DAC TECHNOLOGIES GROUP INTERNATIONAL INC
Form 10-Q
August 16, 2010

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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 June 30, 2010

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

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 þ
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ 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 August 13, 2010, 6,323,364 shares of Common Stock are issued and 5,776,799 are outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Our financial statements are contained in pages 4 through 8 following.

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DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
Condensed Consolidated Balance Sheet
June 30, 2010 and December 31, 2009

	June 30 2010 (unaudited)	December 31 2009
Assets		
Current assets		
Cash	$ 263,382	$ 430,436
Accounts receivable, less allowance for doubtful accounts of $20,000 in 2010 and 2009	644,998	929,082
Due from factor	450,184	27,592
Inventories	4,041,280	4,479,347
Prepaid expenses and deferred charges	95,192	53,460
Deferred tax asset	135,243	11,950
Total current assets	5,630,279	5,931,867
Property and equipment		
Leasehold improvements	57,232	57,232
Furniture and fixtures	345,366	333,161
Molds, dies, and artwork	581,057	560,952
	983,655	951,345
Accumulated depreciation	(700,897)	(674,486)
Net property and equipment	282,758	276,859
Other assets		
Patents and trademarks, net of accumulated amortization of $145,397 and $135,434 in 2010 and 2009	107,383	117,346
Deposits	17,351	17,351
Advances to employees	48,729	29,658
Note receivable		
Long-term	20,000	20,000
Related party	72,518	72,518
Shareholder	344,189	216,377
Total other assets	610,170	473,250
Total assets	$ 6,523,207	$ 6,681,976

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
June 30, 2010 and December 31, 2009

	June 30 2010 (unaudited)	December 31 2009
Liabilities and Stockholders Equity		
Current liabilities		
Notes payable	$ 28,533	$ 52,454
Accounts payable	1,034,958	776,093
Accrued payroll tax withholdings	26,518	27,780
Accrued expenses-other	33,361	145,097
Income taxes payable		71,166
Total current liabilities	1,123,370	1,072,590
Deferred income tax liability	79,152	79,152
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 June 30, 2010 and December 31, 2009; 5,776,799 shares outstanding at June 30, 2010 and December 31, 2009	6,323	6,323
Additional paid-in capital	1,963,102	1,963,102
Treasury stock, at cost	(411,114)	(401,043)
Retained earnings	3,762,374	3,961,852
Total stockholders equity	5,320,685	5,530,234
Total liabilities and stockholders equity	$ 6,523,207	$ 6,681,976

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 Six Months Ended June 30, 2010 and 2009
(Unaudited)

	2010	2009
Net sales	$ 4,043,602	$ 6,676,498
Cost of sales	3,035,668	4,656,934
Gross profit	1,007,934	2,019,564
Operating expenses		
Selling	676,970	845,140
General and administrative	611,441	576,564
Total operating expenses	1,288,411	1,421,704
Income (loss) from operations	(280,477)	597,860
Other income (expense)		
Interest expense	(41,360)	(88,319)
Other income		14
Total other income (expense)	(41,360)	(88,305)
Income (loss) before income tax provision	(321,837)	509,555
Provision (benefit) for income taxes	(122,359)	196,690
Net income (loss)	$ (199,478)	$ 312,865
Basic and diluted earnings (loss) per share	$ (0.03)	$ 0.05
Weighted average number of common shares:		
Basic and diluted	5,788,164	5,825,528

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 June 30, 2010 and 2009
(Unaudited)

	2010	2009
Net sales	$ 2,036,926	$ 3,143,041
Cost of sales	1,567,748	2,195,174
Gross profit	469,178	947,867
Operating expenses		
Selling	342,609	399,352
General and administrative	310,392	298,514
Total operating expenses	653,001	697,866
Income (loss) from operations	(183,823)	250,001
Other income (expense)		
Interest expense	(18,819)	(41,265)
Total other income (expense)	(18,819)	(41,265)
Income (loss) before income tax provision	(202,642)	208,736
Provision (benefit) for income taxes	(76,990)	80,170
Net income (loss)	$ (125,652)	$ 128,566
Basic and diluted earnings (loss) per share	$ (0.02)	$ 0.02
Weighted average number of common shares:		
Basic and diluted	5,782,690	5,793,699

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 Six Months Ended June 30, 2010 and 2009
(Unaudited)

