there is a provision in the Seller Note that permits the Company to defer interest payments to the seller in the event of noncompliance with certain financial covenants contained in the Financing Arrangement. Accordingly, the Company has not paid any interest accrued on the Seller Note subsequent to July 1, 2004. Accrued interest on the Seller Note totaled \$297,964 as of February 28, 2005.

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On March 16, 2005, HACI and the seller of Lander US and Lander Canada entered into Settlement and Release Agreement whereby the Company has the option to pay \$2,000,000, plus interest at 10%, to satisfy the \$4,500,000 principal amount of the Seller Note. In addition, the Company would be required to pay interest accrued on the \$4,500,000 Seller Note from July 1, 2004 through March 16, 2005 and interest on the \$2,000,000 from March 17, 2005 through the date of payment. Such option is available to the Company up to November 30, 2005 (see Notes 12(a) and 12 (b)). In exchange for this option, the Company has agreed to release the seller from certain claims against and indemnifications of the seller under the agreement for the purchase of Lander US and Lander Canada.

The aggregate maturities of long-term debt for each fiscal year ending February 28 are as follows:

2006	\$ 8,929,540
2007	6,875,296

	\$15,804,836
	=====

NOTE 6 - PENSION AND 401(K) PLANS

Pension Plans:

The Company has two non-contributory defined benefit pension plans (the "Plans") that cover substantially all employees in the United States ("US") and Canada. It is the Company's policy to fund, at a minimum, pension contributions as required by the Employee Retirement Income Security Act of 1974 ("ERISA") each year. On May 1, 2004 the US Plan was frozen and no longer available to new employees for participation.

At February 28, 2005, the US Plan assets consisted of fixed return contracts. The Canadian Plan assets consisted primarily of stocks, bonds and US Treasury Bills. The pension liabilities and their related costs are computed in accordance with the laws of the US and Canada and the appropriate actuarial practices.

Net periodic pension costs of the defined benefit pension plans covering the year ended February 28, 2005 were as follows:

	US --	Canada -----	Total -----
Service costs on benefits earned during the year	\$ 80,544	\$ 183,379	\$ 263,923
Interest cost on projected benefit obligation	99,262	156,446	255,708
Expected return on plan assets	(99,100)	(147,411)	(246,511)
	-----	-----	-----
Net periodic pension cost	\$ 80,706	\$ 192,414	\$ 273,120
	=====	=====	=====

The present value of benefit obligations and funded status of the Plans as

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computed by the actuaries as of February 28, 2005 were as follows:

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	US --	Canada -----	Total -----
Projected benefit obligation	\$ (1,847,272)	\$ (2,605,331)	\$ (4,452,603)
Plan assets at fair value	1,589,586	2,105,121	3,694,707
	-----	-----	-----
Funded status	(257,686)	(500,210)	(757,896)
Unrecognized net gain	-	(171,638)	(171,638)
	-----	-----	-----
Net pension liability	\$ (257,686)	\$ (671,848)	\$ (929,534)
	=====	=====	=====

As of February 28, 2005, the accumulated benefit obligation was \$1,847,272 for the US Plan and \$2,305,779 for the Canadian Plan.

Amounts recognized in the combined balance sheet as of February 28, 2005 consist of:

	US --	Canada -----	Total -----
Current portion of accrued benefit liability, included in accrued expenses	\$ (120,000)	\$ (136,206)	\$ (256,206)
Long term portion of accrued benefit liability, included in other long term liabilities	(137,686)	(535,642)	(673,328)
	-----	-----	-----
Net amount recognized	\$ (257,686)	\$ (671,848)	\$ (929,534)
	=====	=====	=====

Weighted-average assumptions used in developing the projected benefit obligation and net cost as of and for the year ended February 28, 2005 were as follows:

	US --	Canada -----
Discount rate	5.75%	5.25%
Rate of increase in compensation	0%	3.00%
Rate of return on plan assets	6.50%	7.00%

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Plans' Assets

The weighted-average asset allocation of the US and Canadian pension benefits were as follows:

	March 31, 2005 -----		March 31, 2004 -----	
	US --	Canada -----	US --	Canada -----
Equity Securities	0%	60%	0%	65%
Debt securities	100%	25%	100%	25%
Cash	0%	15%	0%	10%
	-----	-----	-----	-----
Total	100%	100%	100%	100%
	=====	=====	=====	=====

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The Company's investment policies and strategies for the pension plans utilize target allocations for the individual asset categories. The Company's investment goals are to maximize returns subject to specific risk management policies.

