

DAC TECHNOLOGIES GROUP INTERNATIONAL INC

Form 10-Q

May 15, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

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

**For the quarterly period ended March 31, 2009**

**☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 000-29211  
DAC Technologies Group International, Inc.  
(Exact name of registrant as specified in its charter)**

Florida

65-0847852

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

12120 Colonel Glenn Road, Suite 6200 Little Rock,  
AR

72210  
(Zip Code)

(Address of principal executive offices)

(501) 661-9100

(Registrant's telephone number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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.

(1) Yes ☒ No ☐

(2) Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T during the preceding 12 months (or for shorter period that the Registrant was required to submit and post such files).  
Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated  
filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

State the number of shares outstanding of each of the issuer's class of common equity, as of the latest practicable date. As of May 14, 2009, 6,323,364 shares of Common Stock are issued and 5,793,699 are outstanding.

Transitional Small Business Disclosure Format: Yes ☐ No ☒



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**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

Our financial statements are contained in pages 2 through 5 following.

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**DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.**  
**Condensed Consolidated Balance Sheets**  
**March 31, 2009 and December 31, 2008**

	March 31, 2009 (unaudited)	December 31, 2008
Assets		
Current assets		
Cash	\$ 124,313	\$ 599,103
Accounts receivable, less allowance for doubtful accounts of \$20,000 in 2009 and 2008	648,304	495,718
Due from factor	1,936,295	1,542,918
Inventories	3,927,528	2,742,563
Prepaid expenses and deferred charges	128,607	72,068
Current deferred income tax benefit	31,019	31,019
Total current assets	6,796,066	5,483,389
Property and equipment		
Leasehold improvements	55,323	55,323
Furniture and fixtures	298,821	297,356
Molds, dies, and artwork	536,809	536,809
	890,953	889,488
Accumulated depreciation	(635,435)	(623,477)
Net property and equipment	255,518	266,011
Other assets		
Patents and trademarks, net of accumulated amortization of \$123,426 and \$119,772 in 2009 and 2008	118,854	121,718
Deposits	17,351	17,351
Advances to employees	32,392	28,617
Note receivable		
Long-term	20,000	20,000
Related party	72,518	72,518
Shareholder	220,888	170,382
Total other assets	482,003	430,586
Total assets	\$ 7,533,587	\$ 6,179,986

The accompanying selected notes are an integral part of these condensed consolidated financial statements.

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**DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.**  
**Condensed Consolidated Balance Sheets**  
**March 31, 2009 and December 31, 2008**

	March 31, 2009 (unaudited)	December 31, 2008
Liabilities and Stockholders' Equity		
Current liabilities		
Notes payable	\$ 92,475	\$ 104,609
Accounts payable	1,989,638	795,136
Accrued payroll tax withholdings	26,284	25,519
Accrued expenses-other	71,068	92,850
Income taxes payable	126,570	89,700
Total current liabilities	2,306,035	1,107,814
Deferred income tax liability	66,574	66,574
Stockholders' equity		
Preferred stock, \$.001 par value; authorized 10,000,000 shares; none issued and outstanding		
Common stock, \$.001 par value; authorized 50,000,000 shares; 6,323,364 shares issued at March 31, 2009 and December 31, 2008; 5,793,699 and 5,882,999 shares outstanding at March 31, 2009 and December 31, 2008, respectively	6,323	6,323
Additional paid-in capital	1,963,102	1,963,102
Treasury stock, at cost	(401,043)	(372,124)
Retained earnings	3,592,596	3,408,297
Total stockholders' equity	5,160,978	5,005,598
Total liabilities and stockholders' equity	\$ 7,533,587	\$ 6,179,986

The accompanying selected notes are an integral part of these condensed consolidated financial statements.

