DAC TECHNOLOGIES GROUP INTERNATIONAL INC
Form 10-Q
November 14, 2008

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

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

For the quarterly period ended September 30, 2008

o 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
(Address of principal executive offices)	(Zip Code)

(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 þ No o (2) Yes þ No o

Indicate by check mark whether the registrant is a large filer, an accelerated filer, a non-accelerated filer, or a small reporting company.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x 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 November 6, 2008, 6,323,364 shares of Common Stock are issued and 6,032,899 are outstanding.

Transitional Small Business Disclosure Format: Yes o No x

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Our financial statements are contained in pages 4 through 9 following.

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DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
Condensed Consolidated Balance Sheet
September 30, 2008 and December 31, 2007

	September 30 2008 (Unaudited)	December 31 2007
Assets		
Current assets		
Cash	$ 45,974	$ 402,468
Accounts receivable, less allowance for doubtful accounts of $5,000 in 2008 and 2007	750,015	263,646
Due from factor	398,245	765,510
Inventories	5,449,191	4,925,275
Prepaid expenses and deferred charges	108,550	115,686
Income taxes receivable	56,479	153,870
Current deferred income tax benefit	35,815	35,815
Total current assets	6,844,269	6,662,270
Property and equipment		
Leasehold improvements	55,323	55,323
Furniture and fixtures	296,456	278,322
Molds, dies, and artwork	536,809	513,949
	888,588	847,594
Accumulated depreciation	(609,971)	(573,458)
Net property and equipment	278,617	274,136
Other assets		
Patents and trademarks, net of accumulated amortization of $115,809 and $104,208 in 2008 and 2007	125,681	133,762
Deposits	17,351	17,351
Advances to employees	30,692	28,925
Note receivable Long-term	20,000	20,000
Related party	72,518	72,518
Shareholder	174,380	178,465
Total other assets	440,622	451,021
Total assets	$ 7,563,508	$ 7,387,427

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 Sheet
September 30, 2008 and December 31, 2007

	September 30 2008 (Unaudited)	December 31 2007
Liabilities and Stockholders Equity		
Current liabilities		
Notes payable	$ 116,426	$ 183,186
Accounts payable	2,494,707	2,393,050
Accrued payroll tax withholdings	25,803	25,338
Accrued expenses-other	32,843	38,872
Total current liabilities	2,669,779	2,640,446
Deferred income tax liability	53,100	33,100
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 Sept. 30, 2008 and Dec. 31, 2007; 6,032,899 and 6,041,399 shares outstanding at Sept. 30, 2008 and Dec, 31, 2007, respectively	6,323	6,323
Additional paid-in capital	1,963,102	1,963,102
Treasury stock, at cost	(313,947)	(307,147)
Retained earnings	3,185,151	3,051,603
Total stockholders equity	4,840,629	4,713,881
Total liabilities and stockholders equity	$ 7,563,508	$ 7,387,427

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 September 30, 2008 and 2007
(Unaudited)

	2008	2007
Net sales	$ 3,920,460	$ 3,380,969
Cost of sales	2,999,174	2,415,100
Gross profit	921,286	965,869
Operating expenses		
Selling	409,518	373,260
General and administrative	279,278	295,982
Total operating expenses	688,796	669,242
Income from operations	232,490	296,627
Other income (expense)		
Interest expense	(63,893)	(73,619)
Total other income (expense)	(63,893)	(73,619)
Income before income tax provision	168,597	223,008
Provision for income taxes	85,113	76,240
Net income	$ 83,484	$ 146,768
Basic and diluted earnings per share	$ 0.01	$ 0.02
Weighted average number of common shares:		
Basic and diluted	6,032,899	6,108,045

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 Nine Months Ended September 30, 2008 and 2007
(Unaudited)

	2008	2007
Net sales	$ 9,360,487	$ 8,960,497
Cost of sales	7,029,159	6,270,727
Gross profit	2,331,328	2,689,770
Operating expenses		
Selling	1,061,411	1,107,876
General and administrative	848,629	970,076
Total operating expenses	1,910,040	2,077,952
Income from operations	421,288	611,818
Other income (expense)		
Interest expense	(170,349)	(210,385)
Total other income (expense)	(170,349)	(210,385)
Income before income tax provision	250,939	401,433
Provision for income taxes	117,391	156,247
Net income	$ 133,548	$ 245,186
Basic and diluted earnings per share	$ 0.02	$ 0.04
Weighted average number of common shares:		
Basic and diluted	6,033,985	6,122,613

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 September 30, 2008 and 2007
(Unaudited)

