

TOPAZ GROUP INC  
Form 10-Q  
May 20, 2003

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

OF 1934.

For the quarterly period ended March 31, 2003

Commission File No. 001-14069

THE TOPAZ GROUP, INC.

(Exact name of registrant as specified in its charter)

Nevada	91-1762285
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

126/1 Krungthonburi Road  
Banglampoo Lang, Klongsarn  
Bangkok 10600 Thailand

(Address of principal executive offices, including zip code)

0-662-439-4621

(Registrant's telephone number, including area code)

Copies to: Michael D. Spadaccini, Esq.  
11256 Vista Sorrento Parkway, Suite 103  
San Diego CA 92130  
Tel: (858) 350-5183; Fax: (619) 374-2027

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

<Page>

TABLE OF CONTENTS

	Page
<b>PART I. FINANCIAL INFORMATION</b>	
<b>ITEM 1. Financial Statements</b>	
Consolidated Balance Sheets as of December 31, 2002 and March 31, 2003 (Unaudited)	2
Consolidated Statements of Operations for the Three Months Ended March 31, 2002 and 2003 (Unaudited)	3
Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2002 and 2003 (Unaudited)	4
Notes to Consolidated Financial Statements (Unaudited)	5
<b>ITEM 2. Management Discussion and Analysis of Financial Condition and Results of Operations</b>	8
<b>ITEM 3. Quantitative and Qualitative Disclosures About Market Risks</b>	10
<b>ITEM 4. Controls and Procedures</b>	11
<b>PART II. OTHER INFORMATION</b>	
<b>ITEM 1. Legal Proceedings</b>	12
<b>ITEM 2. Changes in Securities and Proceeds</b>	12
<b>ITEM 3. Default Upon Senior Securities</b>	12
<b>ITEM 4. Submission of Matters to a Vote of Security Holders</b>	12
<b>ITEM 5. Other Information</b>	12
<b>ITEM 6. Exhibits and Reports on Form 8-K</b>	12

&lt;Page&gt;

The Topaz Group, Inc. and Subsidiaries  
CONSOLIDATED BALANCE SHEETS

## ASSETS

	December31	March31
	2002	2003
		(Unaudited)
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 127,766	\$ 114,762
Accounts receivable, net of allowance of \$2,271,840 and \$2,273,404	2,486,841	2,973,688
Inventories, net	24,403,037	24,800,190
Prepaid expenses and deposits	<u>603,058</u>	<u>362,123</u>
Total current assets	27,620,702	28,250,763
<b>PROPERTY AND EQUIPMENT - NET</b>	2,463,089	2,529,649
<b>OTHER ASSETS</b>	<u>428,499</u>	<u>30,291</u>
Total assets	<u>\$ 30,512,290</u>	<u>\$ 30,810,703</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Lines of credit	\$ 3,767,157	\$ 3,508,948
Current maturities of long term notes payable	560,964	638,106
Accounts payable	4,136,697	4,678,716
Accrued liabilities	628,019	549,535
Advances	-	2,367,870
Payables to related party	<u>994,704</u>	<u>1,075,204</u>
Total current liabilities	10,087,541	12,818,379
LONG TERM NOTES PAYABLE, less current maturities	902,792	909,042
REDEEMABLE ORDINARY SHARES	4,840,356	2,843,670
COMMITMENTS	-	-
<b>STOCKHOLDERS' EQUITY</b>		
Class A preferred stock	-	-
Class B preferred stock, liquidation preference of \$2,442,534 and \$2,369,032	1,007	1,007
Common stock	5,046	5,046

Additional paid in capital	5,225,930	5,225,930
Retained earnings	<u>9,449,618</u>	<u>9,007,629</u>
	14,681,601	14,239,612
Total liabilities and stockholders' equity	<u>\$ 30,512,290</u>	<u>\$ 30,810,703</u>

The accompanying notes are an integral part of these statements.

2

<Page>

The Topaz Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

Three months ended March 31.

