

**Press Release**

**25 September 2009**

**Armor Designs, Inc.**

("Armor Designs" or "the Company")

**Interim Results**

Armor Designs, Inc., (AIM: ADID, ADIS), a knowledge-based designer and manufacturer of composite protective products, today announces its unaudited interim results for the six month period ended 30 June 2009.

**Financial and Operating Highlights (unaudited)**

- Sales revenue of US\$473k for the six months ended 30 June 2009
- Net Losses from operations of US\$6.8m for the six months ended 30 June 2009
- Established international distribution network
- Scorpion Works achievement of multiple technology milestones and product certifications
- Established design, manufacturing and distribution joint venture in Asia
- ISO 9001:2008 certification for manufacturing operation
- Executive team strengthened with appointment of Philip Clement, CEO and J. Craig Johnson, CFO (both interim)
- Board strengthened with addition of William A. Roper
- The Company continues its efforts to correct the balance sheet conditions previously announced and described in the footnotes to the financial statements.

Commenting on the interim results, Philip Clement, CEO of Armor Designs, Inc., said: "While the first six months of 2009 were challenging, we made progress in product development, operations and cost management that will help us to achieve our long term strategic plan. The Board is encouraged by the steps taken and excited by the accomplishments of our product development and design efforts. By broadening our product line beyond body armour, we believe the expanded market opportunities will improve Armor Designs' financial performance and increase shareholder value."

The Chairman's and Chief Executive's Statement and the financial statements, that are contained below, form part of this announcement and should be read in their entirety.

**For further information:**

**Armor Designs, Inc.**

Philip Clement,  
Interim CEO

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## Chairman's and Chief Executive's Statement

Armor Designs, Inc. (ADI) continues to be first and foremost a knowledge-based, technology-innovation company that develops and manufactures high quality armour materials to serve the military, government and commercial sectors on an international basis. Our commitment to state-of-the-art innovation is driven through the application of patented Volumetrically Controlled Manufacturing (VCM) methodologies which are a unique, integrated design and manufacturing approach that optimises parts by varying the mechanical properties of its material, allowing for rapid design and manufacturing of advanced composite materials. We seek to leverage VCM and thus accelerate the design and commercialisation of new products for future applications in the armour industry and beyond.

The first half results were a mix of encouraging product developments and organisational improvements, offset by delayed commercial results. The Company showed its strength in both engineering and operations and learned that the sales cycle for body armour is lengthier than anticipated.

During the first half of 2009, we achieved ISO 9001:2008 certification for the manufacture of composite armour and expanded the certification to include the design and development of composite armour. We believe that in a business such as armour protection, this certification is a critical element in our marketing. We also added two new board members, one of whom was installed as interim CEO. New equity investments totalling \$1,500,000 were made in the Company by both existing and new shareholders and a commitment for future equity investment of \$1,000,000 was received. Our Scorpion Works research and development group made significant strides in preparing new products and improving existing ones.

In the second half of 2008 the company established the capacity for high production volumes. This preparation involved buying capital equipment, hiring people, employees and advisors, and investing money in developing proposals with longer term paybacks. Since the orders did not materialise as quickly as anticipated, the resulting cash burn put the Company in the situation where it could not properly invest in marketing and sales, was severely restricted in its ability to acquire materials for production, and was unable to deploy resources on development of new products.

Regrettably there were no major U.S. government military acquisitions of body armour during the six months ended 30 June 2009. The largest soldier armoring project had been awarded prior to this period, and no new large requests for proposals were scheduled for 2009. It must also be recognised that the U.S. retail market for the sale of standalone plates to consumers, is a very small market, so the opportunity for sales through this channel is limited.

With the U.S. military business already committed to competitors and a small sales management staff getting a late start in 2008, the decision was made to focus on international sales as well as supplying plates to original equipment manufacturers (OEM's). We also established a small U.S. independent agent/distributor force to sell plates to law enforcement agencies in both the federal, state and local government markets.

Though the sales cycle was slower than planned, the focus on international distributors has begun to pay off with significant orders and prospects. Thus far, the Philippines and Mexico have been our most successful territories. In the case of Mexico, it should be noted that the distributor was appointed in early 2008 and large unit sales are anticipated.

Additionally, the U.S. market for non-military body armour was negatively affected by the recession's impact on state and local government tax revenues and the pending change in certification of ballistic protection capabilities standards (U.S. NIJ 06 standards vs. U.S. NIJ 04 standards). The pending standards change, finalisation of which was delayed several months

from its initial target date, created uncertainty about buying products that were certified under the soon to be obsolete standards. The result was a first half in which the retailers/dealers and OEM's found themselves with excess inventory of both finished and raw goods. This significantly impacted our first half sales as our potential customers held-off on placing orders until their inventories and those of the channel had been cleared.

In the first quarter it became clear to the Board that some changes had to be made and further capital had to be raised. All Senior Executives deferred pay while the staffing for a much larger operation was maintained in the first quarter 2009. During that time, cash outflow remained at a disproportionately high level per month as compared to the relatively negligible level of new orders and sales, while efforts continued on longer term payoff projects and the development of new products.