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**DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.**  
**Condensed Consolidated Statements of Operations**  
**For The Three Months Ended March 31, 2009 and 2008**  
(Unaudited)

	2009	2008
Net sales	\$ 3,533,456	\$ 2,715,769
Cost of sales	2,461,760	1,986,908
Gross profit	1,071,696	728,861
Operating expenses		
Selling	445,789	315,762
General and administrative	278,049	281,587
Total operating expenses	723,838	597,349
Income from operations	347,858	131,512
Other income (expense)		
Interest expense	(47,053)	(62,877)
Other income	14	
Total other income (expense)	(47,039)	(62,877)
Income before income tax provision	300,819	68,635
Provision for income taxes	116,520	26,661
Net income	\$ 184,299	\$ 41,974
Basic and diluted earnings per share	\$ 0.03	\$ 0.01
Weighted average number of common shares:		
Basic and diluted	5,857,710	6,036,168

The accompanying selected notes are an integral part of these condensed consolidated financial statements.



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**DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
**For the Three Months Ended March 31, 2009 and 2008**  
(Unaudited)

	2009	2008
Cash flows from operating activities		
Net income	\$ 184,299	\$ 41,974
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	11,958	12,171
Amortization	3,654	3,867
Changes in operating assets and liabilities		
Accounts receivable	(152,586)	(288,691)
Due from factor	(393,377)	426,532
Inventories	(1,184,965)	(52,454)
Prepaid expenses and deferred charges	(56,539)	(65,463)
Income taxes receivable		26,661
Advances to employees	(3,775)	(559)
Accounts payable	1,194,502	(389,470)
Accrued payroll tax withholdings	765	179
Accrued expenses other	(21,782)	(4,075)
Income taxes payable	36,870	
Net cash used in operating activities	(380,976)	(289,328)
Cash flows from investing activities		
Purchases of property and equipment	(1,465)	(15,264)
Payments for patents and trademarks	(790)	
Net payments (advances) on notes receivable stockholder	(50,506)	9,202
Net cash used by investing activities	(52,761)	(6,062)
Cash flows from financing activities		
Payments on notes payable	(12,134)	(35,660)
Purchase of treasury stock	(28,919)	(6,800)
Net cash used in financing activities	(41,053)	(42,460)
Net decrease in cash	(474,790)	(337,850)
Cash beginning of period	599,103	402,468
Cash end of period	\$ 124,313	\$ 64,618

The accompanying selected notes are an integral part of these condensed consolidated financial statements.



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**PART F/S**

**DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.**

**SELECTED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Forward-Looking Statements**

This document includes forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the Securities Act ) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). All statements other than statements of historical fact contained in this document, including, without limitation, the statements under Management's Discussion and Analysis of Financial Condition and Results of Operations and Liquidity and Sources of Capital regarding the Company's strategies, plans, objectives, expectations, and future operating results are forward-looking statements. Such statements also consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology, such as may, expect, anticipate, estimate, or continue or the negative thereof or other variations thereon or comparable terminology. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable at this time, it can give no assurance that such expectations will prove to have been correct. Actual results could differ materially based upon a number of factors including, but not limited to, risks attending litigation and government investigation, inability to raise additional capital or find strategic partners, leverage and debt service, governmental regulation, dependence on key personnel, competition, including competition from other manufacturers of gun locks, and gun cleaning kits, costs and risks attending manufacturing, expansion of operations, market acceptance of the Company's products, limited public market and liquidity, shares eligible for future sale, the Company's common stock ( Common Stock ) being subject to penny stock regulation and other risks detailed in the Company's filings with the United States Securities and Exchange Commission ( SEC or Commission ).

**Nature of Business**

DAC Technologies Group International, Inc. (the Company ), is in the business of developing, marketing and outsourcing the manufacture of various consumer products, patented and non-patented. Since 2003, the Company's primary business has been gun maintenance and gun safety, with a target consumer base of sportsmen, hunters and outdoorsmen, and recreational enthusiasts. In 2005, the Company began developing products in the hunting and camping market, and has continued to develop this market. In 2007 and 2008, the Company added a line of household products, which includes cleaning dusters and fireplace equipment.

Although a significant portion of our business is with the mass-market retailer Wal-Mart (approximately 71% during 2008), we have been able to considerably increase our business with large sporting goods retailers, distributors and catalog companies.