	2010	2009
Cash flows from operating activities		
Net income (loss)	$ (199,478)	$ 312,865
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	26,411	24,672
Amortization	9,963	7,306
Deferred income taxes	(123,293)	
Changes in operating assets and liabilities		
Accounts receivable	284,084	(115,120)
Due from factor	(422,592)	1,018,748
Inventories	438,067	(2,656,519)
Prepaid expenses and deferred charges	(41,732)	(36,116)
Advances to employees	(19,071)	(6,394)
Accounts payable	258,865	1,043,058
Accrued payroll tax withholdings	(1,262)	1,141
Accrued expenses other	(111,736)	(49,229)
Income taxes payable	(71,166)	58,540
Net cash (used) provided by operating activities	27,060	(397,048)
Cash flows from investing activities		
Purchases of property and equipment	(32,310)	(28,604)
Payments for patents and trademarks		(790)
Net payments (advances) on notes receivable stockholder	(127,812)	(50,262)
Net cash used by investing activities	(160,122)	(79,656)
Cash flows from financing activities		
Payments on notes payable	(23,921)	(24,454)
Purchase of treasury stock	(10,071)	(28,919)
Net cash used in financing activities	(33,992)	(53,373)
Net decrease in cash	(167,054)	(530,077)
Cash beginning of period	430,436	599,103
Cash end of period	$ 263,382	$ 69,026

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

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DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
SELECTED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010
(UNAUDITED)

1. Forward-Looking Statements

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

2. Nature of Business and Organization

DAC Technologies Group International, Inc. (the Company), is in the business of developing, marketing and outsourcing the manufacture of various consumer products, patented and non-patented. Since 2003, the Company s primary business has been gun maintenance and gun safety, with a target consumer base of sportsmen, hunters and outdoorsmen, and recreational enthusiasts. In 2005, the Company began developing products in the hunting and camping market, and in 2007 and 2008 added a line of household products. In 2009, the Company eliminated a significant portion of its hunting and camping products and some of its household products due to their relatively low gross margins.

Although a significant portion of our business is with the mass-market retailer Wal-Mart (approximately 55% during 2009), 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 warehouse facilities in Little Rock, Arkansas and Los Angeles, California, 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.

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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.

3. Basis of Presentation

The accompanying condensed consolidated financial statements of the Company as of and for the six months ended June 30, 2010 and 2009, and three months ended June 30, 2010 and 2009, are unaudited, but, in the opinion of management, reflect the adjustments, all of which are of a normal recurring nature, necessary for a fair presentation of such financial statements in accordance with accounting principles generally accepted in the United States. The accompanying condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company s latest 10-K. The results of operations for an interim period are not necessarily indicative of the results for a full year.

4. Significant Accounting Policies

Refer to the Company s 2009 annual report on Form 10-K, Note 2 to the Consolidated Financial Statements, for a description of significant accounting policies. There have been no material changes to these policies.

5. 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 $32,388 and $11,211 at June 30, 2010 and December 31, 2009, respectively. 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.

	June 30, 2010	Dec. 31, 2009
Inventories consist of:		
Finished goods	$ 3,619,025	$ 3,972,207
Inventory in transit	395,901	492,568
Parts	26,354	14,572
	$ 4,041,280	$ 4,479,347

6. Due from Factor

The Company factors some 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:

	June 30, 2010	Dec. 31, 2009
Accounts receivable factored	$ 501,446	$ 1,081,240
Amounts advanced and outstanding	(51,262)	(1,053,648)
Due from factor	$ 450,184	$ 27,592

See Management Discussion and Analysis of Financial Condition-Liquidity and Capital Resources.

7. Adoption of New Accounting Guidance

In June 2009, the FASB issued authoritative accounting guidance (Guidance) that in part, amends de-recognition guidance for transfers of financial assets, eliminates the exemption from consolidation for qualifying special-purpose entities and requires additional disclosures. This Guidance is effective for financial asset transfers occurring after the beginning of an entity s first fiscal year that begins after November 15, 2009 and is effective for the Company beginning in 2010. The adoption of the provisions of this Guidance did not have a material effect on the consolidated financial position, results of operations or cash flows of the Company.

In June 2009, the FASB issued Guidance that amends the consolidation guidance applicable to variable interest entities. The provisions of this Guidance require entities to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. The Guidance also requires an enterprise to assess on an ongoing basis to determine whether it is a primary beneficiary or has an implicit responsibility to ensure that a variable interest entity operates as designed. This Guidance is effective as of the beginning of the first fiscal year that begins after November 15, 2009 and is effective for the Company beginning in 2010. In January 2010, the FASB indefinitely deferred certain provisions of this Guidance. The adoption of the provisions of this Guidance did not have a material effect on the consolidated financial position, results of operations or cash flows of the Company.