During the second quarter 2009 the Company appointed a new CEO, Philip A. Clement and CFO, J. Craig Johnson (both interim) to strengthen the management team. In addition, we brought an experienced corporate executive, William A. Roper, onto the Board as a non executive director. Initial adjustments to spending were made in order to conserve cash. One of the first things new management did was to adjust staffing levels to be more in line with the actual sales order activity. This resulted in a 40% reduction in the number of non engineering staff and a 20% reduction in hours and compensation for all other staff. In the second quarter of 2009 the Company raised \$1,500,000 pursuant to an equity placing. In addition the Company received a binding legal commitment from an additional investor to subscribe for shares in the Company at an aggregate price of \$1,000,000. The Company expects to receive payment on this commitment prior to the end of 2009. In addition another US\$1.0 million was collected on a separate previous commitment. While the outflow reduction and the inflow generated helped relieve a tight cash position, neither was sufficient to correct the working capital issues that were highlighted in the 2008 year end accounts.

Meanwhile, our Scorpion Works design team continued to demonstrate the rapid design and prototyping capability that is at the core of our strategic strength. During the first half, the Scorpion Works team developed new body armour products, Series 500 and 600, that when tested exceeded the ballistic protection standards for which the products were developed. New applications of our technological skill were developed with the design and prototype of a helmet design for police and military use; the development of NIJ III and NATO 1 prototype materials for vehicle armour; and design and successful testing of armour piercing and non armour piercing protection materials for use in rotorcraft.

During the six month period to 30 June 2009 pre-tax losses increased to US\$6.8 million (30 June 2008: US\$4.4 million), reflecting the anticipated completion of the Company's infrastructure to meet its commercialisation roll out as well as an increased level of sales and marketing activity. In particular General and Administrative expenses have increased to US\$3.9 million (30 June 2008: US\$2.9 million) with the recruitment of a full management team and support staff required to manufacture, market and manage the products being designed. Selling and Marketing expenses increased to US\$683,172 (30 June 2008: US\$246,136) as a result of costs incurred to respond to longer term payoff projects and the establishment of an international distribution network. Research and Development costs for the period decreased to US\$738,103 (30 June 2008: US\$1.0 million).

During the six months ended 30 June 2009, capital expenditures decreased to US\$95,456 as compared to US\$2.1 million for the six months ended 30 June 2008.

Our ability to continue as a going concern as described in the footnotes to the financial statements is predicated upon our ability to continue to fund our cash needs. We are pursuing ways to improve operating results in order to generate additional cash flow from operations. The balance sheet conditions that existed at year end, announced on June 23, 2009, have not

yet been remedied. The Company will consider undertaking further equity fundraisings if necessary to provide for the implementation of its growth strategy which may or may not take place over the next few months. The Company may also consider other forms of non-equity fundraisings for the same purpose. Success in some of these efforts is necessary to rectify the balance sheet condition.

Subsequent to the first half of 2009, there has been an improvement in order activity as evidenced by sales in the third quarter which are substantially above the run rate for the entire first half of 2009. More importantly, we have established our first design, manufacturing and distribution joint venture to be located in Asia and will not involve any capital expenditure investment on our part. We believe this model is very appropriate for our business and anticipate establishing additional similar arrangements. In addition, the Company appointed Merchant Capital Limited as its sole broker and accepted the resignation of ZAI Corporate Finance Limited as its Nominated Advisor. Consequently, in accordance with AIM Rule 1, during the period of completion of the due diligence process and pending appointment of a replacement Nominated Adviser, trading of shares in the Company was temporarily suspended on 8 September 2009.

For the second half of the year our objectives are to at least double the level of sales in the first half; select the specific products to offer through our joint venture partner; receive our first substantial vehicle armour order; certify our existing and newly developed Level III and Level IV body armour products to the new NIJ standard; and complete development of the helmet. As a result, subject to rectifying the capital deficiencies that arose last year, we believe the Company is positioned to take advantage of our technical and operational strengths to demonstrate the commercial effectiveness of our skills and technology.

**James A. St. Ville**  
Chairman  
24 September 2009

**Philip A. Clement**  
Chief Executive Officer (Interim)  
24 September 2009

**CONSOLIDATED BALANCE SHEET**  
**June 30, 2009 and December 31, 2008 and June 30, 2008**

	Unaudited <b>30-Jun 2009 US\$</b>	<b>31-Dec 2008 US\$</b>	Unaudited <b>30-Jun 2008 US\$</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	851,635	1,199,179	10,846,431
Receivable from sale of common stock	1,400,000	1,189,922	1,908,000
Accounts receivable	106,237	176,642	54,989
Inventory	222,223	456,194	393,944
Prepaid expenses and deposits	71,435	194,816	134,753.00
Total current assets	<u>2,651,530</u>	<u>3,216,753</u>	<u>13,338,117</u>
<b>PROPERTY AND EQUIPMENT</b>			
Net of accumulated depreciation	<u>3,145,223</u>	<u>3,461,623</u>	<u>1,335,236</u>
<b>DEPOSITS</b>			
Equipment	2,417,106	2,374,359	1,817,721
Other	116,940	116,940	49,000
Total Deposits	<u>2,534,046</u>	<u>2,491,299</u>	<u>1,866,721</u>
Note Receivable	<u>465,000</u>	<u>830,000</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 8,795,799</u></u>	<u><u>\$ 9,999,675</u></u>	<u><u>\$ 16,540,074</u></u>
<b>LIABILITIES AND EQUITY (DEFICIT)</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	1,304,793.00	289,351	598,154
Accounts payable, related party	323,958.59	202,584	31,786
Accrued expenses	1,269,881.98	861,527	408,533
Note payable - related party	185,000.00	0	0
Note payable	407,127.00	0	0
Total current liabilities	<u>3,490,761</u>	<u>1,353,462</u>	<u>1,038,473</u>
<b>EQUITY (DEFICIT)</b>			
Common stock, \$0.001 par value;	26,562	26,625	26,523
Authorized shares	50,000,000		
Issued Shares:	<u>2009</u>   <u>2008</u>		
	26,561,800   26,524,300		
Additional paid-in capital	38,365,877	34,917,341	30,867,271
Deficit accumulated during development stage	<u>(33,087,401)</u>	<u>(26,297,753)</u>	<u>(15,392,193)</u>
<b>TOTAL EQUITY</b>	<u>5,305,039</u>	<u>8,646,213</u>	<u>15,501,601</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u><u>\$ 8,795,799</u></u>	<u><u>\$ 9,999,675</u></u>	<u><u>\$ 16,540,074</u></u>