	2008	2007
Cash flows from operating activities		
Net income	$ 83,484	$ 146,768
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	12,171	13,356
Amortization	3,867	3,871
Deferred income tax liability	20,000	
Changes in operating assets and liabilities		
Accounts receivable	(175,136)	123,729
Due from factor	(95,547)	(117,789)
Inventories	(1,087,607)	(1,044,915)
Prepaid expenses and deferred charges	47,526	(6,797)
Income taxes receivable	65,113	76,240
Advances to employees	(117)	4,668
Accounts payable	1,111,103	910,171
Accrued payroll tax withholdings	452	(6,643)
Accrued expenses other	14,955	(3,928)
Net cash provided by operating activities	264	98,731
Cash flows from investing activities		
Purchases of property and equipment	(11,052)	(9,014)
Net payments (advances) on notes receivable shareholder	(658)	356
Net cash used by investing activities	(11,710)	(8,658)
Cash flows from financing activities		
Payments on notes payable	(11,525)	(34,484)
Purchase of treasury stock		(27,068)
Net cash used by financing activities	(11,525)	(61,552)
Net increase (decrease) in cash	(22,971)	28,521
Cash beginning of period	68,945	78,426
Cash end of period	$ 45,974	$ 106,947

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 Nine Months Ended September 30, 2008 and 2007
(Unaudited)

	2008	2007
Cash flows from operating activities		
Net income	$ 133,548	$ 245,186
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	36,513	37,379
Amortization	11,601	11,807
Deferred income tax liability	20,000	
Changes in operating assets and liabilities		
Accounts receivable	(486,369)	(735,234)
Due from factor	367,265	841,703
Inventories	(523,916)	(3,074,082)
Prepaid expenses and deferred charges	7,136	(56,303)
Income taxes receivable	97,391	156,247
Deposits		(5,916)
Advances to employees	(1,767)	(10,610)
Accounts payable	101,657	2,562,232
Accrued payroll tax withholdings	465	(6,481)
Accrued expenses other	(6,029)	(30,662)
Net cash used by operating activities	(242,505)	(64,734)
Cash flows from investing activities		
Purchases of property and equipment	(40,994)	(93,249)
Payments for patents and trademarks	(3,520)	(1,755)
Net payments (advances) on notes receivable shareholder	4,085	(41,897)
Net cash used by investing activities	(40,429)	(136,901)
Cash flows from financing activities		
Proceeds from notes payable		96,500
Payments on notes payable	(66,760)	(70,959)
Purchase of treasury stock	(6,800)	(55,927)
Net cash used by financing activities	(73,560)	(30,386)
Net decrease in cash	(356,494)	(232,021)
Cash beginning of period	402,468	338,968

Cash end of period	$ 45,974	$ 106,947

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

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 safety and gun maintenance, with a target consumer base of sportsmen, hunters and outdoorsmen, and recreational enthusiasts. The Company has continued to expand its line of GunMaster® gun cleaning kits and accessories, becoming a leader in this market. In 2005, the Company began developing products in the hunting and camping market, which accounted for 28% of the Company s sales in 2007. The Company has begun to expand its product line into household products, including household cleaning items added in 2007, and a line of fireplace equipment added in the third quarter of 2008.

Although a significant portion of our business is with the mass-market retailer Wal-Mart (approximately 66% during 2007 and the first nine months of 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.

Unaudited interim condensed consolidated financial statements

The accompanying condensed consolidated financial statements of the Company as of and for the nine months ended September 30, 2008 and 2007, and for the three months ended September 30, 2008 and 2007, 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-KSB. The results of operations for an interim period are not necessarily indicative of the results for a full year.

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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 $82,926 at September 30, 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.

	Sept. 30, 2008	Dec. 31, 2007
Inventories consist of:		
Finished goods	$ 3,969,385	$ 3,993,949
Inventory in transit	1,456,839	908,359
Parts	22,967	22,967
	$ 5,449,191	$ 4,925,275

Due from Factor

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:

	Sept. 30, 2008	Dec. 31, 2007
Accounts receivable factored	$ 2,465,843	$ 4,508,524
Amounts advanced and outstanding	2,067,598	3,743,014
Due from factor	$ 398,245	$ 765,510

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 nine months and the three months ended September 30, 2008 and 2007, 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.

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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 September 30, 2008 and December 31, 2007.

Accounting Changes

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements, which provides enhanced guidance for using fair value to measure assets and liabilities. Under the new standard, fair value refers to the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard provides a fair value hierarchy wherein quoted prices in active markets are assigned the highest priority and the lowest priority assigned to unobservable data. The standard is effective for the financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company adopted the provisions of SFAS No. 157 on January 1, 2008. There was no impact on these consolidated financial statements as a result of the adoption of the standard.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which includes an amendment to the guidance in SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. This statement permits entities to choose to measure many financial instruments and certain other items at fair value in order to allow entities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The statement applies to all entities, including non-profit entities; however, most of the provisions apply only to those entities electing the fair value option. The standard is effective for financial statements issued for fiscal years beginning after November 15, 2007, provided the entity also elects to apply the provisions of FASB SFAS No. 157, Fair Value Measurements. The Company adopted the provisions of SFAS No. 159 on January 1, 2008. There was no impact on these consolidated financial statements as a result of the adoption of the standard.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement clarifies that a noncontrolling 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 noncontrolling 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 s management does not anticipate that this pronouncement will have a material impact on the consolidated financial statements.

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

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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.