Virtually all of the Company's products are manufactured and imported from mainland China and shipped to the Company's central warehouse facility in Little Rock, Arkansas for distribution. These products, along with other items manufactured in the United States, are sold primarily to mass merchants and sporting goods retailers throughout the United States and international locations.

**Organization and Summary of Significant Accounting Policies**

*Organization and basis of presentation*

The Company was incorporated as a Florida corporation in July 1998 under the name DAC Technologies of America, Inc. In July 1999, the Company changed its name to DAC Technologies Group International, Inc.

**Table of Contents***Unaudited interim condensed consolidated financial statements*

The accompanying condensed consolidated financial statements of the Company as of and for the three months ended March 31, 2009 and 2008, are unaudited, but, in the opinion of management, reflect the adjustments, all of which are of a normal recurring nature, necessary for a fair presentation of such financial statements in accordance with accounting principles generally accepted in the United States. The accompanying condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest 10-K. The results of operations for an interim period are not necessarily indicative of the results for a full year.

*Use of Estimates*

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from those estimates.

*Inventories*

Inventories are stated at the lower of weighted average cost or market. Costs include freight and applicable customs fees. Market is determined based on net realizable value. Appropriate consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value. Inventories are shown net of a valuation reserve of \$61,011 at March 31, 2009 and December 31, 2008. The Company receives inventory from overseas at terms of F.O.B. shipping point, bearing the risk of loss at that point in time. During the time period prior to receipt in the warehouse, inventory is classified and recorded as inventory in transit. Inventory held in the warehouse is classified as finished goods.

	Mar. 31, 2009	Dec. 31, 2008
Inventories consist of:		
Finished goods	\$ 2,562,878	\$ 2,314,319
Inventory in transit	1,337,638	415,102
Parts	27,012	13,142
	\$ 3,927,528	\$ 2,742,563

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The Company factors a majority of its receivables without recourse under a credit risk factoring agreement. The fair values of accounts receivables and the amount due to the factor under this factoring agreement approximate their carrying values due to the short-term nature of the instruments. The amounts borrowed are collateralized by the outstanding accounts receivable, and are reflected as a reduction to accounts receivable in the accompanying condensed consolidated balance sheet. These amounts are as follows:

	Mar. 31, 2009	Dec. 31, 2008
Accounts receivable factored	\$ 2,567,353	\$ 4,724,918
Amounts advanced and outstanding	631,058	3,182,000
Due from factor	\$ 1,936,295	\$ 1,542,918

*Earnings per Share: Dilutive Effect*

Basic earnings per share of common stock are computed by dividing net income applicable to common shares by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of common shares and, if dilutive, the incremental common shares issuable upon the exercise of outstanding stock warrants (using the treasury stock method). For the three months ended March 31, 2009 and 2008, there was no dilutive effect related to these outstanding stock warrants as their exercise price of \$2.57 was greater than the average market price of the common stock during the period.

*Fair Value of Financial Instruments*

The fair values of cash and cash equivalents, accounts receivables and notes payable approximate their carrying values due to the short-term nature of the instruments. The fair value of notes receivable, which is based on discounted cash flows using current interest rates, approximates the carrying value at March 31, 2009 and 2008.

*Accounting Changes*

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interest in Consolidated Financial Statements. SFAS No. 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity and should be reported as equity in the financial statements, rather than in the liability or mezzanine section between liabilities and equity. SFAS No. 160 also requires consolidated net income be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company adopted the provisions of SFAS No. 160 on January 1, 2009. There was no immediate impact on these consolidated financial statements as a result of the adoption of the standard.

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In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS No. 162 will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect the implementation of SFAS No. 162 to have a material effect on its consolidated financial statements.

In March 2008 the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. This statement amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. To meet those objectives, this statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This pronouncement is effective for consolidated financial statements issued for fiscal years and interim periods beginning November 15, 2008, with early application encouraged. The Company adopted the provisions of SFAS No. 161 on January 1, 2009. There was no immediate impact on these consolidated financial statements as a result of the adoption of these standards.