**CONSOLIDATED STATEMENT OF OPERATIONS**  
**For the periods ended June 30, 2009 and June 30, 2008**

	Unaudited Oct 5, 2004 to June 30, 2009 US\$	Unaudited Six Months Ended June 30, 2009 US\$	Unaudited Six Months Ended June 30, 2008 US\$
REVENUE	665,744	472,928	95,150
COST OF GOODS SOLD	3,671,785	1,866,779	324,777
GROSS MARGIN	(3,006,041)	(1,393,851)	(229,627)
OPERATING EXPENSES:			
Research and development	9,788,898	738,103	1,028,510
General and administrative	16,382,724	3,887,261	2,913,660
Selling and marketing	1,695,792	683,172	246,136
Other	304,140	70,180	-
Total operating expenses	28,171,555	5,378,717	4,188,306
OTHER INCOME/EXPENSE			
Interest income/(expense), net	(1,564,555)	(17,080)	(5,751)
Loss on investment, net	(345,249)	-	-
Total other income/(expense)	(1,909,804)	(17,080)	(5,751)
Loss before income taxes	(33,087,400)	(6,789,648)	(4,423,684)
Provision for income taxes	-	-	-
NET LOSS	(33,087,400)	(6,789,648)	(4,423,684)
Basic and diluted loss per share		(0.26)	(0.17)
Shares used in computation of basic and diluted loss per share		26,548,545	25,945,577

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)**  
**June 30 2009, December 31, 2008 and June 30, 2008**

	<b>Common Stock Shares</b>	<b>Common Stock Amount US\$</b>	<b>Additional Paid-In Capital US\$</b>	<b>Deficit Accumulated During the Development Stage US\$</b>	<b>Total US\$</b>
Balances, December 31, 2007	25,922,500	25,923	23,481,171	(10,968,509)	12,538,585
Issuance of common stock on London AIM net of expenses of US \$489,786 Common Stock par 0.001	601,800	602	6,527,613	-	6,528,215
Issuance of common stock by majority shareholder	-	-	3,614,985	-	3,614,985
Stock based Compensation	-	-	1,293,672	-	1,293,672
Net loss				(15,329,244)	(15,329,244)
Balances, December 31, 2008	26,524,300	26,525	34,917,441	(26,297,753)	8,646,213
Issuance of common stock on London AIM Common Stock par 0.001	15,000	15	(15)	-	-
Capital stock subscribed	-	-	2,500,000	-	2,500,000
Exercise of Restricted Stock	22,500	23	(23)	-	-
Stock based compensation	-	-	948,474	-	948,474
Net loss				(6,789,648)	(6,789,648)
Balances, June 30, 2009	<u>26,561,800</u>	<u>26,562</u>	<u>38,365,877</u>	<u>(33,087,401)</u>	<u>5,305,039</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the periods ended June 30, 2009 and 2008**

	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>
	<b>Oct 5, 2004 to</b>	<b>Six Months ended June 30</b>	<b>2008</b>
	<b>30-Jun-09</b>	<b>2009</b>	<b>2008</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Cash flows from operating activities:			
Net loss	\$ (33,087,401)	\$ (6,789,648)	\$ (4,423,684)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and Amortization	\$ 670,021	\$ 369,109	\$ 60,853
Stock based compensation	\$ 5,857,131	\$ 948,474	\$ 572,274
Changes in assets and liabilities:			
Accounts receivable and other receivables	\$ (1,506,237)	\$ (139,673)	\$ 1,348,774
Inventory	\$ (222,223)	\$ 233,971	\$ (393,944)
Prepaid expenses and deposits	\$ (188,375)	\$ 123,381	\$ (67,363)
Notes receivable	\$ (465,000)	\$ 365,000	\$ -
Accounts payable and accrued expense	\$ 2,898,634	\$ 1,545,172	\$ (1,559,235)
Net cash used in operating activities	<u>\$ (26,043,451)</u>	<u>\$ (3,344,215)</u>	<u>\$ (4,462,325)</u>
Cash flows from investing activities			
Purchase of property and equipment	(3,815,244)	\$ (52,709)	(1,273,412)
Deposits paid for property and equipment	(2,417,106)	\$ (42,747)	(812,244)
Net cash used in investing activities	<u>(6,232,350)</u>	<u>\$ (95,456)</u>	<u>(2,085,656)</u>
Cash flows from financing activities			
Payments on line of credit - related party	(5,435,554)	\$ -	(2,941,467)
Borrowings on line of credit - related party	5,435,554	\$ -	-
Note payable payments - Related Party	-	\$ -	-
Note payable proceeds - Related Party	185,000	\$ 185,000	-
Note payable payments	(148,943)	\$ (148,943)	-
Note payable proceeds	556,070	\$ 556,070	-
Proceeds from issuance of convertible bonds	9,000,000	\$ -	-
Capital stock subscribed	22,784,809	\$ 2,500,000	6,814,426
Members Contributions	750,500		
Net cash provided by financing activities	<u>33,127,436</u>	<u>\$ 3,092,127</u>	<u>3,872,959</u>
Net increase (decrease) in cash and cash equivalents	851,635	\$ (347,544)	(2,675,022)