Treasury Stock Transactions

During the nine months ended September 30, 2008 the Company purchased 8,500 shares of its common stock in the open market at a total cost of $6,800. These shares are accounted for as treasury stock (at cost) 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 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, designed to enhance and provide security for the consumer and for his property. 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. In 2007, we expanded our product line into household products, which includes cleaning dusters and fireplace accessories.

While the Company s line of GunMaster® gun cleaning kits continues to account for over 52% of the Company s revenues, opportunities for significant growth are expected to come from the household product area. The Company is currently working on expanding further its line of household cleaning items.

A significant portion of our business is with mass-market retailers, primarily Wal-Mart, as well as 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, manufacturing 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 52% and 55% of gross sales during the first nine months of 2008 and 2007, respectively.

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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 23% and 31% of gross sales during the first nine months of 2008 and 2007, 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 11% and 14% of gross sales during the first nine months of 2008 and 2007, respectively.

Household Products. We market five household cleaner dusters and a line of fireplace equipment. The fireplace equipment includes two fireplace screens, two fireplace toolsets and individual accessories. This product area, new for 2008, accounted for 14% of gross sales during the first nine months of 2008.

(b) Financial Condition and Results of Operations

Financial Condition

A summary of the significant balance sheet items at September 30, 2008 as compared to year-end December 31, 2007 is presented below:

	Sept. 30, 2008	Dec. 31, 2007%	Change
Accounts receivable	$ 750,015	$ 263,646	184%
Due from factor	398,245	765,510	(48%)
Inventories	5,449,191	4,925,275	11%
Total current assets	6,844,269	6,662,270	3%
Accounts payable	2,494,707	2,393,050	4%
Total current liabilities	2,669,779	2,640,446	1%
Working capital	4,174,490	4,021,824	4%
Stockholders equity	4,840,629	4,713,881	3%

There has been no material change in the overall financial condition of the Company for the period ending September 30, 2008 as compared to December 31, 2007.

The combined accounts receivable and due from factor represents the Company s total accounts receivable less funds advanced by the Company s factor. The overall increase of $119,104 on these combined amounts from December 31, 2007 to September 30, 2008 is immaterial.

All other significant balance sheet items remained virtually unchanged from December 31, 2007 to September 30, 2008.

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Results of Operations

Nine Months Ended September 30, 2008 and 2007

For the nine months ended September 30, 2008, the Company had net income of $133,548 on net sales of $9,360,487, as compared to net income of $245,186 on net sales of $8,960,497 for the nine months ended September 30, 2007. The Company continues to experience inflationary pressure on its gross margins due to rising commodity prices, particularly steel, aluminum, plastics and oil. Gross margins decreased from 30% for the nine months ended September 30, 2007 to 25% for the nine months ended September 30, 2008.

Operating expenses for the nine months ended September 30, 2008 decreased $167,912, or 8% from the same period in 2007. Of this decrease, $146,500 is due to the one time charge related to the settlement of a lawsuit with the Company s former insurance carrier during the period ended September 30, 2007. The remaining decrease of $21,412 is the net effect of a number of items. Freight costs and commission expenses decreased $29,384 and $41,953, respectfully. These decreases were offset by increased costs related to the development and marketing of the Company s new household products, including travel overseas, and increased participation in various trade shows.

Three Months Ended September 30, 2008 and 2007

For the three months ended September 30, 2008, the Company had net income of $83,484 on net sales of $3,920,460, as compared to net income of $146,768 on net sales of $3,380,969 for the same period ending September 30, 2007. The increase in sales is a direct result of the sales of the Company s new product line of household cleaning products and fireplace equipment and accessories.

Gross margins decreased from 29% for the three month period in 2007 to 24% in 2008, offsetting the increased sales to the bottom line. Operating expenses for the three months ended September 30, 2008 remained virtually unchanged from the same period in 2007, increasing $19,554, or 3%.

(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 (5.00% as of September 30, 2008). Advances are payable to the factor on demand. For the nine-month period ending September 30, 2008, our factor had advanced us $2,067,598.

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(d) Trends

Our business faces the issues 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 has put pressure on our margins and overhead costs. Any strengthening of the U.S. dollar, or decrease in commodity prices, would impact favorably on our business, as this would ease the pressure on margins and increase our competitiveness. During the past few months, there have been some significant decreases in global commodity prices. The Company has recently been able to negotiate lower prices for future orders on many of its products. The positive affect on the Company s margins from these lower prices will not be realized until current inventories are liquidated and the new orders are received. There is also no guarantee that the current trend of decreasing commodity prices will continue for any significant period of time.

The recent downturn in the economy in the United States may also have a negative affect on sales of the Company s products in the near future.

(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 performance standards for firearm safety devices , lock-boxes and safes . 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-elect 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

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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.

(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, 2007 audited consolidated financial statements included in the Company s Form 10-KSB. The quarterly financial statements for the period ended September 30, 2008, 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, 2007, 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 reevaluates 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 reevaluation, 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 average 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.

(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 September 30, 2008, 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 8A of the Company s December 31, 2007 Form 10-KSB. 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, 2007.

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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-KSB for fiscal year 2007 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)
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

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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: November 14, 2008