DIVERSIFIED PRODUCT INSPECTIONS INC
Form 10-Q
November 19, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File number: 0-25429

Diversified Product Inspections, Inc.

(Exact name of registrant as specified in its charter)

Florida	59-3087128
(State of other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1059 East Tri-County Blvd.,
Oliver Springs, TN 37840

(Address of principal executive offices)

(865) 482-8480

(Registrant`s telephone number, including area code)

Not applicable

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a larger accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “small reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer **o**	Smaller Reporting Company **x**

As of November 13, 2008, there were 20,105,867 shares of common stock, $0.01 par value, issued and outstanding.

Transitional Small Business Disclosure Format (check one): Yes ¨ No x

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CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Form 10-Q includes forward-looking statements. All statements, other than statements of historical facts, included or incorporated by reference in this Form 10-Q which address activities, events or developments which the Company expects or anticipates will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), finding suitable merger or acquisition candidates, expansion and growth of the Company's business and operations, and other such matters are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results or developments will conform with the Company's expectations and predictions is subject to a number of risks and uncertainties, general economic market and business conditions; the business opportunities (or lack thereof) that may be presented to and pursued by the Company; changes in laws or regulation; and other factors, most of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequence to or effects on the Company or its business or operations. The Company assumes no obligations to update any such forward-looking statements.

Part I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Diversified Product Inspections, Inc.

Condensed Balance Sheets

	September 30 2008 (Unaudited)	December 31 2007
Assets		
Current assets:		
Cash	**$590,082**	$462,442
Accounts receivable, net of reserve for doubtful accounts of $30,000 in 2008 and $50,000 in 2007	**292,086**	276,482
Current portion of deferred income taxes	**59,050**	79,343
Prepaid expenses and other current assets	**23,579**	18,655
Total current assets	**964,797**	836,922
Property and equipment:		
Land	**96,250**	96,250
Building and building improvements	**735,318**	735,318
Equipment, furniture and fixtures	**412,441**	402,058
Vehicles	**132,949**	132,949
	1,376,958	1,366,575
Less accumulated depreciation and amortization	**465,582**	409,700
Net property and equipment	**911,376**	956,875
Other assets	**5,000**	5,000
Deferred income taxes, less current portion	**248,334**	289,667
Total assets	**$2,129,507**	$2,088,464
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	**$96,407**	$74,682
Accrued salaries	**44,874**	28,783
Accrued income taxes	**3,741**	3,741
Accrued settlement of lawsuit	**–**	30,000
Deferred revenues	**124,000**	127,000
Capital lease obligation	**–**	1,933
Current portion of long-term debt	**49,028**	52,626
Total current liabilities	**318,050**	318,765
Long-term debt, less current portion	**677,170**	716,181
Total liabilities	**995,220**	1,034,946
Stockholders' equity	**1,134,287**	1,053,518
Total liabilities and stockholders' equity	**$ 2,129,507**	$ 2,088,464

See accompanying Notes to Condensed Financial Statements.

Diversified Product Inspections, Inc.

Condensed Statements of Income (Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Revenues	**$ 751,785**	$ 681,000	**$ 1,930,547**	$ 1,894,004
Operating expenses:				
Salaries	**392,400**	374,051	**1,104,274**	1,034,836
Depreciation and amortization	**17,546**	16,867	**57,282**	52,909
General and administrative	**176,539**	217,662	**614,043**	700,886
Total operating expenses	**586,485**	608,580	**1,775,599**	1,788,631
Operating income	**165,300**	72,420	**154,948**	105,373
Other (expense) income:				
Interest expense	**(11,475)**	(11,765)	**(35,053)**	(36,799)
Rent income	**7,500**	–	**22,500**	–
Net other expense	**(3,975)**	11,765	**(12,553)**	36,799
Income before income taxes	**161,325**	60,655	**142,395**	68,574
Deferred income tax expense	**(68,567)**	(22,357)	**(61,626)**	(25,524)
Net income	**$ 92,758**	$ 38,298	**$ 80,769**	$ 43,050
Basic and diluted earnings per common share	**$ 0.00**	$ 0.00	**$ 0.00**	$ 0.00

See accompanying Notes to Condensed Financial Statements.