	<u>2002</u>	<u>2003</u>
Sales	\$ 5,625,270	\$ 5,400,104
Cost of goods sold	<u>4,156,397</u>	<u>4,208,308</u>
Gross profit	1,468,873	1,191,796
Selling, general and administrative expenses	<u>921,077</u>	<u>1,441,979</u>
Earnings (loss) from operations	547,796	(250,183)
Other income (expense)		
Exchange rate gain (loss)	8,359	(966)
Interest expense	(17,215)	(81,219)
Loss on remeasurement	(68,796)	(119,971)
Other, net	<u>57,903</u>	<u>10,350</u>
	<u>(19,749)</u>	<u>(191,806)</u>
NET EARNINGS (LOSS)	<u>\$ 528,047</u>	<u>\$ (441,989)</u>
NET EARNINGS (LOSS) PER SHARE:		
Basic	\$ 0.24	\$ (0.09)
Diluted	\$ 0.08	\$ (0.09)

The accompanying notes are an integral part of these statements.

3

&lt;Page&gt;

## The Topaz Group, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Three months ended March 31,

	<u>2002</u>	<u>2003</u>
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Net earnings (loss)	\$ 528,047	\$ (441,989)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	37,100	63,765
Provision for obsolete stock	-	177,135
Remeasurement of redeemable ordinary shares	71,094	33,508
Changes in assets and liabilities:		
Receivables	(818,807)	(486,848)
Inventories	(3,848,558)	(574,288)
Prepaid expenses, deposits and other assets	(261,867)	639,143
Accounts payable	2,525,453	542,019
Payables to related party	-	80,500
Accrued liabilities	866,142	(78,484)
Advances	-	<u>2,367,870</u>
Net cash provided by (used in) operating activities		

(901,396)

2,322,331

## Cash flows from investing activities

Purchases of property and equipment

(17,752)(130,325)

Edgar Filing: TOPAZ GROUP INC - Form 10-Q

Net cash used in investing activities	(17,752)
	(130,325)
Cash flows from financing activities	
Borrowings (payments) on line of credit, net	885,135
	(258,209)
Proceeds from issuance of notes payable	-
	83,393
Repurchase of redeemable ordinary shares	<u>-</u>
	<u>(2,030,194)</u>
Net cash provided by (used in) financing activities	<u>885,135</u>
	<u>(2,205,010)</u>
Net decrease in cash and cash equivalents	(34,013)
	(13,004)
Cash and cash equivalents at the beginning of period	

351,565

127,766

Cash and cash equivalents at the end of period

\$ 317,552

\$ 114,762

Supplemental disclosure of cash flow information:

Interest paid during the period

\$ 17,215

\$ 144,394

The accompanying notes are an integral part of these statements.

4

<Page>

The Topaz Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE A - FINANCIAL STATEMENTS

The unaudited consolidated financial statements of the Company and its subsidiaries have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles of the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2003. This form 10-Q should be read in conjunction with the form 10-K that includes an audited consolidated balance sheet as of December 31, 2001 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the three years in the period ended December 31, 2002.

NOTE B - BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned Thailand subsidiaries, Creative Gems & Jewelry Limited ("Creative"), TGI (Thailand) Limited ("TGIT"), Advance Gems & Jewelry Limited ("Advance") and Advance Gems Manufacturing Co., Ltd ("Advance Manufacturing") (collectively, the "Subsidiaries"). All significant intercompany accounts and transactions have been eliminated. Except as otherwise disclosed, all amounts are in U.S. dollars.

NOTE C - INVENTORIES

Inventories consist of the following:

	<u>December 31,</u>	<u>March 31,</u>
	<u>2002</u>	<u>2003</u>
Raw materials	\$ 5,433,333	\$ 5,122,645
Finished stones	18,011,149	19,234,304
Finished jewelry	<u>1,449,110</u>	<u>1,110,931</u>
	24,893,592	25,467,880
Less provision for obsolete stock	<u>(490,555)</u>	<u>(667,690)</u>
	<u>\$ 24,403,037</u>	<u>\$ 24,800,190</u>

<Page>

The Topaz Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE D - EARNINGS (LOSS) PER COMMON SHARE

The components of basic and diluted earnings (loss) per share were as follows:

	Three months ended March 31,	
	2002	2003
<b>BASIC</b>		
Net earnings (loss)	\$ <u>528,047</u>	\$ <u>(441,989)</u>
Weighted average outstanding shares of common stock	2,134,886	5,045,936
Net earnings (loss) per share	<u>\$ 0.24</u>	<u>\$ (0.09)</u>



DILUTED		
Net earnings (loss) available to common shareholders	\$ 528,047	\$ (441,989)
Weighted average outstanding shares of common stock	2,134,886	5,045,936
Dilutive effect of preferred shares (1)	3,917,563	-
Common stock and potentially issuable common stock	6,052,449	5,045,936
Net earnings (loss) per share	\$ 0.08	\$ (0.09)

1. The dilutive effect of warrants outstanding during each of the presented periods was immaterial to these computations and the preferred shares were excluded for the quarter ended March 31, 2003 due to their anti-dilutive effect.

#### NOTE E-REDEEMABLE ORDINARY SHARES

In March 2003, the Company repurchased 8,709,993 ordinary shares of Creative from related parties at its par value. As of March 31, 2003 the Company had 12,200,007 ordinary shares outstanding.

7

<Page>

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes thereto. The following discussion contains certain forward-looking statements that involve risk and uncertainties. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, risks and uncertainties related to the need for additional funds, the rapid growth of the operations and our ability to operate profitably after the initial growth period is completed. We undertake no obligation to publicly release the results of any revisions to those forward-looking statements that may be made to reflect any future events or circumstances.

#### RESULTS OF OPERATIONS

##### QUARTER ENDED MARCH 31, 2003 AND MARCH 31, 2002

**SALES.** Total sales for the quarter ended March 31, 2003 were \$5,400,104 compared to \$5,625,270 for the quarter ended March 31, 2002, a decrease of 4%. The decrease in sales was mainly due to the economic and political uncertainties in relation to the war in Iraq. However, in spite of these uncertainties we were able to almost maintain

last year's sales level.

**COST OF GOODS SOLD.** Cost of goods sold for the quarter ended March 31, 2003 was \$4,208,308 representing 77.9% of sales, compared to \$4,156,397 for the quarter ended March 31, 2002, which represented 73.8% of sales for that quarter. The increase in cost of goods sold is due in part to increased radiation costs per unit for the topaz products colored at the University of Missouri. The Company is charged a base fixed fee and per unit costs to use this reactor. As the amount of stones sent for coloration went down with the same fixed fees, the average costs for the stones was higher.

**OPERATING COSTS.** Operating costs were \$1,441,979 for the quarter ended March 31 2003, or 26.7% of revenues, compared to \$921,077 for the quarter ended March 31, 2002, or 16.3% of revenues. The increase is due primarily to additional inventory reserves, additional trade shows, and lay-off compensation.

**OPERATING PROFIT/LOSS.** Operating loss for the quarter ended March 31, 2003 was (\$250,183) compared to a profit of \$547,796 for the quarter ended March 31, 2002. The main reason for this was increased administrative expenses and a lower gross margin percentage.

**OTHER INCOME.** Other income and (expense) was (\$191,806) in the quarter ended March 31, 2003 compared to (\$19,749) in the quarter ended March 31, 2002. The change is almost entirely due to gains (losses) resulting from currency fluctuations. Our Thai subsidiaries maintain their books and records in Thai Baht. However, their functional currency is the U.S. dollar. Monetary assets and liabilities and related income and expense items are remeasured using the current rates. Certain non-monetary assets (notably property and equipment) are remeasured at historical rates. Other nonmonetary balance sheet items and related revenues, expenses, gains and losses are remeasured using average exchange rates. The remeasurement gain (loss) was \$(119,971) in the quarter ended March 31, 2003, compared to

8

<Page>

(\$68,796) for the comparable quarter in 2002. This was principally caused by reduced Baht currency fluctuations relative to the US dollar in the quarter ended March 31, 2003 compared to the same quarter for 2002. The Company is considering hedging to offset currency losses.