Cash Flows

For the US Plan the benefits expected to be paid in each year ending February 28 2006-2010 are \$33,695, \$39,240, \$44,444, \$60,504, and \$75,368, respectively. The aggregate benefits expected to be paid in the five years from 2011-2015 are \$509,778.

For the Canadian Plan the benefits expected to be paid in each year ending February 28, 2006-2010 are \$375,740, \$112,224, \$69,400, \$156,343 and \$209,866, respectively. The aggregate benefits to be paid in the five years from 2011-2015 are \$1,756,822.

The expected benefits are based on the same assumptions used to measure the Company's benefit obligation at February 28 and include estimated future employee service.

Following is a rollforward of the projected benefit obligation and the plan assets for fiscal 2005:

	US --	Canada -----	Total -----
Benefit obligation at			
February 29, 2004	\$ 1,822,198	\$ 2,389,595	\$ 4,211,793
Service cost	80,544	183,379	263,923
Interest cost	99,262	156,446	255,708
Actuarial (gain) /loss	(41,221)	148,534	107,313
Benefits paid	(113,511)	(272,623)	(386,134)
	-----	-----	-----
Benefit obligation at			
February 28, 2005	\$ 1,847,272	\$ 2,605,331	\$ 4,452,603
	=====	=====	=====
Fair value of plan assets at			
February 29, 2004	\$ 1,506,631	\$ 1,930,805	\$ 3,437,436
Actual return on plan assets	65,379	172,816	238,195
Employer contributions	131,087	205,732	336,819
Plan participant contributions	-	68,391	68,391
Benefits paid	(113,511)	(272,623)	(386,134)
	-----	-----	-----
Fair value of plan assets at			
February 28, 2005	\$ 1,589,586	\$ 2,105,121	\$ 3,694,707
	=====	=====	=====

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Net periodic pension costs of the defined benefit pension plans covering the period April 25, 2003 (inception) to February 29, 2004 were as follows:

	US --	Canada -----	Total -----
Service costs on benefits earned during			
the period	\$ 68,401	\$ 119,071	\$ 187,472
Interest cost on projected benefit			
obligation	73,719	99,885	173,604
Expected return on plan assets	(70,047)	(84,483)	(152,282)

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Net periodic pension cost	\$ 72,073	\$ 134,473	\$ 206,546
	=====	=====	=====

During the period April 25, 2003 to February 29, 2004, the Company contributed \$94,976 to the US Plan and \$162,080 to the Canadian Plan. For the same period, benefit payments made amounted to \$34,908 for the US Plan and \$33,829 for the Canadian Plan. The present value of benefit obligations and funded status of the Plans as computed by the actuaries as of February 29, 2004 were as follows:

	US --	Canada -----	Total -----
Projected benefit obligation	\$ (1,822,198)	\$ (2,389,595)	\$ (4,211,793)
Plan assets at fair value	1,506,631	1,930,805	3,437,436
	-----	-----	-----
Funded status	(315,567)	(458,790)	(774,357)
Unrecognized net gain	-	(158,146)	(158,146)
	-----	-----	-----
Net liability	\$ (315,567)	\$ (616,936)	\$ (932,503)
	=====	=====	=====

As of February 29, 2004, the accumulated benefit obligation was \$1,822,198 for the US Plan and \$2,389,595 for the Canadian Plan. Amounts recognized in the combined balance sheet as of February 29, 2004 consist of:

	US --	Canada -----	Total -----
Current portion of accrued benefit liability, included in accrued expenses	\$ (128,524)	\$ (172,014)	\$ (300,538)
Long term portion of accrued benefit liability, included in other long term liabilities	\$ (187,043)	\$ (485,984)	\$ (673,027)
	-----	-----	-----
Net amount recognized	\$ (315,567)	\$ (657,998)	\$ (973,565)
	=====	=====	=====