*Treasury Stock Transactions*

During the three months ended March 31, 2009 and 2008, the Company purchased 89,300 and 8,500 shares of its common stock for \$28,919 and \$6,800, respectively. These shares are accounted for as treasury stock in the accompanying condensed consolidated financial statements.

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

The following Management Discussion and Analysis of Financial Condition is qualified by reference to and should be read in conjunction with our Condensed Consolidated Financial Statements and the Notes thereto as set forth at the end of this document. We include the following cautionary statement in this Form 10Q for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, strategies, expectations, future events or performances

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and underlying assumptions and other statements, which are other than statements of historical facts. Certain statements contained herein are forward-looking statements and, accordingly, involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitations, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that management's expectations, beliefs or projections will result or be achieved or accomplished.

Historically, the identification and development of new products and expansion of the Company's sales organization have achieved growth. There can be no assurance that we will be able to continue to develop new products or expand sales to sustain rates of revenue growth and profitability in future periods. Any future success that the Company may achieve will depend upon many factors including those that may be beyond the control of the Company or which cannot be predicted at this time. Although we believe that our expectations are based on reasonable assumptions within the bounds of our knowledge of our business and operations, actual results may differ materially from our expectations.

Factors that could cause actual results to differ from expectations include, without limitations:  
achieving planned revenue and profit growth in each of the Company's business units;

renewal of purchase orders consistent with past experience;

increasing price, products and services competition;

emergence of new competitors or consolidation of existing competitors;

the timing of orders and shipments;

continuing availability of appropriate raw materials and manufacturing relationships;

maintaining and improving current product mix;

changes in customer requirements and in the volume of sales to principal customers;

changes in governmental regulations in the various geographical regions where the Company operates;

general economic and political conditions;

attracting and retaining qualified key employees;

the ability of the Company to control manufacturing and operating costs; and

continued availability of financing, and financial resources on the terms required to support the Company's future business strategies.

In evaluating these statements, you should consider various factors, including those summarized above, and, from time to time, in other reports the Company files with the SEC. These factors may cause the Company's actual results to differ materially from any forward-looking statement. The Company disclaims any obligation to publicly update these statements, or disclose any difference between its actual results and those reflected in these statements. The information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

(a) Background

We are in the business of developing, marketing and outsourcing the manufacture of various consumer products, patented and non-patented. Our products consist of gun cleaning kits and accessories, gun safety items such as gun locks, trigger locks and security safes, hunting and camping accessories, and household items.



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A significant portion of our business is with mass-market retailers, primarily Wal-Mart, as well as gun manufacturers. With the addition of our Gunmaster gun cleaning kits, we continue to increase our business with sporting goods retailers and distributors.

Our products can be grouped into four main categories: (a) gun cleaning and maintenance, (b) hunting and camping, (c) gun safety, and (d) household products. In developing these products, we focus on developing features, establishing patents, and formulating pricing to obtain a competitive edge. We currently design and engineer certain of our products with the assistance of our Chinese trading agent and manufacturers. They are, in addition, responsible for the tooling, manufacture and packaging of our products.

*Gun Maintenance.* We market over fifty (50) different gun cleaning kits, rod sets, tools and accessories used to clean and maintain virtually any firearm on the market. These kits are solid brass, and consist of universal kits designed to fit a variety of firearms, caliber specific kits, as well as replacement brushes, mops, etc. These kits are available in solid wood or aluminum cases, as well as blister packed. We also market several kits that have been privately labeled for certain customers. This product area accounted for 71% and 58% of gross sales during the first three months of 2009 and 2008, respectively.

*Hunting and camping.* This category includes three meat processing items, Sportsman's Lighter, game processing kit, two aluminum camping tables, and a turkey seat. This product area accounted for 6% and 13% of gross sales during the first three months of 2009 and 2008, respectively.

*Gun Safety.* We market twelve (12) different gun safety locks and five (5) security and specialty safes. The gun-locks' composition range from plastic to steel and keyed trigger locks to cable locks. The security safes are of heavy-duty, all steel construction and are designed for firearms, jewelry and other valuables. Eight of the Company's gunlocks and two safes have been certified for sale consistent with the standards set out by the State of California. This product area accounted for 13% and 17% of gross sales during the first three months of 2009 and 2008, respectively.