**NET EARNINGS (LOSS).** Net earnings (loss) was (\$441,989) for the first quarter ended 2003 compared to net earnings of \$528,047 for 2002.

#### LIQUIDITY AND CAPITAL RESOURCES

Principal sources of working capital are income from operations, borrowings under our revolving credit facilities and short-term loans from a Company affiliate. At March 31, 2003, we had a cash and cash equivalent balance of \$114,762 and working capital of \$15,432,384.

The net decrease in cash and cash equivalents for the quarter ended March 31, 2003 was (\$13,004) compared to (\$34,013) for the quarter ended March 31, 2002.

As announced, the Company is in the process of redeeming ordinary shares in its Thai subsidiaries for inventory. At the end of the quarter the process is incomplete with the inventory yet to be identified. The accounts therefore show an advance of cash received in anticipation of delivery of stones for the shares. The cashflow of the repurchase of redeemable shares is offset by advances. Failure to identify the inventory may result in the cancellation of the

repurchase of the redeemable ordinary shares at this time.

The cashflow resulted from net loss of (\$441,989); increased receivables (\$486,848) as a result of the higher fourth quarter sales; increased inventories (\$574,288) due to cutting stones on an even base whereas sales are highest in the third and fourth quarter; increased accounts payable \$542,019 as a result of the increased inventories and increased pre-paid expenses, deposits and other assets of \$639,143.

We have line-of-credit arrangements with three Thai financial institutions. These lines are renewable automatically on a yearly basis. The lines are also subject to the banks' periodic reviews resulting in adjustment of our credit limit. The Thai lines bear interest at a rate equal to LIBOR plus two percent, SIBOR plus two and three percent and MLR plus one percent. . The lines are personally guaranteed by two of our directors and collateralized by various real estate properties belonging to us and a related party. As of March 31, 2003, approximately \$700,000 was available for commercial draft borrowing under the Thai lines. As of March 31, 2003 and March 31, 2002, the outstanding balance under the Thai lines of credit was \$3,284,763 and \$1,012,500, respectively.

The effects on liquidity of carrying large values of inventory can be referenced by days of sales in inventory. On average, for the twelve months ended March 31, 2003 and 2002, inventory would remain on the books for 450 days and 403 days, respectively, until sold. The inventory is classified as a current asset on the balance sheet but restricts the use of working capital until the inventory is sold. The increase in inventory days was caused by the build up of inventories to support the replenishment of inventories with wholesalers and retailers.

9

<Page>

Inventory is valued by applying a moving average method for valuation. Under this method of valuation, generally, the finished stone inventory does not progressively devalue with age and the prices per carat remain relatively stable. The average cost includes the raw cost of the product plus any additional costs to bring it to its current condition including processing, transportation, insurance and holding costs. Variances in valuation under the moving average cost method occur when stone prices, overhead cost and other related costs, which make up the value of the inventory, vary significantly up or down within the fiscal period. As such, material variances in the inventory costs are identified and valued separately to reflect true value.

Our business can be classified into two major groups including sale of finished jewelry and finished stones, to a lesser degree. Most of our finished jewelry is made to order and is shipped when completed. Inventory valuations include the lesser of manufactured cost or market valuation per unit times the quantities on hand. Lower of cost or market is referenced by recent sale prices of the finished stones compared to the cost to produce or acquire such stones. If recent sales of an existing stone are not available, current market price samples in the selling market will dictate the lower of cost or market for valuation purposes.

Currently the Company is in a tight cash situation. Considering a number of very large orders under negotiation in the US an increase in borrowing facilities is necessary. Management believes that without an increase in facilities, future growth will be difficult to realize.

#### Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. For example, unexpected changes in the market conditions or a downturn in the economy could

adversely effect actual results. Estimates are used in for, among other things, inventory obsolescence/marketability, average inventory cost method, legal liability, depreciation, employee benefits, taxes and contingencies. Estimates and assumptions are reviewed periodically and the effects of the revisions are reflected in the Consolidated Financial Statements in the period they are determined to be necessary. Management believes the following critical accounting policies, among others affect its more significant judgments and estimates used in the preparation of its Consolidated Financial Statements.