Weighted-average assumptions used in developing the projected benefit obligation and net cost for the period from April 25, 2003 (inception) to February 29, 2004 were as follows:

	US --	Canada -----
Discount rate	5.75%	5.75%
Rate of increase in compensation	0%	3.00%
Rate of return on plan assets	6.50%	7.00%

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The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Following is a rollforward of the projected benefit obligation and the plan assets for the period from June 1, 2003 through February 29, 2004:

	US --	Canada -----	Total -----
Benefit obligation at June 1, 2003 ...	\$ 1,719,806	\$ 2,117,688	\$ 3,837,494
Service cost	68,401	119,071	187,472
Interest cost	73,719	99,885	173,604
Actuarial gain and other	-	86,780	86,780

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Benefits paid	(39,728)	(33,829)	(73,557)
	-----	-----	-----
Benefit obligation at			
February 29, 2004	\$ 1,822,198	\$ 2,389,595	\$ 4,211,793
	=====	=====	=====
Fair value of plan assets at			
June 1, 2003	\$ 1,384,787	\$ 1,486,821	\$ 2,871,608
Actual return on plan assets	66,596	243,957	310,553
Other	-	26,625	26,625
Employer contributions	94,976	162,080	257,056
Plan participant contributions	-	45,151	45,151
Benefits paid	(39,728)	(33,829)	(73,557)
	-----	-----	-----
Fair value of plan assets at			
February 29, 2004	\$ 1,506,631	\$ 1,930,805	\$ 3,437,436
	=====	=====	=====

401(k) Plan:

The Company also has a defined contribution plan under Section 401(k) of the Internal Revenue Code for all United States employees. Employees can elect to contribute up to certain maximum percentages of their weekly gross pay. The Company matches are discretionary. The Company had no discretionary matches for the period from April 25, 2003 (inception) to February 28, 2005.

NOTE 7 - INCOME TAXES

As a result of the net operating loss incurred for the year ended February 28, 2005 and the period from April 25, 2003 (inception) to February 29, 2004, there is no income tax provision in the accompanying financial statements. Due to the uncertainty that future taxable income will be generated during the periods in which the Company's deferred tax assets become deductible, management has applied a full valuation allowance to the net deferred tax assets at February 28, 2005 and February 29, 2004.

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Pre-tax loss for the year ended February 28, 2005 and for the period from April 25, 2003 (inception) to February 29, 2004 was as follows:

	2005	2004
	----	----
United States	\$3,963,260	\$ 1,815,455
Foreign	\$ 25,502	\$ (96,620)
	-----	-----
	\$3,988,762	\$ 1,718,835
	=====	=====

The significant components of the Company's net deferred tax assets at February 28, 2005 and February 29, 2004 are as follows:

Deferred tax assets (liabilities):

	February 28,	February 29,
	2005	2004
	----	----
Accounts receivable	\$ 170,000	\$ 190,475
Inventory	183,000	73,845
Fixed asset depreciation and amortization	(212,000)	105,588
Accrued expenses and other	348,000	218,829
Net operating loss carry forward	2,164,000	642,127

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Total deferred tax assets	2,653,000	1,230,864
Valuation allowance	(2,653,000)	(1,230,864)
Net deferred tax assets	\$ -	\$ -
	=====	=====

Lander US has a net operating loss carry forward of approximately \$5,524,000 (\$4,928,000 for U.S. income tax purposes) which will begin to expire in 2024. The Lander Canada net operating loss carry forward of approximately U.S. \$700,000 will begin to expire in 2011.

A reconciliation summary of the differences between the statutory federal rate and the Company's effective tax rate for the year ended February 28, 2005 and the period from April 25, 2003 (inception) to February 29, 2004 is as follows:

U.S. federal statutory tax rate	(34)%
State income taxes, less federal benefit	(5)
Earnings of foreign subsidiary taxed at different rates ...	39

Change in valuation allowance	0 %
	=====

NOTE 8 - MEMBERS' LOSS

HACI and HREI each have the same six equity participants with the same two members each owning a 40% interest and four members each owning a 5% interest. The Company was formed under the laws of the State of Delaware as a limited liability corporation and has one class of member with voting rights commensurate with ownership interests.

