



**Press Release**

**9 May 2008**

**Armor Designs, Inc.**

("Armor Designs" or "the Company")

**Preliminary Results**

Armor Designs, Inc., a designer and manufacturer of composite armour products targeting numerous sectors, today announces its maiden set of preliminary results for the year ended 31 December 2007.

**Highlights**

- Successful IPO in December 2007
- Transition from research and development to commercialisation of the Company's body armour plates
- Cash at the end of the period in excess of US\$13.5 million
- Established a number of sales distribution channels covering the US, Europe and Latin America
- Since the period end, the Company has successfully restructured the Board, and announced the appointment of Charles Snyder as CEO

Commenting on the results, Charles Snyder, CEO of Armor Designs, Inc., said: "The Board is pleased with the progress made during the period, as the Company has moved into the commercialisation stage of our body armour products. I was delighted to join Armor Designs in April 2008, and look forward to working with Dr. James St. Ville to continue to expand and diversify the Company's product platforms, and establishing ourselves in global markets. The IPO in December 2007 has put the Company in a strong position to carry out our development and growth strategies and to continue to commercialise our product lines."

**For further information:**

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Charles Snyder, CEO

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## **Chairman's and CEO's Statement**

The Board is pleased to report these maiden results for Armor Designs. 2007 has been an extremely important year for the Company, culminating in the successful admission of the Company's shares to trading on the AIM market on 31 December 2007.

During 2007, the Company made the significant step of moving beyond the initial research and development (R&D) phase to that of commercialisation. As a result of this R&D phase, which has now been completed for our body armour products, the Company has effectively applied Volumetrically Controlled Manufacture ("VCM") design and manufacturing processes to this sector. VCM has broad potential applications in the protection of people, vehicles and infrastructure through its integrated design and manufacturing approach. The process optimises materials by varying their properties; this produces advanced composite materials that are lighter but just as strong and effective as traditional materials. As such, the VCM technology is very much at the cutting edge of twenty first century manufacturing solutions.

The funds raised at the IPO have allowed the Company to establish a production facility in Phoenix, Arizona, and to commence the commercialisation of its body armour products. By the end of the first quarter of 2008, we have already established a number of sales distribution channels covering the US, European and Latin American markets, with many others global regions identified to be signed up over the coming months. We have a strong executive management team in place, which positions the Company well for significant growth. In particular, we were fortunate to attract Charles Snyder with his considerable international experience to join the Company as CEO. Dr James St. Ville's move to the role of Chairman will allow him to focus on further defining the Company's strategic direction, progressing research and development for new product platforms while continuing to guide international client development.

With production on one press now running and the commissioning of the second press now well under way, the Board is confident that we have the production capacity to meet the immediate needs of our body armour clients, and are committed to increasing this capacity further in the second half of the year in line with client demand. In addition, expansion outside the US is under review.

As anticipated, the 2007 financial results reflect the expenses associated with the research and development stage that the business was pursuing to the end of the year, and therefore include the research and development costs incurred during the year as well as the general and administrative costs. The latter includes the costs pertaining to the IPO as well as the issuance of "Share Appreciation Units" and "Restricted Stock Units" (Options and Share grants) during the year.

The balance sheet has been strengthened during the period by the net proceeds of the IPO, with cash at the end of the period in excess of US\$13.5 million. This strong cash position is taken after the costs of two presses were accounted for, as well as the expenses associated with the IPO.

2008 promises to be an exciting year in which the Company aims to work towards establishing itself as a market leader in the design and manufacture of composite materials for the body armour sector while developing further applications for the vehicle, pipeline and infrastructure industries. We aim to create a strong commercial presence both in the US and internationally. The Company also intends to move from the research and development phase to commercialisation in one or more of its industry platforms during the course of the year. The Board is therefore confident that the Company is on track to achieve its goals for 2008 and looks forward to a successful year.