Cash and cash equivalents:			
Beginning	-	\$ 1,199,179	13,521,453
Ending	<u>\$ 851,635</u>	<u>\$ 851,635</u>	<u>\$ 10,846,431</u>
Supplemental cash flow information			
Cash paid for interest		\$17,080	\$5,751

## **NOTE 1 - NATURE OF BUSINESS**

Armor Designs, Inc. (the Parent) was incorporated in Delaware on 30 March 2006. On 1 January 2007, 100% of the membership interests of Armor Designs LLC (the Subsidiary) were exchanged for common stock of the Parent.

The Subsidiary was organised in Delaware on 30 September 2004. The financial statements prior to incorporation of the Parent represent activities of the Subsidiary. The Parent and Subsidiary (collectively the Company) are engaged in the business of developing, manufacturing and marketing innovative armour products to the defense and law enforcement industries. The Company's focus is primarily on introducing next generation armour based on patented Volumetrically Controlled Manufacturing (VCM) technology.

The Company continued to focus on transitioning from a development stage entity to commercialisation of its products,. The focus of the Company's efforts is the generation, testing, manufacture and marketing of armour products. The Company's success will depend on its ability to effectively develop, manufacture, obtain certification and market innovative armour for military and law enforcement use.

These interim financial statements have been prepared in accordance with accounting policies generally accepted in the United States of America ("US GAAP"). These interim financial statements are presented in US dollars, unless otherwise stated.

The interim financial statements for the six-month period ended 30 June 2009 and 2008 are unaudited. In the opinion of management, all adjustments, which consist solely of normal recurring adjustments, necessary to present fairly in accordance with US GAAP the financial position, results of operations and cash flows for all periods presented have been made. The results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the full year.

The interim financial statements follow the same accounting policies and methods of application as the financial statements for the year ended 31 December 2008. These interim financial statements should be read in conjunction with the Company's audited financial statements and notes thereto included in the Company's 2008 Annual Report.

## **NOTE 2 — GOING CONCERN**

The accompanying interim financial statements have been prepared on a going concern basis which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business as they become due.

For the six months ended 30 June 2009, the Company incurred net losses from operations of US\$6.7 million and has accumulated US\$33.0 million from inception. Additionally, during the six months ended 30 June 2009, the Company had negative cash flows from operating activities of US\$3.3 million. Historically, The Company has relied, in part, upon debt financing, loans from related entities and raising new capital to fund its operations. In the past, the Company has been successful in obtaining the capital necessary to meet its obligations; however, there are no assurances that the Company will be able continue to raise the sufficient funds needed for working capital until such time as the operations can provide positive cash flow.

The Company's ability to continue as a going concern is predicated upon its ability to improve operating results and to continue to fund its cash needs. Management is pursuing ways to improve operating results in order to generate additional cash flow from operations. The Company will consider undertaking further equity fundraisings to provide for working capital which may or may not take place over the next few months. The Company may also consider other forms of non-equity fundraisings for the same purpose which may include secured debt financing collateralised by the Company's assets. Management has the ability to curtail spending and negotiate payments to third parties, in the event the next round of funding takes longer than anticipated.

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result if the Company is unable to operate as a going concern.

### NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

#### Accounting Estimates

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements, as well as net sales and expenses reported for the periods presented. The most significant estimates relate to revenue recognition, inventory obsolescence, bad debts, long-lived assets, stock-based compensation, and income taxes. The Company regularly assesses these estimates and, while actual results may differ, management believes that the estimates are reasonable.

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all cash balances with original maturities of less than 90 days to be cash equivalents. While cash held by financial institutions may at times exceed federally insured limits, management believes that no material credit or market risk exposure exists due to the high quality of the institutions. The Company has not experienced any losses on such accounts.

#### Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. As of 30 June 2009 the Company has limited historical collection experience, and therefore has not recorded an allowance for uncollectible accounts.