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NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Company has various noncancelable operating leases for manufacturing and office facilities. Rent expense totaled \$680,640 and \$620,328 in fiscal 2005 and the period from April 25, 2003 (inception) to February 29, 2004, respectively, of which \$407,069 and \$410,580, respectively, is included in cost of goods sold. Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments were as follows at February 28, 2005:

	Capital leases	Operating leases
	-----	-----
2006	\$ 59,944	\$ 762,790
2007	31,820	342,136
2008	-	282,940
2009	-	207,105
2010	-	204,428
Thereafter	-	102,000
	-----	-----
Total minimum lease payments	91,764	\$1,901,399
		=====
Less amount representing interest (at rates ranging from 5.25% to 8.31%)	(6,606)	

Present value of net minimum capital lease payments	\$ 85,158	
	=====	

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The Company is subject to certain claims and litigation in the normal course of business. Management believes, after consulting with legal counsel, that the ultimate liability resulting from these matters will not materially affect the combined results of operations or financial position of the Company.

NOTE 10 - GEOGRAPHIC INFORMATION

As of and for the period ended February 28, 2005:

	REVENUES	LONG-LIVED ASSETS
	-----	-----
United States	\$45,954,190	\$ 6,150,610
Canada	15,310,361	559,740
Other foreign countries	8,596,251	-
	-----	-----
Total	\$69,860,802	\$ 6,710,350
	=====	=====

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As of February 29, 2004 and for the period from April 25, 2003 (inception) to February 29, 2004:

	REVENUES	LONG-LIVED ASSETS
	-----	-----
United States	\$35,082,786	\$ 6,243,008
Canada	13,358,400	558,652
Other foreign countries	6,604,829	-
	-----	-----
Total	\$55,046,015	\$ 6,801,660
	=====	=====

NOTE 11 - RELATED PARTY TRANSACTIONS

The Hermes Group LLP ("THGLLP"), a certified public accounting firm, provided various professional services and facilities usage to the Company during the year ended February 28, 2005 and for the period from April 25, 2003 (inception) to February 29, 2004. THGLLP also paid expenses on behalf of HACI. THGLLP invoiced the Company a total of \$523,933 and \$258,596, respectively, for professional fees, facilities usage and reimbursable expenses for the year ended February 28, 2005 and for the period from April 25, 2003 (inception) to February 29, 2004. At February 28, 2005 and February 29, 2004 the Company owed THGLLP \$28,341 and \$0, respectively and such amounts are reflected in accrued expenses. A Managing Member of the Company is a founding Partner in THGLLP. THGLLP ceased providing facilities to the Company in June 2005.

Zephyr Ventures LLC ("ZVLLC") provided consulting services to the Company during fiscal 2005 and for the period from April 25, 2003 (inception) to February 29, 2004 for fees totaling \$28,485 and \$154,142 respectively. A Managing Member of the Company is also a Managing Member of ZVLLC. There was no balance due to ZVLLC at February 28, 2005 or February 29, 2004.

The Company's management believes the charges for the above related party services are consistent with those that would be paid to independent third parties.

NOTE 12 - SUBSEQUENT EVENTS

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12(a) On March 16, 2005, HACI and the Former Owner, through May 2003, of Lander US and Lander Canada (Former Owner) entered into a Settlement and Release Agreement whereby the Company has the option to pay \$2,000,000, plus interest at 10%, to satisfy the \$4,500,000 principal amount of the Seller Note. In addition, the Company would be required to pay interest accrued on the \$4,500,000 Seller Note from July 1, 2004 through March 16, 2005 and interest on the \$2,000,000 from March 17, 2005 through the date of payment. Such option was initially available until August 31, 2005. Prior to expiration the Former Owner agreed to extend the option to November 30, 2005 (see Notes 5 and 12 (b)).