Diversified Product Inspections, Inc.

Condensed Statements of Stockholders' Equity (Unaudited)

	Number of Shares Issued and Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at January 1, 2007	20,180,867	$ 201,808	$ 1,997,836	$ (1,190,876)	$ 1,008,768
Retired stock	(75,000)	(750)	750	–	–
Net income for 2007	–	–	–	44,750	44,750
Balance at December 31, 2007	20,105,867	201,058	1,998,586	(1,146,126)	1,053,518
Net income for nine months ended September 30, 2008	**–**	**–**	**–**	**80,769**	**80,769**
Balance at September 30, 2008	**20,105,867**	**$ 201,058**	**$ 1,998,586**	**$ (1,065,357)**	**$ 1,134,287**

See accompanying Notes to Condensed Financial Statements.

Diversified Product Inspections, Inc.

Condensed Statements of Cash Flows (Unaudited)

	Nine months ended September 30 2008		Nine months ended September 30 2007	
Operating activities				
Net income	**$**	**80,769**	$	43,050
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		**57,282**		52,909
Deferred income tax expense		**61,626**		25,524
Provision for bad debts		**(20,000)**		20,000
Changes in operating assets and liabilities:				
Accounts receivable		**4,396**		(81,977)
Prepaid expenses and other assets		**(4,924)**		(20,488)
Accounts payable and accrued expenses		**21,725**		15,525
Accrued salaries		**16,091**		2,060
Accrued settlement of lawsuit		**(30,000)**		–
Deferred revenues		**(3,000)**		(37,481)
Net cash provided by operating activities		**183,965**		19,122
Investing activities				
Purchases of equipment		**(11,783)**		(84,081)
Financing activities				
Proceeds from long-term debt		–		56,513
Principal payments on long-term debt and capital lease obligation		**(44,542)**		(44,671)
Net cash (used in) provided by financing activities		**(44,542)**		11,842
Net change in cash		**127,640**		(53,117)
Cash at beginning of period		**462,442**		331,793
Cash at end of period	**$**	**590,082**	$	278,676

See accompanying Notes to Condensed Financial Statements.

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Diversified Product Inspections, Inc.

Notes to Condensed Financial Statements (Unaudited)

September 30, 2008

1. Basis of Presentation

The accompanying unaudited condensed financial statements of Diversified Products Inspections, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements.

For further information, refer to the financial statements and notes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 2007.

2. Recent Accounting Pronouncements

During September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements*, which is effective for fiscal years beginning after November 15, 2007, with earlier adoption encouraged. SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until January 1, 2009. The Company adopted SFAS 157 on January 1, 2008, for all financial assets and liabilities, but the implementation did not have a significant impact on the Company's financial position or results of operations. The Company has not yet determined the impact the implementation of SFAS 157 will have on the Company's non-financial assets and liabilities which are not recognized or disclosed on a recurring basis. However, the Company does not anticipate that the full adoption of SFAS 157 will significantly impact its financial statements.

During February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115*, which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company adopted SFAS 159 on January 1, 2008, but the implementation of SFAS 159 did not have a significant impact on the Company's financial position or results of operations.

Diversified Product Inspections, Inc.

Notes to Condensed Financial Statements (Unaudited) (continued)

3. Proposed Restructuring

During December 2008, the Company intends to merge into a newly formed Delaware corporation, Diversified Product Inspections, Inc. ("DPI"), which was recently formed exclusively for the purpose of merging with the Company. The merger will change the state of incorporation for the Company from Florida to Delaware through the execution of the Agreement and Plan of Merger (the "Merger Agreement"). Under the Merger Agreement, DPI will assume all of the Company's assets and liabilities, including obligations under the Company's outstanding indebtedness and contracts, and the Company will cease to exist as a corporate entity.

At the effective time of the reincorporation, each outstanding share of the Company's common stock, $0.01 par value automatically will be converted into one share of common stock of DPI, $0.01 par value. Shareholders will not have to exchange their existing stock certificates for stock certificates of DPI.

Shareholders whose shares of common stock were freely tradable before the reincorporation will own shares of DPI that are freely tradable after the reincorporation. Similarly, any shareholders holding securities with transfer restrictions before the reincorporation will hold shares of DPI that have the same transfer restrictions after the reincorporation.

