DAC TECHNOLOGIES GROUP INTERNATIONAL INC
Form 10QSB
November 14, 2007

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

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

For the quarterly period ended September 30, 2007

o TRANSITION REPORT UNDER 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.

(Name of Small Business Issuer 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

(Issuer s telephone number)

Check whether the Issuer (1) has filed all reports required to be filed by the 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.

(1) Yes x No o (2) Yes x No o

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, 2007, 6,323,364 shares of Common Stock are issued and 6,089,699 are outstanding.

Transitional Small Business Disclosure Format: Yes o No x

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PART I

ITEM 1. FINANCIAL STATEMENTS

DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
Condensed Balance Sheet (Consolidated)
September 30, 2007
Unaudited

Assets	
Current assets	
Cash	$ 106,947
Accounts receivable, less allowance for doubtful accounts of $5,000	1,267,262
Due from factor	440,505
Inventories	6,204,907
Prepaid expenses and deferred charges	165,268
Income taxes receivable	214,570
Current deferred income tax benefit	35,815
Total current assets	8,435,274
Property and equipment	
Leasehold improvements	55,323
Furniture and fixtures	260,767
Molds, dies, and artwork	511,233
	827,323
Accumulated depreciation	(559,845)
Net property and equipment	267,478
Other assets	
Patents and trademarks, net of accumulated amortization of $100,272	137,698
Deposits	17,351
Advances to employees	34,717
Note receivable long term	20,000
Note receivable related party	72,518
Note receivable stockholder	172,428
Total other assets	454,712
Total assets	$ 9,157,464

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

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DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
Condensed Balance Sheet (Consolidated)
September 30, 2007
Unaudited

Liabilities and Stockholders Equity	
Current liabilities	
Notes payable	$ 218,274
Accounts payable	4,202,677
Accrued payroll tax withholdings	18,463
Accrued expenses-other	16,890
Total current liabilities	4,456,304
Deferred income tax liability	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 and 6,089,699 shares outstanding	6,323
Additional paid-in capital	1,963,102
Treasury stock, at cost	(257,260)
Retained earnings	2,955,895
Total stockholders equity	4,668,060
Total liabilities and stockholders equity	$ 9,157,464

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

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DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
Condensed Statements of Operations (Consolidated)
For The Nine Months Ended September 30, 2007 and 2006
Unaudited

	2007	2006
Net sales	$ 8,960,497	$ 9,416,561
Cost of sales	6,270,727	6,373,054
Gross profit	2,689,770	3,043,507
Operating expenses		
Selling	1,107,876	1,163,956
General and administrative	970,076	780,127
Total operating expenses	2,077,952	1,944,083
Income from operations	611,818	1,099,424
Other income (expense)		
Interest expense	(210,385)	(190,645)
Total other income (expense)	(210,385)	(190,645)
Income before income tax provision	401,433	908,779
Provision for income taxes	156,247	345,358
Net income	$ 245,186	$ 563,421
Basic and diluted earnings per share	$ 0.04	$ 0.09
Weighted-average number of common shares:		
Basic and diluted	6,122,613	6,166,068

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

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DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
Condensed Statements of Operations (Consolidated)
For The Three Months Ended September 30, 2007 and 2006
Unaudited

	2007	2006
Net sales	$ 3,380,969	$ 3,936,195
Cost of sales	2,415,100	2,648,589
Gross profit	965,869	1,287,606
Operating expenses		
Selling	373,260	504,625
General and administrative	295,982	270,015
Total operating expenses	669,242	774,640
Income from operations	296,627	512,966
Other income (expense)		
Interest expense	(73,619)	(79,774)
Total other income (expense)	(73,619)	(79,774)
Income before income tax provision	223,008	433,192
Provision for income taxes	76,240	159,269
Net income	$ 146,768	$ 273,923
Basic and diluted earnings per share	$ 0.02	$ 0.04
Weighted average number of common shares:		
Basic and diluted	6,108,045	6,135,599

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

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DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
Condensed Statements of Cash Flows (Consolidated)
For the Nine Months Ended September 30, 2007 and 2006
Unaudited