#### Inventory Valuation

Inventories are valued at the lower of cost or market with cost determined using the First-In, First-Out (FIFO) method, with standard costs approximating actual costs. Inventory balances for the six month periods ended 30 June 2009 and 2008 were as follows:

	<u>30-Jun 2009</u>	<u>30-Jun 2008</u>
Raw Material	\$56,918	\$190,803
Work in Process	2,915	162,038
Finished Goods	<u>162,391</u>	<u>41,103</u>
Total Inventory	\$222,223	\$393,944

#### Property and Equipment

Depreciation is provided using the straight-line method over an estimated useful life of three years for computer equipment and seven years for capital equipment. Leasehold Improvements are amortised using the straight-line method over the remaining term of the facility lease. Depreciation and Amortisation expense for the six months ended 30 June 2009 and 2008 were as follows:

	<u>30-Jun 2009</u>	<u>30-Jun 2008</u>
Depreciation	\$231,550	\$55,750
Amortization	<u>137,559</u>	<u>5,103</u>
	\$369,109	\$60,853

### Revenue Recognition

The Company sells its armour products primarily to the defence and law enforcement industries. A portion of the Company's products are also sold through distributors or resellers. The Company recognises revenue on product sales when persuasive evidence of an arrangement with the customer exists, title to the product passes to the customer (usually occurs at the time of shipment), the sales price is fixed or determinable, and collectability of the related billing is reasonably assured. Advance payments from customers are deferred and recognised when the related products are shipped.

### Shipping Costs

Shipping costs include charges associated with delivery of goods from the Company's facilities to its customers and are reflected in cost of goods sold. Shipping costs paid to the Company by our customers only for amounts that are a direct reimbursement for shipping are classified as an offset to cost of goods sold.

### Product Warranties

Estimated future warranty obligations related to certain products will be provided by charges to operations in the period in which the related revenue is recognised. The Company has not established a reserve for warranty obligations.

### Research and Development

Research and development costs are expensed as incurred and are detailed in Note 6.

### Stock-Based Compensation

The Company records stock-based compensation in accordance with SFAS 123(R), Share-Based Payment. SFAS 123(R) requires the measurement and recognition of compensation expense in the financial statements for all share-based awards to employees based on estimated fair values. This statement was adopted using the modified prospective method. Under this method, compensation expense includes the estimated fair value of equity awards vested during the reported period. For the period ended 30 June 2008 and 2007, the Company has recorded stock-based compensation expense as follows:

	<u>30-Jun 2009</u>	<u>30-Jun 2008</u>
Restricted Stock Units (RSUs)	817,818	548,124
Stock Appreciation Rights (SARs)	<u>22,415</u>	<u>24,150</u>
	840,233	572,274

A summary of the Company's stock option activity follows:

	RSUs		SARs		Stock Options	
	Shares Under Option	Weighted Average Exercise Price per Share	Shares Under Option	Weighted Average Exercise Price per Share	Shares Under Option	Weighted Average Exercise Price per Share
Granted in 2007	438,500	\$-	69,400	\$10.00	-	\$-
31 December 2007	438,500	\$-	69,400	\$10.00	-	\$-
Granted in 2008	205,000	\$-	103,000	\$10.00	2,600,000	\$10.00
Forfeited in 2008	(100,000)	\$-	(6,300)	\$10.00	-	\$10.00
31 December 2008	543,500	\$-	166,100	\$10.00	2,600,000	\$10.00
Granted in 2009	29,020	\$-	-	\$-	-	\$-
Forfeited in 2009	(150,000)	\$-	-	\$-	-	\$-
30 June 2009	422,520	\$-	166,100	\$10.00	2,600,000	\$10.00

The Company recognises compensation expense using the straight-line method for stock option awards that vest ratably over the vesting period. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The fair value of each option was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Six months ended 30 June 2009	Year ended 31 December 2008	Year ended 31 December 2007
Expected options term (years)	10	5.9	10
Risk free interest rate	1.77%	2.03%	3.29%
Dividend yield	-	-	-
Volatility	1.41%	1.79%	3.00%

The table above is based on the Company's use of (i) the expected life of the awards representing the weighted-average period the awards are expected to remain outstanding; (ii) the risk-free interest rate assumption based upon observed interest rates appropriate for the weighted average expected option life of the Company's employee stock options; (iii) the dividend yield assumption based on the Company's history and expectation of dividend payouts; and (iv) historical volatility of the selected peer group as the expected volatility in the Black-Scholes model.

#### Income Taxes

The Company accounts for income taxes using the asset and liability method recognising temporary differences between the financial reporting and tax bases of its assets and liabilities as set forth in SFAS 109, *Accounting for Income Taxes and Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*. This method results in deferred

income tax assets and liabilities at the balance sheet date measured by the statutory tax rates in effect as enacted. The Company's deferred income tax assets include certain future income tax benefits net of appropriate valuation allowances. Recognition of deferred tax assets is limited to amounts considered by the Company to be more likely than not realisable in future periods with all tax benefits associated with losses incurred having been reserved.

#### Principles of Consolidation

The financial statements include the accounts of Armor Designs, Inc. and Armor Designs, LLC. All material intercompany balances and transactions have been eliminated in consolidation.

#### **NOTE 4 - PUBLIC OFFERING AND STOCK SPLIT**

On 20 December 2007, the Company effected a 450 for 1 stock split. Each holder of record as of that date received four hundred fifty shares for each share of common stock held. The par value of US\$0.001 per share did not change with the stock split. The accompanying financial statements reflect this transaction retroactively.

On 31 December 2007, the common shares of the Company were admitted to trading on the AIM Market of the London Stock Exchange ("Admission"). Upon Admission, Capita Registrars (Jersey) Limited began serving as the Registrar of the Company.