*Household Products.* We market five household cleaner dusters and a line of household fireplace screens, tools and accessories. This product area accounted for 10% and 12% of gross sales during the first three months of 2009 and 2008, respectively.

### **(b) Financial Condition and Results of Operations**

#### *Financial Condition*

There has been no material change in the overall financial condition of the Company for the period ending March 31, 2009 as compared to December 31, 2008.

The only significant changes on the Company's balance sheet at March 31, 2009 as compared to December 31, 2008 were in inventories and accounts payable. Inventories increased \$1,184,965 and accounts payable accordingly increased \$1,194,502. These increases are normal and expected based on the seasonality of the Company's line of products.

#### *Results of Operations*

For the three months ended March 31, 2009, the Company had net income of \$184,299 on net sales of \$3,533,456, as compared to net income of \$41,974 on net sales of \$2,715,769 for the same period ending

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March 31, 2008. The increase in net income of \$142,325 represents a 339% over 2008, while the increase in net sales of \$817,687 is a 30% increase over 2008.

Sales of the Company's gun cleaning and maintenance products increased \$1,013,481, or 63%, over 2008. Since President Barack Obama has taken office, there has been a tremendous increase in the sales of all types of firearms, due to the uncertainty of what steps the new administration may take in regards to restricting the sale of firearms. Gun and ammunition manufacturers have had difficulty filling orders. It is assumed that the increase in sales of the Company's gun cleaning items is a result of the increase in firearm sales.

The Company's gross margins increased from 26.8% for the three months ended March 31, 2008, to 30.3% for the three months ended March 31, 2009. Over the past two years, the Company's gross margins had been decreasing due to increases in the costs of the Company's products due to increasing commodity, oil and freight costs, as well as a weak U.S. dollar against the Chinese currency. Beginning in the later part of 2008, this trend began to reverse, as commodity and oil prices began to decline. Accordingly, the Company has been able to negotiate lower prices on the cost most of its products while its wholesale pricing has not changed, which is now beginning to be reflected in the increased margins. While there was no significant impact to the Company's gross margins during the first quarter, the Company increased its wholesale pricing to its smaller customers in January 2009.

Operating expenses for the three months ended March 31, 2009 were \$723,838, an increase of \$126,489, or 21% over the three months ended March 31, 2008. This increase is related primarily to the increase in sales, resulting in increased sales commissions, freight costs and other related warehouse costs.

In March 2009, the Company opened an office in Bentonville, Arkansas and hired a former assistant buyer for Wal-Mart to operate this new office. In addition to his knowledge of Wal-Mart operations, this new employee brings a wealth of knowledge and experience in the areas of merchandising and retail sales that is expected to be of great benefit to the Company by expanding its business, not only with Wal-Mart, but with its overall customer base as well.

### **(c) Liquidity and Capital Resources**

Our liquidity needs arise primarily from inventory. Our primary source of cash is funds from our operations. We believe that external sources of liquidity could be obtained in the form of bank loans, letters of credit, etc. The Company maintains a factoring agreement wherein it assigns its receivables (on a non-recourse basis). Consequently, should our sales revenues significantly decline, it could affect our short-term liquidity. The factor performs all credit and collection functions, and assumes all risks associated with the collection of the receivables. The Company pays a fee of 65/100ths of 1% of the face value of each receivable for this service. This fee is included in interest expense on the Company's condensed consolidated statements of operations. The factor may also, at its discretion, advance funds prior to the collection of our accounts, for which the Company is charged interest. The interest rate charged is the JPMorgan Chase Bank prime rate, or 4%, whichever is greater. Advances are payable to the factor on demand. For the three-month period ending March 31, 2009, our factor had advanced us \$631,058.

### **(d) Trends**

Our business has faced the issue of increased manufacturing costs and margin erosion as a result of raw material, fuel and other utility price increases, and a weak U.S. dollar. This put pressure on our margins and

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overhead costs. This trend began to reverse during the later part of 2008, as global commodity prices and oil prices began to decrease. This reversal has benefited the Company as reflected in its increased gross margins. Should this trend continue, the Company would continue to benefit. Accordingly, any reversal of this current trend could result in increased prices for our products, which could result in declining margins.