After the reincorporation, DPI will continue to be a publicly held corporation, with its common stock trading on the Over-the-Counter Bulletin Board. The trading symbol will remain the same. DPI will also file with the SEC and provide to our shareholders the same information that we have previously filed and provided

Diversified Product Inspections, Inc.

Notes to Condensed Financial Statements (Unaudited) (continued)

4. Proposed Settlement

During 2006, the Company was named, along with its three largest shareholders, as a defendant in a lawsuit by certain related investment companies that are also shareholders of the Company. The lawsuit alleges, among other things, the defendants violated certain securities laws, misrepresented facts and breached certain contracts and fiduciary duties.

On September 29, 2008, the Company signed a Settlement Agreement and Asset Purchase Agreement (the "Agreement") with the plaintiffs providing for DPI to transfer all of its assets, except $250,000 (the "Excluded Amount"), to a Tennessee limited liability company (the "Tennessee Company") which will also assume all of the Company's liabilities, on a future closing date, subject to approval by the Company's shareholders.

The Tennessee Company will be owned by three of the Company's current directors. As part of the settlement, the pending litigation against the Company and its directors discussed above will be dismissed and the Company's management will cancel 5,983,170 shares of common stock of the Company and sell to the plaintiffs 3,000,000 shares of common stock for nominal consideration. Under the Agreement, the Company will pay the entire $250,000 Excluded Amount to one of the plaintiffs. Following the closing contemplated by the Agreement, the Company will have no assets and no liabilities and will have 14,122,697 shares of common stock outstanding in contrast to 20,105,867 outstanding as of the date of this 10-Q filing. The plaintiffs in the litigation will designate the Company's new officers and directors.

5. Earnings per Share

Basic earnings per share assumes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common stock outstanding during each period. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the effect of common shares issuable upon the exercise of stock options or warrants, using the treasury stock method of computing such effects and contingent shares, or conversion of convertible debt.

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated:

	Three months ended September 30		Nine months ended September 30	
	2008	**2007**	**2008**	**2007**
Basic and diluted:				
Net income	**$ 92,758**	$ 38,298	**$ 80,769**	$ 43,050
Average shares outstanding	**20,105,867**	20,162,117	**20,105,867**	20,173,367
Basic and diluted earnings per share	**$ 0.00**	$ 0.00	**$ 0.00**	$ 0.00

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

Introduction

This Quarterly Report on Form 10-Q for the period ended September 30, 2008, should be read in conjunction with our unaudited financial statements included as part of this Form 10-Q Report. This report contains forward-looking statements which are described and defined below.

General

We specialize in conducting investigations and laboratory analysis of a wide variety of products to determine the cause and origin of product failures. Our primary customers consist of national insurance companies that are interested in pursuing claims to which they have become subrogated. Subrogation is a legal principle, which provides that, to the extent an insurer has paid for a loss, the insurer receives the policyholder's right to recover from any third party that caused the loss. We have accumulated a large database of known defective products that includes photos and other documentation that are used in our clients' investigations. Additionally, we provide for the storage of evidence collected during an investigation, until our customer requests that it be disposed.

Results of Operations

Nine Months Ended September 30, 2008, Compared to Nine Months Ended September 30, 2007

Our revenues increased from $1,894,004 for the nine months ended September 30, 2007 to $1,930,547 for the nine months ended September 30, 2008, or by 1.9% due to increases in level II and III inspections over the same period in 2007 offset by a decrease in use agreement revenue during the same period.

Our total operating expenses for the nine months ended September 30, 2008, were $1,775,599, a decrease of $13,032, or 0.7% compared to the same period in 2007. Salary expense increased by $69,438 or 6.7%, primarily due to additional personnel added in the second half of 2007. This increase is offset by a decrease in general and administrative expenses of $86,843 or 12.4%, mainly due to a reduction in our reserve for bad debts and lower office and computer supply expense.

As a result of the increased revenue and slightly lower operating expenses, our net income of $80,769 for the nine months ended September 30, 2008, increased compared to our net income of $43,050 for the nine months ended September 30, 2007.