The Company raised US\$16,000,000, before expenses, by issuing 1,600,000 common shares at a price of US\$10 per share pursuant to a placing (the "Placing") in conjunction with the Admission. These shares constitute approximately 6.0 percent of the Company's share capital at 31 December 2007. At admission, the Company had 25,922,500 common shares in issue and a market capitalisation of US\$259,225,000 at the placing price of US\$10.

The Placing shares were not registered under the US Securities Act of 1933. The shares were only offered (i) outside the United States to non-US persons in reliance on Regulation S under the Securities Act and (ii) within the US to Accredited US investors in reliance on Regulation D under the Securities Act. Of the 1,600,000 common shares issued in connection with the Admission 1,275,000 were issued in reliance on Regulation S and 325,000 were issued in reliance on Regulation D.

Upon admission to AIM, the conversion features of outstanding convertible bonds were triggered. Each convertible bond unit issued converted to 2.025 shares of Common Stock and 2.025 warrants to purchase one share of Common Stock in the Company. Each warrant granted entitled the holder to purchase one Common Share at a price per share of 125 percent of the placing price of \$US10, or US\$12.50, exercisable on or before the second anniversary of admission or the date of any secondary issue of Common Shares by the Company following admission. All Bond Warrants expire if they are not exercised on the Warrant Exercise Date. A total of 1,822,500 common shares and 1,822,500 warrants were issued as a result of the conversion.

During the period ended 31 December the Company issued 601,800 common shares pursuant to Market Demand Arrangements put in place in conjunction with the Admission. These shares constitute approximately 2.6 percent of the Company's share capital at 31 December 2008. Funds in the amount of US\$5,810,078 were collected from the sale of common stock as of 31 December 2008. Funds in the amount of US\$1,189,922 were included in the Balance Sheet as a receivable from the sale of stock as of 31 December 2008. The amounts outstanding as of December 31, 2008 were collected during the six months ended 30 June 2009.

Funds in the amount of US\$100,000 were collected from the sale of common stock during the period ended 30 June 2009 and an additional amount of US\$1,400,000 was included in the Balance Sheet as a receivable related to common stock subscription agreements as of 30 June 2009. As of 30 June 2009 no shares were issued related to these amounts.

As of 30 June 2009, the Company had 26,561,800 common shares in issue and a market capitalisation of US\$263,227,438 based on the Company's closing stock price of US\$9.91 (trading price of £6.00 converted utilising an exchange rate of 1.652) on 30 June 2009.

## NOTE 5 - WARRANTS AND OPTIONS

Warrants for 1,822,500 shares of Common Stock were outstanding at 30 June 2009. Each warrant entitles the holder to purchase one Common Share at a price per share of US\$12.50, exercisable on or before 31 December 2009 or the date of any secondary issue of Common Shares by the Company. All Bond Warrants expire if they are not exercised on the Warrant Exercise Date.

Beginning with the year ended 31 December 2007, the Company issued stock awards to various advisors and key employees as a means of attracting and retaining quality personnel. The award holders have the right to purchase a stated number of shares at the exercise price determined in the agreement. These options are issued under the Armor Designs, Inc 2007 Omnibus Incentive Plan (Plan). The Plan allows the Company to issue RSUs, SARs and Non-Qualified Stock Options (Stock Options). Awards may be made under the Plan over shares of common stock not to exceed 10% of the issued share capital of the Company at the date of the award.

Exercise of any of these warrants or options would have a commensurately dilutive effect on the holdings of the previously issued Common Shares.

A summary of the Company's option activity and related full grant date fair value is as follows:

	RSUs		SARs		Stock Options	
	Shares Under Option	US\$	Shares Under Option	US\$	Shares Under Option	US\$
Granted in 2007	438,500	\$4,381,836	69,400	\$193,233	-	\$-
31 December 2007	438,500	\$4,381,836	69,400	\$193,233	-	\$-
Granted in 2008	205,000	\$1,682,282	103,000	\$180,008	2,600,000	\$191,817
Forfeited in 2008	(100,000)	\$(999,278)	(6,300)	\$(17,541)	-	\$-
31 December 2008	543,500	\$5,064,840	166,100	\$355,700	2,600,000	\$191,817
Granted in 2009	29,020	\$280,301	-	\$-	-	\$-
Forfeited in 2009	(150,000)	\$(1,230,938)	-	\$-	-	\$-
30 June 2009	422,520	\$4,114,203	166,100	\$355,700	2,600,000	191,817

Based on the Company's closing stock price of US\$9.91 (trading price of £6.00 converted utilising an exchange rate of 1.652) on 30 June 2009, the last day of trading in period, there were no in-the-money options exercisable at 30 June 2009.