### (e) Gun Legislation

Several federal laws, including the National Firearms Act (1934), Gun Control Act (1968), Firearms Owner's Protection Act (1986), Brady Handgun Violence Prevention Act (1993), the 1994 Omnibus Crime Control Act and other laws, regulate the ownership, purchase and use of handguns. Notwithstanding these and other laws, there is not any federal law that requires the use of gunlocks, despite numerous attempts in Congress to pass such legislation.

In March 2008, the U. S. Supreme Court decided the case of *District of Columbia vs. Heller*, relating to the issue of whether the gun control laws of Washington, D. C. on non-government persons violated the Second Amendment to the U. S. Constitution, the right to bear arms. The District of Columbia law banned handgun possession by making it a crime to carry an unregistered firearm and prohibiting the registration of handguns. The law separately provided that no person may carry an unlicensed handgun, but authorizes the police chief to issue 1-year licenses; and requires residents to keep lawfully owned firearms unloaded and disassembled or bound by a trigger lock or similar device. The Supreme Court held the Second Amendment to the U.S. Constitution protects an individual right to possess a firearm unconnected with service in a militia, and to use that firearm for traditionally lawful purposes, such as self-defense within the home. The District's total ban on handgun possession in the home amounts to a prohibition on an entire class of arms that Americans overwhelmingly choose for the lawful purpose of self-defense. The Court also held the handgun ban and the trigger-lock requirement (as applied to self-defense) violate the Second Amendment, finding the requirement that any lawful firearm in the home be disassembled or bound by a trigger lock makes it impossible for citizens to use firearms for the core lawful purpose of self-defense and is hence unconstitutional. It is unknown what impact, if any, this ruling will have on our business.

In addition to federal gun laws, most states and some local jurisdictions have imposed their own firearms restrictions. Some states have passed Child Access Prevention (or CAP) Laws which hold gun owners responsible if they leave guns easily accessible to children and a child improperly gains access to the weapon. Additionally, the State of California has enacted legislation that establishes basic performance standards for firearm safety devices, lock-boxes and safes. California law also requires every gun to be sold with a state-approved child-safety lock to make it easier for gun owners to lock up their weapons. The locks must be of sufficient quality to meet state approval. The state contracts with independent laboratories to test gun locks to make sure the locks will work and cannot be easily removed by unauthorized people.

The fact that gun safety laws are passed by federal, state, or local governments does not ensure that the demand for our products will increase. With the election of President Barack Obama his views on gun control may have an impact on our sales of gun safety devices. While in the US Senate, Obama has supported several gun control measures, including restricting the purchase of firearms at gun shows and the reauthorization of the Federal Assault Weapons Ban. Obama voted against legislation protecting firearm manufacturers from certain liability suits, which gun-rights advocates say are designed to bankrupt the firearms industry. Obama did vote in favor of the 2006 Vitter Amendment to prohibit the confiscation of lawful firearms during an emergency or major disaster, which passed. More recently, Obama initially voiced support of Washington DC's handgun ban. Following the Supreme Court decision that the ban was unconstitutional, he revised his position in support of the decision overturning the law, saying and affirming that the Second Amendment protects the right of individuals to bear arms.

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(f) Critical Accounting Estimates

The Company prepares its condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The Company's significant accounting policies are discussed in detail in Note 2 to the December 31, 2008 audited consolidated financial statements included in the Company's Form 10-K. The quarterly financial statements for the period ended March 31, 2009, attached hereto, should therefore be read in conjunction with that discussion. Certain of these accounting policies as discussed below require management to make estimates and assumptions about future events that could materially affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties. For all of these estimates, we caution that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment. Since December 31, 2008, there have been no changes in our critical accounting policies and no significant change to the assumptions and estimates related to them.