**Dr. James St. Ville**  
**Chairman**  
**9 May 2008**

**Charles Snyder**  
**Chief Executive Officer**

## Consolidated Balance Sheets

	<b>31 December</b>	
	2007 US\$	2006 US\$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	13,521,453	66,621
Receivable from sale of common stock	3,304,000	-
Contracts and other receivables	7,763	279,322
Prepaid expenses and deposits	67,389	15,000
Total current assets	<u>16,900,605</u>	<u>360,943</u>
PROPERTY AND EQUIPMENT, net of accumulated depreciation of 4,282 and 0 as of 31 December 2007 and 2006, respectively	<u>122,678</u>	<u>-</u>
<b>DEPOSITS</b>		
Equipment	1,005,477	-
Other	49,000	-
	<u>18,077,760</u>	<u>360,943</u>
<b>LIABILITIES AND EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Line of credit - related party	2,941,467	3,265,117
Accounts payable	1,488,155	694,961
Accrued expenses	1,109,553	149,907
Total current liabilities	<u>5,539,175</u>	<u>4,109,985</u>
CONVERTIBLE BONDS, 10% SERIES A	<u>-</u>	<u>2,975,000</u>
COMMITMENTS	-	-
<b>EQUITY (DEFICIT)</b>		
Common stock, US\$0.001 par value;	25,923	22,500
Authorised shares           50,000,000		
Common Stock issued:    25,922,500		
Additional paid-in capital	23,481,171	728,000
Deficit accumulated during development stage	(10,968,509)	(7,474,542)
	<u>12,538,585</u>	<u>(6,724,042)</u>
	<u>18,077,760</u>	<u>360,943</u>

## CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended 31 December

	From 5 October 2004 to 31 December 2007 US\$	Year Ended 31 December 2007 US\$	2006 US\$
Revenue	-	-	-
COGS	-	-	-
Gross Margin	-	-	-
Operating expenses:			
Research and development	7,136,755	1,024,922	1,340,248
General and administrative	2,009,753	1,453,823	543,254
Selling and marketing	267,878	198,318	19,560
Total operating expenses	9,414,386	2,677,063	1,903,062
Interest expense	1,554,123	816,904	497,396
Loss before income taxes	10,968,509	3,493,967	2,400,458
Provision for income taxes	-	-	-
Net loss	10,968,509	3,493,967	2,400,458
Basic and diluted loss per share		<u>\$ (0.16)</u>	<u>\$ (0.11)</u>
Shares used in computation of basic and diluted loss per share		<u>22,509,377</u>	<u>22,500,000</u>

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)**  
**Years Ended 31 December 2007 and 2006**

	Amount		Additional Paid-In Capital	Deficit Accumulated During the Development Stage	Total
	Common Stock Shares	Amount			
		US\$	US\$	US\$	US\$
Balances, 5 October 2004	-	-	-	-	-
Issuance of Common Stock	22,500,000	22,500	727,900	-	750,400
Net loss	-	-	-	(1,854,065)	(1,854,065)
Balances, 31 December 2004	22,500,000	22,500	727,900	(1,854,065)	(1,103,665)
Net loss	-	-	-	(3,220,019)	(3,220,019)
Balances, 31 December 2005	22,500,000	22,500	727,900	(5,074,084)	(4,323,684)
Member contributions	-	-	100	-	100
Net loss	-	-	-	(2,400,458)	(2,400,458)
Balances, 31 December 2006	22,500,000	22,500	728,000	(7,474,542)	(6,724,042)
Issuance of common stock in exchange for convertible debt	1,822,500	1,823	8,998,177	-	9,000,000
Issuance of common stock on London AIM, net of expenses of US\$2,243,406	1,600,000	1,600	13,754,994	-	13,756,594
Net loss	-	-	-	(3,493,967)	(3,493,967)
Balances, 31 December 2007	25,922,500	25,923	23,481,171	(10,968,509)	12,538,585