Merchandise Inventories - Inventories are stated at the lower of average cost or market. Inventory is segregated into categories of merchandise with similar characteristics at its current average cost. The determination of inventory at cost and the resulting gross margins are calculated by applying an average cost to the inventory. The average cost for each merchandise category is based on beginning inventory, fiscal year purchase and sales activity and allocated overheads for each category.

We are required to determine the average cost on a standard basis by interim estimating of cost of production for the fiscal year. Actual cost of production may differ from interim estimates.

We write down our inventory for discontinued, non-marketable, slow moving and damaged inventory. This write down is equal to the difference between the average cost of the inventory and its estimated market value based upon assumptions of targeted inventory turn rates, future demand, management strategy and market conditions. If actual market conditions are less favorable than those projected by management or management strategy changes, additional inventory write-downs may be required and, in the case of a major change in strategy or turndown in market conditions, such write-downs could be significant.

We maintain an allowance for uncollectible accounts. We estimate the reserve each quarter based on the historical experience, the composition of outstanding balances, credit experience trends and other relevant information. The application of this methodology may result in increases or decreases in our provision for uncollectible accounts from quarter to quarter.

#### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements to report.

#### **Disclosure of Contractual Obligations and Other Commercial Commitments**

The Company conducts its operations in leased facilities under operating leases expiring through February 2011. The Company has the option of extending the lease terms beyond the current expiration date. The following is a schedule by year of approximate minimum rental payments under such operating leases.

<u>Year ending December 31</u>	<u>Third Party</u>	<u>Related Party</u>
2003	\$ 87,673	\$ 66,977
2004	85,082	66,977
2005	71,420	66,977
2006	48,793	66,977
2007	11,163	66,977
Thereafter	5,581	212,093

Certain of the above leases provide for payment of taxes and other expenses by the Company.

#### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

## CURRENCY FLUCTUATIONS

## 1. FORWARD-LOOKING STATEMENTS

From time to time, we may make certain statements that contain "forward-looking" information. Words such as "anticipate", "estimate", "project", "believe" and similar expressions are intended to identify such forward-looking statements. Forward-looking statements may be made by management orally or in writing, including, but not limited to, in press releases, as part of the Financial Information or Management's Discussion and Analysis or Plan of Operations and as part of other sections of this registration statement.

Such forward-looking statements are subject to certain risks, uncertainties and assumptions, including without limiting those identified below. Should one or more of these risks or uncertainties materialize, or should any of the underlying assumptions prove incorrect, actual results of current and future operations may vary materially from those anticipated, estimated or projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their respective dates.

## 2. EXCHANGE RATE INFORMATION

Our Consolidated Financial Statements are prepared in U.S. dollars. The financial statements of our foreign subsidiaries are remeasured into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52. Fluctuations in the value of foreign currencies cause U.S. dollar amounts to change in comparison with previous periods and, accordingly, we cannot quantify in any meaningful way, the effect of such fluctuations upon

10

&lt;Page&gt;

future income. This is due to the constantly changing exposure in the Thai Baht for our Thai subsidiaries.

As of March 31, 2003, the average daily interbank exchange rate for the Baht was trading at 43.00 Baht to one US dollar. The exchange rate in Thailand stabilized further over 2002 and into the first quarter of 2003. We are unable to predict whether this trend will continue and its impact on our future financial condition or the results of operations and, if so, whether such an effect will be positive or negative.

## 3. EXCHANGE RATE FLUCTUATION

	<u>THAI BAHT</u>			
	<u>FIRST QTR</u>	<u>SECOND QTR</u>	<u>THIRD QTR</u>	<u>FOURTH QTR</u>
<u>2003</u>				
High	42.88			
Average	42.84			
Low	42.75			
<u>2002</u>				
High	44.57	43.82	44.03	44.23
Average	43.80	42.85	42.14	43.24
Low	43.00	41.26	40.04	43.08
<u>2001</u>				

High	45.00	45.85	45.87	45.07
Average	43.29	45.45	44.98	44.40
Low	42.19	44.68	43.92	43.37

Future volatility in the Baht may come from the continued strength in the Thai exports. In the past twelve months the Thai economy, in general, has shown signs of recovery with a substantial increase in foreign as well as local investments.