A summary of the Company's option activity and related vesting value is as follows

	RSUs		SARs		Stock Options	
	Shares Under Option	US\$	Shares Under Option	US\$	Shares Under Option	US\$
Granted in 2007	438,500	4,381,836	69,400	193,233	-	-
Vested in 2007	-	-	-	-	-	-
Non-vested at 31 December 2007	438,500	4,381,836	69,400	193,233	-	-
Granted in 2008	205,000	1,682,282	103,000	180,008	2,600,000	191,817
Vested in 2008	(133,625)	(1,335,286)	(40,775)	(88,782)	(2,600,000)	(191,817)
Forfeited in 2008	(100,000)	(999,278)	(6,300)	(17,541)	-	-
Non-vested at 31 December 2008	409,875	3,729,554	125,325	266,918	-	-
Granted in 2009	29,020	280,301				
Vested in 2009	(2,500)	(20,288)	(100,750)	(179,800)		
Forfeited in 2009	(150,000)	(1,231,629)	-	-	-	-
Non-vested at 30 June 2009	286,395	2,757,938	24,575	87,118	-	-

Compensation expense per FAS 123R requirements is recognised rateably over the vesting period. For the period ended 30 June 2008 and 2007, the Company has recorded stock-based compensation expense as follows:

	30-Jun 2009	30-Jun 2008
Restricted Stock Units (RSUs)	817,818	548,124
Stock Appreciation Rights (SARs)	22,415	24,150
	840,233	572,274

The following table shows unrecognised compensation expense related to unvested RSUs and SARs outstanding as of 30 June 2009. This table does not include an estimate for future grants that may be issued.

	Amount US\$
2009	\$561,085
2010	\$873,771
2011	\$852,123
2012	<u>\$4,309</u>
Total	\$2,291,289

As outlined in the Placing Document, Hawthorne & York International, Ltd. ("HYI"), principal shareholder in ADI, has gifted 3.4 million shares of its ADI shareholding to a number of individuals who have primarily assisted HYI in the years prior to bringing ADI to market. The shares gifted have been transferred into an irrevocable trust controlled by an independent trustee that will be used to distribute awards to the recipients in tranches over the coming years. The gifted shares will be distributed to individuals via the irrevocable trust in the form of 450,000 shares, and, 2,950,000 share equivalents (non-qualified stock options and restricted stock units). As of 30 June 2009, 450,000 shares have been distributed. None of the gifted shares were distributed during the six months ended 30 June 2009.

During the year ended 31 December 2008, HYI transferred 3,000,000 of its ADI shares into a securities investment portfolio account. The securities investment portfolio account into which the shares have been transferred enables borrowing against all shares within this portfolio account and, therefore, from time-to-time, some or all of the shares within this portfolio account, including some ADI shares, could be subject to creditor liability. HYI has not divested any shares.

#### **NOTE 6 – RESEARCH & DEVELOPMENT COSTS**

Expenditures for research activities relating to product development are charged to expense as incurred. Research and development costs for the periods ended 30 June 2009 and 2008 were US\$738,103 and US\$1,028,510, respectively.

#### **NOTE 7 - RELATED PARTY TRANSACTIONS**

Since inception, the Subsidiary, Armor Designs, LLC, has conducted business through transactions with a related corporation, Hawthorne & York International, Ltd. (HYI), owned by James A. St Ville. HYI owns approximately 82 percent of Armor Designs, Inc. as of 30 June 2009, including 11 percent held in an irrevocable trust.

During 2004, the Subsidiary entered into a services agreement with the related party whereby the related party provides interim research and development services, including labour, subcontracting, consulting, equipment and technical upgrades, materials, and other related research and development activities.

Billings from the related party for general and administrative expenses, use of licensed technology, and research and development services conducted on behalf of the Subsidiary were as follows:

Period ended 30 June 2009 and 2008	US\$651,251	US\$209,713
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Included in the accompanying consolidated balance sheets is accounts payable of US\$323,959 and US\$31,786 due to the related party at 30 June 2009 and 2008, respectively, for billings related to general and administrative expenses, use of licensed technology and research and development activities.

The Subsidiary paid rent and other facility occupancy costs on behalf of the related party for the periods ended 31 December 2008 and 2007. Facility Occupancy costs incurred on behalf of the related party for the periods ended 30 June 2009 and 2008 were US\$78,873 and US\$14,245, respectively.

The Company maintains independent management and human resources. The Company has also entered into a lease for independent facilities. The Company continues to utilise the related party for select research and development activities.

In May 2009 The Company entered a US\$185,000 note payable with a related party, Hawthorne & York International, Ltd. This note has a maturity date of October 29, 2009 and bears interest on unpaid principal balances at a rate of 7.50% per annum. As of June 30, 2009 the outstanding balance on this note was \$185,000.

On July 3, 2008 the Company executed a Multiple Advance Revolving Credit Note with Mr. Charles Snyder, former Chief Executive Officer of the Company. The Note provided Mr. Snyder the ability to borrow up to US\$1,000,000 at a Stated Interest Rate of 1% per annum. The Note is secured by a Deed of Trust, Assignment of Rents, Security Agreement, Fixture Filing and Stock Pledge Agreement. Following Mr Snyder's resignation from the Company in June 2009, 50 percent of the outstanding balance on the note was forgiven by the Company. As of 30 June 2009, the outstanding balance to the Company was US\$365,000 and is due and payable on or before 22 December 2009.

On December 3, 2008 the Company loaned Mr. Robert McConnell, Vice President of the Company, US\$100,000. The Company has received a non-interest bearing Promissory Note reflecting the commitment to repay the loan in full by 30 June 2009. The Note provides the Company the ability to offset the amount of the loan against the stock in the Company held by Mr. McConnell. As of 30 June 2009 this loan remains outstanding.

## **NOTE 8 - PROPERTY, PLANT AND EQUIPMENT**

The Company policy is to capitalise all equipment, either moveable or fixed, with a unit acquisition cost of US\$2,500 or greater and a useful life of two years or more. Acquisition value includes the cost of the equipment and any associated costs incurred to make the equipment usable for the purpose for which it was intended, including installation costs.