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended 31 December

	From 5 October 2004 to 31 December 2007 US\$	Year Ended 31 December, 2007 US\$	Year Ended 31 December, 2006 US\$
Cash flows from operating activities:			
Net loss	(10,968,509)	(3,493,967)	(2,400,458)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	4,282	4,282	-
Changes in assets and liabilities:			
Contracts and other receivables	(3,311,763)	(3,032,441)	(279,322)
Prepaid expenses and deposits	(116,389)	(101,389)	(15,000)
Accounts payable and accrued expenses	2,597,708	1,752,840	605,045
Net cash used in operating activities	<u>(11,794,671)</u>	<u>(4,870,675)</u>	<u>(2,089,735)</u>
Cash flows from investing activities:			
Purchase of property and equipment	(126,960)	(126,960)	-
Deposits paid for property and equipment	(1,005,477)	(1,005,477)	-
Net cash used in investing activities	<u>(1,132,437)</u>	<u>(1,132,437)</u>	<u>-</u>
Cash flows from financing activities:			
Payments on line of credit - related party	(2,494,087)	(775,339)	(1,718,748)
Borrowings on line of credit - related party	5,435,554	451,689	900,004
Proceeds from issuance of convertible bonds	9,000,000	6,025,000	2,975,000
Proceeds from sale of common stock	13,756,594	13,756,594	-
Members' contributions	750,500	-	100
Net cash provided by financing activities	<u>26,448,561</u>	<u>19,457,944</u>	<u>2,156,356</u>
Net increase (decrease) in cash and cash equivalents	13,521,453	13,454,832	66,621
Cash and cash equivalents:			
Beginning		<u>66,621</u>	<u>-</u>
Ending		<u><u>13,521,453</u></u>	<u><u>66,621</u></u>
Supplemental cash flow information:			

Cash paid for interest	1,384,235	721,259	662,976
Supplemental disclosure of non-cash investing and financing activities:			
Conversion of bonds into common stock and warrants	9,000,000	9,000,000	-

## **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 was a development stage entity during the period. The initial focus of the Company's research and development efforts is the generation and testing of armour products. The Company's success will depend on its ability to effectively develop and manufacture innovative armour for military and law enforcement use. There can be no assurance that the Company will not encounter problems during the testing stage that will cause the Company to delay production of the armour products.

The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

## **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all cash balances with 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.

### Fair Value of Financial Instruments and Concentrations of Risk

Financial instruments, consisting of cash, contracts and other receivables, accounts payable and accrued expenses, are recorded at cost, which approximates fair value based on the short-term maturities of these instruments and the current bond issue price.

Currently, contracts and other receivables are derived from related party advances and revenue due to the Company under a long-term contract. To date, the Company has not experienced any material credit losses, and therefore has not recorded an allowance for uncollectible accounts.

### 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. Depreciation expense amounted to US\$4,282 and US\$0 for the years ended 31 December 2007 and 2006, respectively.

### Revenue Recognition

The Company receives funds through a contract for research and development services. This contract stipulated that the Company perform research and contractor services with respect to specific applications of Volumetrically Controlled Manufacture (VCM) design and manufacturing processes. The contract has specific milestones, is on a best efforts basis, and payments are based on a pre-determined schedule. As this contract was deemed to be a cost sharing research contract, the funds are recognised upon completion of each milestone per the contract terms, and netted against research and development expense. Direct costs related to this contract are reported as research and development expense 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. The Company's first issuance of stock-based compensation occurred 31 December 2007. For the years ended 31 December 2007 and 2006, the Company has recorded no compensation expense in connection with stock options awarded.

#### 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*. 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.

As a limited liability company, the Subsidiary's taxable income or loss is passed through to its members in accordance with their respective ownership percentage. Therefore, no provision or liability for income taxes relating to the Subsidiary has been included in the financial statements for periods ending before 1 January 2007.

#### 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.

#### Pervasiveness of Estimates

In preparing the financial statements in conformity with accounting principals generally accepted in the United States of America, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and related notes. Actual results could differ from those estimates.