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12(b) On October 10, 2005, Cenuco, (the parent of HACI following the May 2005 merger transaction (see Note 1)), entered into agreements with Prencen, LLC ("Prencen"), Highgate House Funds Ltd ("Highgate") and Cornell Capital Partners ("Cornell") for equity and convertible debt financing (the "Financing Facility"), to be used, among other things, as long term financing in connection with the acquisition of several brands from Playtex Products, Inc. ("Playtex"). The Financing Facility included a \$100 million standby equity subscription facility. As part of the closing of the Playtex brands acquisition and related bridge financing (described below), the terms of the Financing Facility were amended on November 16, 2005 to include various modifications, including the termination of the standby equity subscription facility. The revised terms of the Financing Facility are also described below.

Lander US and Lander Intangibles Corporation (Lander Intangibles), a newly formed wholly owned subsidiary of HACI, entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with Playtex Products, Inc. and certain of its subsidiaries (collectively, "Playtex"), to acquire several of Playtex's brands, including Baby Magic(R), Binaca(R), Mr. Bubble(R), Ogilvie(R), Tek(R), Dentax(R), Dorothy Gray(R), Better Off(R) and Tussy(R) in a transaction that closed on November 16, 2005. At the closing, Lander US and Lander Intangibles paid Playtex a cash purchase price of \$57 million. The purchase price is subject to certain post closing adjustments dependent upon the product inventory conveyed to Lander US at the closing.

In order to finance the acquisition of the brands from Playtex (\$57 million, prior to post closing inventory adjustment), pay certain expenses associated with the transaction and related financings (approximately \$3.8 million), repay certain existing indebtedness of the Company and its subsidiaries including the Seller Note and the Financing Arrangement referred to in Note 5, above (approximately \$13.8 million in total) and provide working capital for the operations of Lander US (approximately \$5.4 million), on November 16, 2005, Cenuco, Lander US, HACI and Lander Intangibles (collectively, the "Borrowers"), entered into an \$80 million Bridge Loan Term Agreement (the "Bridge Loan") with Prencen and Highgate, as lenders, and Prencen, as agent for the lenders.

The Bridge Loan bears interest at an annual rate of 5.5% above the three-month LIBOR rate (4.40% as of November 16, 2005) for the first 90 days after the closing date of the Bridge Loan. The interest rate margin over LIBOR shall increase by 5% per annum at the end of that 90 day period to a rate of LIBOR plus 10.5%. Upon the occurrence and during the continuance of an event of default, the annual rate of interest will increase by 5.5% over the rate of interest otherwise in effect. Interest accrues monthly, in arrears. The Bridge Loan is due and payable on May 15, 2006. In addition, the Borrowers shall immediately prepay the Bridge Loan from the proceeds of the Financing Facility, as well as the net cash proceeds of any non-ordinary course asset sales and 50% of the amount of any post-closing inventory adjustment in Lander's favor. The borrowings under the Bridge Loan are secured by a first priority lien against all assets of the Borrowers and HREI, and by a pledge of the shares in Cenuco owned by two shareholders.

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In connection with Bridge Loan, the agreements relating to the Financing Facility were amended and restated in certain material respects. The Financing Facility, as amended, includes the following: (i) proceeds of an aggregate of \$11 million from the sale of shares of a new series of Cenuco participating preferred stock, convertible, subject to certain restrictions, into an aggregate of 3,150,652 shares of Cenuco common stock, along with the issuance of warrants exercisable for a period of 5 years to acquire an aggregate of 394,736 shares of common stock at an exercise price of \$4.37 per share and 550,459 shares of common stock at an exercise price of \$3.92 per share and (ii) proceeds of \$69 million from the issuance of a 5 year secured debenture, convertible into common stock of Cenuco at any time, subject to certain restrictions, at a per share conversion price of 95% of the lowest closing bid price of the common stock for the 45 trading days preceding the date of conversion, bearing interest at 12% per annum, along with warrants (the "Debt Warrants") exercisable for a period of 5 years to acquire 1,052,631 shares of common stock at an exercise price of \$4.56 per share and 886,877 shares of common stock at an exercise price of \$3.92 per share. The exercise price of the Debt Warrants noted above is subject to a discount to 20% of the then current conversion price in the event certain conditions of default are triggered under the secured debenture. The standby equity subscription facility described above has been terminated.

Proceeds of the Bridge Loan were also used to repay the Seller Note and the Financing Arrangement referred to in Note 5.

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