As of 30 June 2009, the Company capitalised and was depreciating fixed assets per the following schedule:

	<u>Life</u>	<u>Book Value</u> US\$
Computer equipment	3	107,827
Computer software	3	138,425
Equipment	7	2,064,319
Production Molds	3	309,769
Furniture & Fixtures	7	34,121
Leaseholds	(Lease)	1,160,782
Subtotal:		<u>3,815,244</u>
Less: accumulated depreciation and amortisation		<u>(670,020)</u>
Total:		<u>3,145,223</u>

As of 30 June 2009 the Company has recorded US\$2,417,106 in deposits towards the purchase of production equipment. The deposits are recorded as other assets and will be converted to fixed assets and depreciated once the equipment is placed in service.

#### **NOTE 9 - COMMITMENTS, LEASE RENEWAL AND PURCHASE OPTIONS**

In December 2007, the Company entered into an operating lease agreement for its facility located at 4645 S. 35<sup>th</sup> Street in Phoenix, Arizona. Under the agreement, the Company is required to pay rent through December 2012 as follows:

Periods ending December 31,	US\$
2009	269,684
2010	547,930
2011	565,052
2012	<u>582,175</u>
	<u>2,765,332</u>

Effective 13 September 2004, the Subsidiary, Armor Designs, LLC, entered into a contract with Hawthorne & York International, Ltd., a company owned by James A. St Ville (82% ownership of the Company), for use of certain licensed technological products and processes owned by the related party, until September 13, 2009, at such time the contract will automatically renew for five-year terms. The Subsidiary is obligated to pay 4% of gross sales on a quarterly basis to the related party subject to a maximum amount payable of US\$7,000 per quarter for the first 18 months after the Company commences production or sub-licences. In addition, the Subsidiary entered into a contract on the same date with Aztec IP, a company owned by James A. St Ville for use of licensed patents owned by the related party. Under this contract, the Subsidiary is obligated to pay the related entity 2% of gross sales on a quarterly basis subject to a maximum amount payable of US\$3,000 per quarter for the first 18 months after the Company commences production or sub-licences. This contract has the same expiration and renewal dates.

#### **NOTE 10 – Notes Payable**

In February 2009 the Company executed a Commercial Loan Agreement with Republic Bank and Trust for a Commercial Revolving Draw Loan of up to US\$400,000. The loan accrues interest at 6.00% per annum and has a maturity date of 19 February 2010. The loan is guaranteed by

Hawthorne and York International, Ltd., which also provided security in the form of a deposit/share account. As of 30 June 2009 the outstanding balance on this loan was US\$308,000.

In March 2009 the Company executed a US\$200,000 note payable with Arizona Business Bank with an original maturity date of 10 May 2009. The note bears interest on unpaid principal balances at a rate of 7.00% per annum, subject to certain adjustments. This note is secured by substantially all of our tangible and intangible assets. Effective 10 May 2009, the terms of the note were changed to extend the maturity date to 10 September 2009. As of 30 June 2009 the outstanding balance on this note was US\$99,127.

In May 2009 The Company entered a US\$185,000 note payable with a related party, Hawthorne & York International, Ltd. This note has a maturity date of October 29, 2009 and bears interest on unpaid principal balances at a rate of 7.50% per annum. As of June 30, 2009 the outstanding balance on this note was \$185,000.

#### **NOTE 11 – RETIREMENT PLAN**

Employees of the Company that meet certain age and service requirements are eligible to participate in the Armor Designs, Inc. 401(k) and Profit Sharing Plan (formerly the James A. St. Ville, M.D. Savings and Profit Sharing Plan). Employer profit sharing and matching contributions to the 401(k) component of the plan and profit sharing contributions may be made at the discretion of the Company's management. The Company did not make matching or profit sharing contributions for the six months ended 30 June 2009 and 2008.

#### **NOTE 12 - EARNINGS PER SHARE**

The Company accounts for income (loss) per share in accordance with SFAS No. 128 "Earnings Per Share". Basic income per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the periods presented. Diluted income per share reflects the potential dilution that could occur if outstanding stock options were exercised utilising the treasury stock method. The calculation of the weighted average number of shares outstanding and earnings per share are as follows:

<b><u>Basic Earnings Per Share</u></b>	<b><u>30 June 2009</u></b>	<b><u>30 June 2008</u></b>
Net loss after tax	US\$(6,521,564)	US\$(4,423,684)
Divided by weighted average shares	26,548,545	25,945,577
Basic loss per share	US\$(0.25)	US\$(0.17)
Diluted loss per share	US\$(0.25)	US\$(0.17)

For the periods ended 30 June 2009 and 2008, because of our reported net loss, all potentially diluted securities were excluded from the per share computations due to their anti-dilutive effect.

#### **NOTE 13 – SUBSEQUENT EVENTS**

On 4 August 2009 the Company appointed Merchant Capital Limited as its sole broker.

On 8 September 2009 the Company accepted the resignation of ZAI Corporate Finance Limited as its Nominated Advisor. Consequently, in accordance with AIM Rule 1, during the period of completion of the due diligence process and pending appointment of a replacement Nominated Adviser, trading of shares in the Company were temporarily suspended on 8 September 2009.

- Ends -