	2007	2006
Cash flows from operating activities		
Net income	$ 245,186	$ 563,421
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	37,379	42,773
Amortization	11,807	13,098
Deferred income taxes		(8,615)
Changes in operating assets and liabilities		
Accounts receivable	(735,234)	(680,047)
Due from factor	841,703	698,952
Inventories	(3,074,082)	(1,689,391)
Advances to employees	(10,610)	(19,368)
Prepaid expenses and deferred charges	(56,303)	(62,787)
Income taxes receivable	156,247	(87,184)
Deposits	(5,916)	
Accounts payable	2,562,232	1,626,061
Accrued payroll tax withholdings	(6,481)	(2,489)
Accrued expenses other	(30,662)	23,350
Income taxes payable		(380,843)
Net cash provided (used) by operating activities	(64,734)	36,931
Cash flows from investing activities		
Purchases of property and equipment	(93,249)	(12,595)
Payments for patents and trademarks	(1,755)	(7,246)
Net advances on note receivable related party		(427)
Net advances on note receivable stockholder	(41,897)	24,917
Purchase of treasury stock	(55,927)	(99,933)
Net cash used by investing activities	(192,828)	(95,284)
Cash flows from financing activities		
Proceeds from notes payable	96,500	
Payments on notes payable	(70,959)	(33,382)
Net cash provided (used) by financing activities	25,541	(33,382)
Decrease in cash	(232,021)	(91,735)
Cash beginning of period	338,968	130,886
Cash end of period	$ 106,947	$ 39,151

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

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DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
Condensed Statements of Cash Flows (Consolidated)
For the Three Months Ended September 30, 2007 and 2006
Unaudited

	2007	2006
Cash flows from operating activities		
Net income	$ 146,768	$ 273,923
Adjustments to reconcile net income to net cash provided (used) in operating activities:		
Depreciation	13,356	15,000
Amortization	3,871	5,000
Deferred income tax provision		(2,872)
Changes in operating assets and liabilities		
Accounts receivable	123,729	48,113
Due from factor	(117,789)	(62,028)
Inventories	(1,044,915)	(886,647)
Advances to employees	4,668	(6,517)
Prepaid expenses and deferred charges	(6,797)	436
Income taxes receivable	76,240	12,141
Accounts payable	910,171	228,429
Accrued payroll tax withholdings	(6,643)	(3,890)
Accrued expenses other	(3,928)	43,751
Net cash provided (used) in operating activities	98,731	(335,161)
Cash flows from investing activities		
Purchases of property and equipment	(9,014)	
Net advances on notes receivable stockholder	356	28,155
Purchase of treasury stock	(27,068)	
Net cash provided (used) by investing activities	(35,726)	28,155
Cash flows from financing activities		
Payments on notes payable	(34,484)	(9,867)
Net cash used in financing activities	(34,484)	(9,867)
Increase (decrease) in cash	28,521	(316,873)
Cash beginning of period	78,426	356,024
Cash end of period	$ 106,947	$ 39,151

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. The Company s primary business is gun safety and gun maintenance with a target consumer base of sportsmen, hunters and outdoorsmen, and recreational enthusiasts. The Company s products have historically been security related, evolving from various personal, home and automotive electronic security devices, to firearm safety devices such as gun and trigger locks, cable locks and safes. In 2003, the product line was expanded to include a line of gun cleaning kits and accessories. This line has continued to be expanded, and through the third quarter of 2007 has accounted for approximately 55% of the Company s sales revenues. In 2005, the Company began developing products in the hunting and camping market, adding a line of meat processing items. The Company continues to develop this market, having added a knife processing kit, aluminum camping table and turkey seat. Hunting and camping has accounted for 31% of the Company s sales through the third quarter of 2007. The Company has begun to expand its product line into household products, adding a wooden fireplace bellow in the third quarter of 2007, and started production of three cleaning dusters that will begin to ship to customers in December 2007.

Although a significant portion of our business is with the mass-market retailer Wal-Mart (approximately 61%), we have been able to considerably increase our business with large sporting goods retailers, distributors and catalog companies.

The majority 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, 2007 and 2006 and for the three months ended September 30, 2007 and 2006, 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

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disclosures made are adequate to make the information not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company s latest 10KSB. 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 $82,926 at September 30, 2007. 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, 2007
Inventories consist of:		
Finished goods	$	4,586,807
Inventory in transit		1,595,133
Parts		22,967
	$	6,204,907

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, 2007
Accounts receivable factored	$	2,570,872
Amounts advanced and outstanding		2,130,367
Due from factor	$	440,505

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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 three months ended September 30, 2007 and 2006, 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.

Accounting Changes

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income tax positions. FIN 48 requires that the Company recognize in the consolidated financial statements the impact of a tax position that is more likely than not to be sustained upon examination based on the technical merits of the position. Effective January 1, 2007, the Company adopted the provisions of FIN 48. The adoption of FIN 48 did not have a material impact on the condensed consolidated financial statements of the Company.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. The Company s management does not anticipate that this pronouncement will have a significant impact on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities (SFAS 159), to permit all entities to choose to elect to measure eligible financial instruments at fair value. SFAS 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS 157, Fair Value Measurements. An entity is prohibited from retrospectively applying SFAS 159, unless it chooses early adoption. Management is currently evaluating the impact of SFAS 159 on its consolidated financial statements.