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements (ASU 2010-06). Reporting entities will have to provide information about movements of assets among Levels 1 and 2, and a reconciliation of purchases, sales, issuance, and settlements of activity valued with a Level 3 method, of the three-tier fair value hierarchy established by FASB Statement No. 157, Fair Value Measurements (ASC 820). The ASU 2010-06 also clarifies the existing guidance to require fair value measurement disclosures for each class of assets and liabilities. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009 for Level 1 and 2 disclosure requirements and after December 15, 2010 for Level 3 disclosure requirements. Management does not anticipate the adoption of this guidance will have a material impact on the 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 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.

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(a) Background

We are in the business of developing, marketing and outsourcing the manufacture of various consumer products, patented and non-patented. Our products were initially security related, evolving from various personal, home and automotive security devices, to firearm safety devices such as gun and trigger locks, cable locks and safes. Beginning in 2003, with the introduction of our line of GunMaster® gun cleaning kits, we shifted our emphasis to gun cleaning items and related gun maintenance accessories. This product line accounted for 69% of the Company s sales revenues in 2009. In 2009, we also entered into a trademark licensing agreement with Olin Corporation to market certain of our gun cleaning items under the Winchester® brand name for sale of these items to Wal-Mart. In the first quarter of 2010 we amended the agreement to allow us to sell these Winchester® branded items to any of our customers.

In 2005, the Company began to develop products for the hunting and camping market which includes game processing equipment, aluminum camping tables and other items. In 2007, the Company added a line of household items, including a line of household cleaning dusters and fireplace screens and related equipment. Sales in these two product lines hunting and camping and household items peaked in 2008, accounting for 19% and 23%, respectively, of the Company s sales. In 2009, the Company eliminated a number of the low gross margin items resulting in a reduction of Company sales in these two areas to 9% and 7%, respectively.

Although a significant portion of our business is with the mass-market retailer Wal-Mart (approximately 55% in 2009), we have been able to considerably increase our business customer base with large sporting goods retailer, distributors and catalog companies.

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

Gun Cleaning & 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% and 62% of gross sales during the first six months of 2010 and 2009, respectively.

Hunting and Camping. This category includes Sportsman s Lighter, game processing kit, two aluminum camping tables, and a turkey seat. This product area accounted for 16% and 13% of gross sales during the first six months of 2010 and 2009, 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 22% and 16% of gross sales during the first six months of 2010 and 2009, respectively.

Household Products. We market five household cleaner dusters and a line of household fireplace screens, tools and accessories. This product area accounted for 7% and 9% of gross sales during the first six months of 2010 and 2009, respectively.

(b) Financial Condition and Results of Operations

Financial Condition

A summary of the more significant changes in the Company s balance sheet as of June 30, 2010 as compared to December 31, 2009 is presented below.

	June 30, 2010	Dec. 31, 2009	Increase (Decrease)
Accounts receivable	$ 644,998	$ 929,082	$ (284,084)
Inventories	4,041,280	4,479,347	(438,067)
Accounts payable	1,034,958	776,093	258,865
Accrued expenses-other	33,361	145,097	(111,736)
Deferred tax asset	135,243	11,950	123,293
Income taxes payable		71,166	(71,166)

The decrease in accounts receivable is related to the reduced sales in the second quarter of 2010 as compared to the fourth quarter of 2009. This reduction is normal, as the Company s sales historically are significantly greater in the fourth quarter as compared to all other quarters. This historical trend also accounts for the decrease in inventories. Accounts payable, which is most significantly affected by inventory purchases, increased from December 31, 2009 due to the timing of purchases. With the decrease in sales during the first six months of 2010, inventory purchases were delayed until the latter part of the second quarter.

The decrease in Accrued Expenses-other is directly related to the decrease in the quarterly licensing fee the Company owed for the Winchester® name for sales of those products during the fourth quarter of 2009 as compared to the second quarter of 2010.

As of December 31, 2009, the Company had income taxes payable of $71,166 as compared to a deferred tax asset of $135,243 as of June 30, 2010. This change is due to the operating loss incurred during the first six months of 2010.

Results of Operations

Three Months Ended June 30, 2010

For the three months ended June 30, 2010, the Company had a net loss of $125,652 on net sales of $2,036,926, as compared to net income of $128,566 on net sales of $3,143,041 for the same period ending June 30, 2009.

The decrease in net sales was affected by some of the same issues as discussed in the Company s March 31, 2010 10-Q, mainly to the entire gun-related market having experienced declines in retail sales during 2010. This is to be contrasted with the upward spike in gun and gun related sales beginning in the fourth quarter of 2008, and continuing through the second quarter of 2009, as a precursor to the commencement of the Obama administration and it s the unpredictable position regarding gun controls. See Gun Legislation .