Financial Position

Our net accounts receivable increased by $15,604 or 5.6%, between December 31, 2007, and September 30, 2008, primarily due to increased third quarter revenue. Our accounts payable and accrued expenses increased by $21,725, or 29.1%, between December 31, 2007, and September 30, 2008, primarily due to timing of payments on related liabilities. Purchases of equipment totaling $11,783 in 2008 consist mainly of computer equipment and an emergency generator. As a result of these items combined with our year to date net income, our cash balance has increased by $127,640 between December 31, 2007, and September 30, 2008.

Liquidity and Capital Resources

At September 30, 2008, we had $400,000 available under our $400,000 revolving line of credit. We anticipate that our internal cash flow, supplemented by our revolving credit agreement, will be sufficient to fund operations for the next 12 months. During the current quarter, we entered into a Settlement Agreement and Asset Purchase Agreement that, if consummated, will result in the distribution of all assets and liabilities of the Company to a separate company owned by the Company's directors. Whether or not the agreement is consummated, we are not aware of any material trend, event or capital commitment, which would potentially adversely affect our liquidity. In the event such a trend develops, we believe that we will have sufficient funds available to satisfy working capital needs through lines of credit and the funds expected from equity sales.

Critical Accounting Policies

The preparation of financial statements and related disclosures requires management to make judgments, assumptions and estimates that affect the amounts in the financial statements and accompanying notes. Item 6. Management's Discussion and Analysis or Plan of Operation contained in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2007, describes these critical accounting policies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer, who is also the chief financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our chief executive officer concluded that our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

The Company is currently reviewing its policies and is evaluating its disclosure controls and procedures so that it will be able to determine the changes it can and should make to make such controls more effective.

(b) Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls over financial reporting since our most recently completed 10-KSB that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – OTHER INFORMATION

Item 1. Legal Proceedings.

During 2006, the Company was named, along with its three largest shareholders, as a defendant in a lawsuit by Sofcon, Ltd., EIG Venture Capital, Ltd., and EIG Capital Investments, Ltd. (investment companies that are also shareholders of the Company). The lawsuit alleges, among other things, the defendants violated certain securities laws, misrepresented facts and breached certain contracts and fiduciary duties.

On September 29, 2008, the Company signed a Settlement Agreement and Asset Purchase Agreement (the “Agreement”) providing for it to transfer all of its assets, except $250,000 (the “Excluded Amount”), to a Tennessee limited liability company (the “Tennessee Company”) which will assume all of the Company’s liabilities. The closing date of the Agreement is expected to be on or about December 15, 2008. The closing of the Agreement is conditioned upon, among other things, the approval of the Agreement by the shareholders of the Company.

Under the Agreement, the Tennessee Company will be owned by the Company’s current directors, the pending litigation against the Company and its directors will be dismissed and the Company’s current management will cancel 5,983,170 shares of common stock of the Company and sell to the plaintiffs 3,000,000 shares of common stock for a nominal consideration. In addition, the Company will pay the entire $250,000 Excluded Amount to one of the plaintiffs. Following the closing contemplated by the Agreement, the Company will have no assets and no liabilities and will have 14,122,697 shares of common stock outstanding in contrast to 20,105,867 outstanding as of the date of this 10-Q filing. The plaintiffs in the litigation will designate the new officers and directors of the Company.

Other than the settlements described above, and from October 1, 2008, to the date of filing of this Quarterly Report, there have been no material developments in any of the matters discussed in Item 3 of the Company’s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007, and no other reportable legal proceedings have been commenced by or against the Company.

Item 1A. Risk Factors

Not applicable

Item 2. Unregistered Sales of Equity 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.

10.1	Settlement Agreement and Asset Purchase Agreement dated as of September 29, 2008 among Diversified Product Inspections, LLC, the Company, John Van Zyll, Ann Furlong, Marvin Stacy, Sofcon, Limited, EIG Venture Capital, Limited and EIG Capital Investments, Limited.
31.1	Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act.

SIGNATURES

Pursuant to the requirements of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Diversified Product Inspections, Inc.
(Registrant)

Date: November 19, 2008

/s/ John Van Zyll
John Van Zyll
President, Chief Executive Officer and Chairman
(Principal Executive Officer and
Principal Accounting Officer)