Treasury Stock Transactions

During the three months ended September 30, 2007, the Company purchased 23,800 shares of its common stock in the open market at a total cost of $27,068. These shares are accounted for as treasury stock (at cost) in the accompanying condensed consolidated financial statements.

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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 10QSB 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.

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(a) Background

Details

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, and hunting and camping accessories. In 2007, we have begun to expand our product line into household products, having added a wooden fireplace bellow during the third quarter and production of three new cleaning dusters that will begin shipping to customers in December 2007.

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.

The Company s business plan and strategy for growth focuses on**:**

increased penetration of our existing markets, particularly in the gun cleaning and accessories market;

development of new products in new markets, such as camping and housewares;

development of new products for the sporting goods market;

identification and development of new markets for gun cleaning kits, i.e. government, law enforcement and military;

identification and recruitment of effective manufacturer s representatives to actively market these products on a national and international basis; and

aggressive cost containment.

Management believes that continued growth would require the Company to continually innovate and improve its existing line of products and services to meet consumer, industry and governmental demands. In addition, we must continue to develop or acquire new and unique products that will appeal to gun owners and other outdoor activities.

In addition to our traditional products, our management is actively pursuing initiatives, which may add complementary businesses, products and services. These initiatives are intended to broaden the base of revenues to make us less dependent on particular products. By developing businesses which focus on products and services which complement our current line of products, and our current customer base, management hopes to leverage these opportunities to not only develop new sources of revenue, but to strengthen the demand for our existing products.

Our products can be grouped into four main categories: (a) gun cleaning and maintenance, (b) hunting and camping, (c) gun safety, and (d) other 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 our products with the assistance of our Chinese and domestic manufacturers, who are 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 55% of sales during the first nine months of 2007.

Hunting and camping. This category includes three meat processing items, Sportsman s Lighter, game processing kit, aluminum camping table, turkey seat and camo drink coolers. This product area accounted for 31% of sales during the first nine months of 2007.

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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, 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 14% of sales during the first nine months of 2007.

Other Products. We market four (4) different electronic security devices designed to protect the person, and two licensed products, the Clampit Cupholder and Plateholder. A new wooden fireplace bellow was added in the third quarter of 2007. This product area accounts for less than one percent of the Company s sales.

(b) Financial Condition and Results of Operations

Results of Operations

Three Months Ended September 30, 2007 and 2006

	2007	2006	Increase (Decrease)	Percent Change
Net sales	$ 3,380,969	$ 3,936,195	$ (555,226)	(14%)
Gross profit	965,869	1,287,606	(321,737)	(25%)
Operating expenses	669,242	774,640	(105,398)	(14%)
Income from operations	296,627	512,966	(216,339)	(42%)
Net income	146,768	273,923	(127,155)	(46%)

The decrease in net sales for the three months ended September 30, 2007 as compared to 2006, is the result of several factors. Sales to several of the Company s larger sporting goods customers were down due to different delivery dates from last year. The unseasonably warm weather across the country has also affected sales for gun related products.

Going forward, the Company has begun production of a line of household cleaning dusters that will begin shipping in the fourth quarter, and a new large aluminum camping table that will begin shipping in January 2008. The Company estimates that, based upon communication with Wal-Mart, these items will add over $3,300,000 in additional annual revenue in 2008 just from Wal-Mart alone. The Company will continue to expand its product line in the household cleaning products to include additional dusters, mops, brooms, and brushes. The Company has also begun to develop a line of fireplace accessories, including a new wooden fireplace bellows that began shipping in the third quarter of 2007.

Gross profit margins are down for the three-month period as compared to last year by about 3%, but at 29%, equal gross margins for the year 2006. Gross profit margins continue to be pressured by the declining value of the US dollar versus the Chinese RMB. Also, sales of lower gross margin items such as meat grinders and knife sets have affected gross margins. The Company expects fourth quarter margins to increase over fourth quarter 2006 margins.

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In June of 2007, the Company instituted a price increase to its general customer base of approximately 8%, which did not include Wal-Mart. Wal-Mart has communicated to the Company s management that it will consider a price increase in January 2008 for the Company s gun cleaning and gun accessory items. The Company anticipates that this price increase will be around 5% on these items.