*Long-lived Assets.* Depreciation expense is based on the estimated useful lives of the underlying property and equipment. Although the Company believes it is unlikely that any significant changes to the useful lives of its property and equipment will occur in the near term, an increase or decrease in the estimated useful lives would result in changes to depreciation expense.

The Company continually re-evaluates the carrying value of its long-lived assets, for events or changes in circumstances, which indicate that the carrying value may not be recoverable. As part of this re-evaluation, if impairment indicators are present, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposal. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying value of the asset, an impairment loss is recognized to reduce the carrying value of the long-lived asset to the estimated fair value of the asset.

*Inventories.* Inventories are valued at the lower of weighted cost or market. Market is determined based on net realizable value. Appropriate consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value. The Company records a valuation reserve for inventories for which costs exceed the net realizable value. Although the Company believes it is unlikely that any significant changes to the valuation reserve will be necessary in the near term, changes in demand for our products would result in changes to the valuation reserve.

*Patents and Trademarks.* Amortization expense is based on the estimated economic useful lives of the underlying patents and trademarks. Although the Company believes it is unlikely that any significant changes to the useful lives of its patents and trademarks will occur in the near term, rapid changes in technology or changes in market conditions could result in revisions to such estimates that could materially affect the carrying value of these assets and the Company's future consolidated operating results.

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(g) Off-Balance Sheet Arrangements

Since 2003, our Chief Executive Officer, David Collins, leased a portion of his home in Miami, Florida to the Company, which serves as the Company's executive office. The Company pays a monthly office allowance to Mr. Collins of \$5,500, for approximately 1,200 square feet and secretarial support. There is no lease agreement for these premises. This office arrangement was not the product of arm's length negotiation; however, the Company has determined the arrangement to be competitive with comparable office space and secretarial support.

The Company does not use affiliation with special purpose entities, variable interest entities or synthetic leases to finance its operations. Additionally, the Company has not entered into any arrangement requiring it to guarantee payment of third party debt or to fund losses of an unconsolidated special purpose entity.

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

None.

**ITEM 4. CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), that are designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we necessarily are required to apply our judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

As of March 31, 2009, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Company's principal executive officer and principal financial officer concluded the Company's disclosure controls and procedures were not effective, because certain deficiencies involving internal controls constituted a material weakness as more fully detailed in Item 9A of the Company's December 31, 2008 Form 10-K. The material weakness identified did not result in the restatement of any previously reported financial statements or any other related financial disclosure, nor does management believe that it had any effect on the accuracy of the Company's financial statements for the current reporting period.

**Item 4T. CONTROLS AND PROCEDURES**

There was no material change to the Company's internal control over financial reporting during its most recent fiscal quarter from that of December 31, 2008.

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

None

**ITEM 1A. RISK FACTORS**

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations, and trading price of our common stock. Please refer to our annual report on Form 10-K for fiscal year 2008 for additional information concerning these and other uncertainties that could negatively impact the Company.

**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**

The following documents are incorporated by reference from Registrant's Form 10SB filed with the Securities and Exchange Commission (the "Commission"), File No. 000-29211, on January 28, 2000:

**Exhibits**

2 Acquisition Agreement

3(i) Articles of Incorporation

3(ii) By-laws

Exhibits required by Item 601 of Regulation S-K attached:

**Exhibits**

31.1 Certification of David A. Collins Pursuant to Rule 13a-14(a)/15d-14(a)

31.2 Certification of Robert C. Goodwin Pursuant to Rule 13a-14(a)/15d-14(a)

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- 32.1 Certification of David A. Collins Pursuant to Rule 13a-14(b) or Rule 15d-14(c) of the Securities Exchange Act of 1934 and 18U.S.C. Section 1350
- 32.2 Certification of Robert C. Goodwin Pursuant to Rule 13a-14(b) or Rule 15d-14(c) of the Securities Exchange Act of 1934 and 18U.S.C. Section 1350

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, hereunto duly authorized:

By: /s/ David A. Collins

David A. Collins, Chairman, CEO and Principal Executive Officer

By: /s/ Robert C. Goodwin

Robert C. Goodwin, Principal Accounting Officer and Principal Financial Officer

Dated: May 15, 2009