We anticipate the cost of raw materials, which includes precious and non-precious metals, to show moderate cost increases in the short-term.

<Page>

#### 4. FOREIGN CURRENCY RISK

As of March 31, 2003, we had no open forward-contracts. Our Thai subsidiaries keep their books in the Thai Baht currency. As such, the Thai balances are exposed to currency gains and losses depending upon the currency rate fluctuations when compared to the US dollar for the respective periods. The currency and remeasurement gains and losses for periods ended March 31, 2003 and 2002 are (\$119,971) and (\$68,796), respectively.

#### 5. INTEREST RATE FLUCTUATIONS

Our interest expenses and income are sensitive to changes in interest rates. We had interest-bearing obligations of \$3,508,948 for the period ended March 31, 2003 bearing various interest rates, and any fluctuation in the interest rate will have a direct impact on our interest expenses, cash flow and results of operations.

#### ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. Regulations under the Securities Exchange Act of 1934 require public companies to maintain "disclosure controls and procedures," which are defined to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Within 90 days prior to the filing date of this Report (the "Evaluation Date"), the Company's principal executive officer ("CEO") and principal financial officer ("CFO") carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on those evaluations, as of the Evaluation Date, the Company's CEO and CFO believe:

(i) that the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure; and

(ii) that the Company's disclosure controls and procedures are effective.

In connection with their audit of the Company's financial statements as of and for the year ended December 31, 2002, Grant Thornton LLP ("GT") advised the Company that it had identified certain deficiencies in the Company's internal control procedures that GT considered to be a "material weakness" under standards established by the American Institute of Certified Public Accountants. GT advised the Audit Committee on March 10, 2003, that it identified

certain deficiencies in the Company's ability to timely and accurately present our inventory and our financial reports.

(b) Changes in Internal Controls. There were no significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect our internal controls subsequent to the evaluation date referred to above. Although we have not yet taken any corrective actions with respect to the material weaknesses we have disclosed above, these matters have been discussed by GT with the Audit Committee of the Board of Directors of the Company. We intend to take corrective actions during the 2003 reporting period.

## PART II

### OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS.

None.

#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

None.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

#### ITEM 5. OTHER INFORMATION.

None.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

##### a. Reports on Form 8-K.

We filed no reports on Form 8-K during the fiscal year ending December 31, 2002.

##### b. Exhibits. The following exhibits are hereby filed with this report:

99.1. Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. 99.2. Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

### 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.

Date: May 19, 2003

THE TOPAZ GROUP, INC.

By: /s/ Peter Brongers

---

Name: Peter J. Brongers  
Title: Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, George Pfeiffer, certify that:

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



Date: May 20, 2003

*/s/ George Pfeiffer*

---

George Pfeiffer  
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Peter J. Brongers, certify that:

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

Date: May 20, 2003

*/s/ Peter J. Brongers*

---

Peter J. Brongers  
Chief Financial Officer

INDEX TO EXHIBITS

99.1. Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2. Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* \* \*

Exhibit 99.1. Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Topaz Group, Inc., a Nevada corporation (the "Company"), on Form 10-Q for the period ending March 31, 2003 as filed with the Securities and Exchange Commission (the "Report"), I, George Pfeiffer, Chief Executive Officer of the Company, certify, pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sec. 1350), that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 20, 2003

*/s/ George Pfeiffer*

---

George Pfeiffer  
Chief Executive Officer

\* \* \*

Exhibit 99.2. Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Edgar Filing: TOPAZ GROUP INC - Form 10-Q  
CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Topaz Group, Inc., a Nevada corporation (the "Company"), on Form 10-Q for the period ending March 31, 2003 as filed with the Securities and Exchange Commission (the "Report"), I, Peter J. Brongers, Chief Financial Officer of the Company, certify, pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sec. 1350), that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 20, 2003

*/s/ Peter J. Brongers*

---

Peter J. Brongers  
Chief Financial Officer