Operating expenses for the three-month period ended September 30, 2007, decreased by 14% over 2006. General and administrative expenses increased $25,967, or 10% over 2006. Insurance costs for the Company s liability insurance increased $21,936, and accounting fees increased $14,244 over last year. Overall, all other general and administrative expenses decreased over the prior year. Selling expenses, (including warehouse and shipping costs), decreased $131,365, or 26% over last year. Of this decrease, $46,122 is from decreased commissions resulting from the decrease in sales. The remaining decrease of $85,243 is directly attributable to cost saving measures initiated by the Company earlier this year. Significant savings have been realized in the areas of freight, warehouse, and travel costs.

Nine Months Ended September 30, 2007 and 2006

	2007	2006	Increase (Decrease)	Percent Change
Net sales	$ 8,960,497	$ 9,416,561	$ (456,064)	(5%)
Gross profit	2,689,770	3,043,507	(353,737)	(12%)
Operating expenses	2,077,952	1,944,083	133,869	7%
Income from operations	611,818	1,099,424	(487,606)	(44%)
Net income	245,186	563,421	(318,235)	(56%)

The decrease in sales for the nine months ended September 30, 2007 as compared to the same period in 2006 is due to the decrease in third quarter sales as discussed above. Gross profit margins for the nine months ended September 30, 2007 was 30%, down from 32% in the prior year.

Operating expenses for the nine-month period increased $133,869 over the prior year. If not for the one time expense of $146,500 in the first quarter of 2007 for the settlement of a lawsuit, operating expenses for the nine-month period would have decreased by $12,631. General and administrative expenses increased $189,949 (including the $146,500 lawsuit settlement). The remaining increase of $43,449 is directly caused by increases in liability insurance and accounting fees. Selling expenses decreased $56,080 over the prior year. Of this decrease, $27,933 is from decreased sales commissions due to decreased sales. The remaining decrease is the result of the cost saving measures related to freight and shipping costs.

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Financial Condition

A summary of the significant balance sheet items at September 30, 2007 as compared to year-end December 31, 2006 is presented below:

	Sept. 30, 2007	Dec. 31, 2006
Accounts receivable	$ 1,267,262	$ 532,028
Due from factor	440,505	1,282,208
Inventories	6,204,907	3,130,825
Total current assets	8,435,274	5,799,626
Accounts payable	4,202,677	1,640,445
Total current liabilities	4,456,304	1,905,674
Working capital	3,978,970	3,893,952
Stockholders equity	4,668,060	4,478,801

The only significant changes as reflected above relate to inventory levels and accounts payable. Inventories at September 30, 2007 increased $3,074,082 over December 31, 2006. Because of the seasonality of the Company s business, inventory needs for the fourth quarter is significantly greater than for the first quarter. Therefore, the Company begins to build its inventory levels towards the end of the third quarter in anticipation of this increased need. Accounts payable increased $2,562,232 from December 31, 2006 to September 30, 2007, in direct relation to the increase in inventory.

The Company s overall financial condition continues to be strong as a result of continuing profits.

(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. The factor may also, at its discretion, advance funds prior to the collection of our accounts, for which the Company is charged interest. Advances are payable to the factor on demand. For the period ending September 30, 2007, our factor had advanced us $2,130,367.

(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 will put pressure on our margins and overhead costs. Any strengthening of the U.S. dollar would impact favorably on the business, as this would ease the pressure on margins and increase our competitiveness. Current trends, however, suggest a continued weakening which will place additional pressure on our sales into our markets.

(e) Gun Legislation

Several federal laws regulate the ownership, purchase and use of handguns, including the 1968 Gun Control Act and the Brady Bill. 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.

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 .

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The fact that gun safety laws are passed by federal, state, or local governments does not ensure that the demand for our gun safety products will increase.

(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, 2006 audited consolidated financial statements included in the Company s Form 10KSB. The quarterly financial statements for the period ended September 30, 2007, attached hereto, and 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, 2006, 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 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.

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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. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company s management, with the participation of the Principal Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on that evaluation, the Company s Principal Executive Officer and Principal Financial Officer have concluded that, as of September 30, 2007, such controls and procedures were effective.

(b) Definition of Disclosure Controls

Disclosure Controls are controls and other procedures of the Company designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure Controls are also designed to ensure that such information is accumulated and communicated to our management, including the Company s principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

(c) Limitations on the Effectiveness of Controls

Our CEO and CFO do not expect that our Disclosure Controls or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls

must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

(d) Conclusions

Based upon the Disclosure Controls evaluation referenced above, our acting CEO and our CFO have concluded that, subject to the limitations noted above, as of the end of the period covered by this Quarterly Report, our Disclosure Controls were effective.