The Company s gross margins decreased from 30% for the three months ended June 30, 2009 to 23% for the three months ended June 30, 2010. This decrease is attributable to the licensing fee the Company now pays for the Winchester® name for products sold to Wal-Mart, as well as price reductions extended to Wal-Mart in mid-2009.

Operating expenses for the three months ended June 30, 2010 were $653,001, a decrease of $44,865, or 6% over the three months ended June 30, 2009. This decrease is related primarily to reduced sales commissions and shipping costs resulting from the decrease in sales.

Six Months Ended June 30, 2010

For the six months ended June 30, 2010, the Company had a net loss of $199,478 on net sales of $4,043,602, as compared to net income of $312,865 on net sales of $6,676,498 for the same period ending June 30, 2009.

The decrease in net sales for the six months ended June 30, 2010 is again a result of the same issues discussed above and in the Company s March 31, 2010 10-Q. As previously discussed, the major portion of the decrease comes from the Company s three largest customers. None of these customers have reduced the variety of the Company s products they carry, with the exception of one large gun cleaning kit by Wal-Mart, which was dropped at the end of the second quarter in 2009. This item has been picked up again by Wal-Mart in July. The Company has already seen this trend of decreased sales begin to reverse itself in the third quarter of 2010 and expects sales for the remainder of the year to be more in line with 2009.

The Company s gross margins decreased from 30% for the six months ended June 30, 2009 to 25% for the six months ended June 30, 2010. This decrease is attributable to the licensing fee the Company now pays for the Winchester® name for products sold to Wal-Mart, as well as price reductions extended to Wal-Mart in mid-2009.

Operating expenses for the six months ended June 30, 2010 were $1,288,411, a decrease of $133,293, or 9% over the six months ended June 30, 2009. This decrease is related primarily to reduced sales commissions and shipping costs resulting from the decrease in sales.

(c) Liquidity and Capital Resources

Our liquidity needs arise primarily from inventory purchases. Our primary source of cash are revenues generated 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 substantially all of its receivables (excluding Wal-Mart) on a non-recourse basis. 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 plus 1%, or 4%, whichever is greater. Advances are payable to the factor on demand. As of June 30, 2010, the Company had an outstanding advance balance with its factor in the amount of $51,262.

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In December 2009, the Company entered into a Receivables Purchase Agreement with Wachovia Bank/Wells Fargo wherein the Company sells its receivables from Wal-Mart at a discounted price to Wells Fargo. Wells Fargo purchases these receivables (normally within 10 to 14 days of creation) at a price equal to their face value, discounted at an annual rate equal to the 90 day LIBOR rate plus 1.75% for the number of days remaining until the receivables come due under our normal payment terms with Wal-Mart. Since this is a purchase arrangement, as opposed to a factoring arrangement, there are no interest charges to the Company for the period between funding from Wells Fargo and payment by Wal-Mart.

In addition, the Company has a $1,000,000 line of credit with its local bank, collateralized by its inventory. This line of credit expired on February 10, 2010 and was renewed and extended to April 10, 2011. As of June 30, 2010, there was no outstanding balance on this line of credit.

We believe that the sources of capital described above will continue to be available to us in the future and will be sufficient to meet our short-term and long-term liquidity requirements.

(d) Trends

In prior years, our business faced the issue of increased manufacturing costs and margin erosion as a result of raw material, fuel and other utility price increases, and a weak U.S. dollar. This put pressure on our margins and overhead costs. During 2009, this trend reversed itself, as decreases in raw materials and other costs resulted in decrease manufacturing costs for the Company s products. It is difficult to determine whether this trend will continue, or reverse itself again, during 2010. Should these costs increase, it could result in increased prices for our products, which could result in declining margins.

(e) Gun Legislation

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

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

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

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

(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, 2009 audited consolidated financial statements included in the Company s Form 10-K. The quarterly financial statements for the period ended June 30, 2010, 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, 2009, 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

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without interest charges) is less than the carrying value of the asset, an impairment loss is recognized to reduce the carrying value of the long-lived asset to the estimated fair value of the asset.

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

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

(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 is not affiliated 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 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 June 30, 2010, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures. Based upon that evaluation, the Company s principal executive officer and principal financial officer concluded the Company s disclosure controls and procedures were not effective, because certain deficiencies involving internal controls constituted a material weakness as more fully detailed in Item

9A of the Company s December 31, 2009 Form 10-K. The material weakness identified did not result in the restatement of any previously reported financial statements or any other related financial disclosure, nor does management believe that it had any effect on the accuracy of the Company s financial statements for the current reporting period.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 1A. RISK FACTORS

There have been no material changes in risk factors affecting the Company s business from those disclosed in the Company s Form 10-K for the fiscal year ending December 31, 2009.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

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:

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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

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: August 16, 2010