(e) Changes in Internal Controls

The Company s management, with the participation of the Principal Executive Officer and Principal Financial Officer, have evaluated any changes in the Company s internal control over financial reporting that occurred during the period covered by this quarterly report, and they have concluded that there was no material change to the Company s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

(f) Sarbanes-Oxley Section 404 Compliance

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission adopted rules requiring public companies to include a report of management on the Company s internal controls over financial reporting in their annual reports. In addition, the independent registered public accounting firm auditing a company s financial statements must also attest to and report on management s assessment of the effectiveness of the company s internal controls over financial reporting as well as the operating effectiveness of the company s internal controls. We were not subject to these requirements for the fiscal year ended December 31, 2006. Management will assess its internal controls over financial reporting in its annual report for 2007; however, management s assessment will not be audited until fiscal 2008.

Notwithstanding, there is risk that we may not be able to comply with all of the requirements imposed by this rule. At present there is no precedent available with which to measure compliance adequacy. In the event we identify significant deficiencies or material weaknesses in our internal controls that we cannot remediate in a timely manner or we are unable to receive a positive attestation from our independent registered public accounting firm with respect to our internal controls, investors and others may lose confidence in the reliability of our financial statements and our stock price and ability to obtain equity or debt financing as needed could suffer. In addition, in the event that our independent registered public accounting firm is unable to rely on our internal controls in connection with their audit of our financial statements, and in the further event that they are unable to devise alternative procedures in order to satisfy themselves as to the material accuracy of our financial statements and related disclosures, it is possible that we would receive a qualified or adverse audit opinion on those financial statements which could also adversely affect the market price of our common stock and our ability to secure additional financing as needed.

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PART II

ITEM 1. LEGAL PROCEEDINGS

On December 16, 2005, Continental Western Insurance Company filed suit against the Company in the Circuit Court of Pulaski County, Arkansas, claiming unpaid insurance premiums in the amount of $236,121 relating to the product liability portion of the policy. On April 30, 2007, the Company settled this suit by agreeing to pay Continental Western at total of $146,500. Terms of this settlement call for the Company to pay $50,000 on April 30, 2007, with the balance of $96,500 to be paid in twelve equal monthly installments of $8,305.41 beginning May 15, 2007.

On November 8, 2005, the Company was sued in the Court of Common Pleas, in Dauphin County, Pennsylvania, on a product liability claim. This suit had been turned over to the Company s insurance carrier Continental Western Insurance Company. On July 3, 2007, Continental Western executed a settlement agreement with the plaintiff, which included the release of the Company from any and all claims.

The Company was the plaintiff against a former manufacturer Skit International, Ltd. and Uni-Skit Technologies, Inc. which alleged breach of a manufacturing contract which required defendants to manufacture certain of its products within the range of competitive pricing , a defined term. The Company sought damages and rescission of 165,000 shares of its common stock as part of the compensation paid to the defendants. The defendants denied the allegations and counterclaimed for an outstanding balance of $182,625, for rescission of the manufacturing agreement and for damage to its business reputation.

In August of 2003, this suit went to trial before a twelve (12)-member jury in the Circuit Court of Pulaski County, Arkansas. The jury awarded the Company damages in the amount of $1,650,560, against Skit and Uni-Skit, which includes the value of the returned shares of stock previously issued to the defendants. In addition, all counterclaims of the defendants were dismissed. Pursuant to an order of the Court, the shares issued to the defendants have been cancelled and reissued to the Company. Thereafter, defendant Skit International, Ltd. filed a Motion to Set Aside Judgment. The Court denied this motion and no appeal has been filed.

On November 9, 2005, Skit International, Ltd. filed a Complaint for Declaratory Judgment in the United States District Court, Eastern District of Arkansas, Western Division, seeking once again to set aside the judgment against Skit International, Ltd., based upon the allegation that Skit International, Ltd. s former attorney did not have authorization to act on its behalf with respect to the Pulaski County case, and that the Arkansas Court did not have personal jurisdiction over the defendant. The district judge ruled in the Company s favor dismissing the action, which has been affirmed by the Eighth Circuit Court of Appeals on April 13, 2007. On August 20, 2007, the Company was advised by its legal counsel that Skit International Ltd. had filed a writ of certiorari to the United States Supreme Court. In a ruling dated October 29, 2007, and filed November 9, 2007, the Supreme Court denied Skit International, Ltd. s petition for a writ of certiorari, effectively ending all appeals. The Company is now able to pursue collection of the judgment.

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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 AND REPORTS ON FORM 8-K

A Form 8-K was filed on September 7, 2005, and is incorporated herein by reference. 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-B 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, 2007