### **NOTE 3 - INITIAL 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\$10.00.

The placing shares are not registered under the US Securities Act 1933. The shares are 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 due to the IPO 1,275,000 were issued in reliance on Regulation S and 325,000 were issued in reliance on Regulation D.

On 31 December 2007, funds in the amount of US\$12,696,000 were collected from the sale of common stock, with US\$3,304,000 remaining to be collected as of that date. Of this amount, US\$500,000 remains to be collected as at 8 May 2008. Management expect these funds to be collected during 2008.

Market Demand Arrangements were put in place in connection with the Placing on 31 December 2007 to meet potential demand for investors subsequent to the original placement. The placing document made available up to 3,000,000 common shares, of which 650,000 have been pledged for purchase subsequent to year end. The common shares issued pursuant to the Market Demand Arrangements issued represent approximately 2.5 per cent of the Enlarged Share Capital of the Company.

Upon Admission to AIM, the conversion features of outstanding convertible bonds were triggered (see Note 4). 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 per cent of the placing price of \$US10, or US\$12.50, exercisable on 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.

#### **NOTE 4 - CONVERTIBLE BONDS**

During 2006 the Company began issuing 10% series A convertible bonds. Through 31 December 2006, the Company raised US\$2,975,000 from the sale of these bonds at par. During 2007 the Company raised an additional US\$6,025,000 for a cumulative US\$9,000,000 through 31 December 2007. The bonds carried an original maturity date of 31 March 2011. Interest was payable semi-annually in May and November, beginning 1 November 2006. Interest expense related to the convertible bonds amounts to US\$525,755 and US\$118,642 for the years ended 31 December 2007 and 2006, respectively.

The bonds were automatically convertible into shares of the Company's common stock in the event that any of the following occur: the consummation of an initial public offering or substantial private investment, the sale of all or substantially all of the assets of the Subsidiary or holding company, or an optional conversion event in which the Subsidiary has the option to call the bonds at par value, plus any accrued and unpaid interest after 31 December 2007. The conversion rate of the bonds was dependent on the type of conversion event noted above. The bonds expressed that each share of converted stock would carry a warrant to purchase another share of stock at 125% of a price to be determined. Upon Admission to AIM on 31 December 2007, the above conversion features were triggered and all convertible bond units were converted into common shares (see Note 3). Upon conversion, bond holders received 20,250 common shares for each US\$100,000 bond unit held. The same rate was used for the issuance of the warrants. A total of 1,822,500 common shares and 1,822,500 warrants were issued upon conversion.

## **NOTE 5 - WARRANTS AND OPTIONS**

Warrants for 1,822,500 shares of Common Stock and Options for 507,900 shares of Common Stock were outstanding at the time of the Admission. Exercise of any of these warrants or options would have a commensurately dilutive effect on the holdings of the previously issued Common Shares.

On 31 December 2007 the Company issued stock options to various equity owners and key employees as a means of attracting and retaining quality personnel. The option holders have the right to purchase a stated number of shares at the exercise 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 Registered Stock Units (RSUs) and Stock Appreciation Rights (SARs). 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. The total number of shares outstanding at 31 December 2007 under the Plan was 438,500 RSUs and 69,400 SARs.

In accordance with disclosure requirement under SFAS 123(R), the estimated full grant-date fair value of the Restricted Stock Units is US\$4,385,000 using the Black-Scholes method. Utilising the Black-Scholes method the Company assumes 3.0% volatility, 0 % dividend rate and 3.29% risk free rate for all options and warrants.

### Terms of Restricted Stock Unit Agreements

Date of Grant	31 December 2007
Exercise Price per share of Common Stock:	US\$0
Expiration Date	31 December 2017
Vesting Schedule	25% annually on the first, second, third and fourth anniversaries of the Date of Grant. Vesting is accelerated in full upon Change in Control

In accordance with disclosure requirement under SFAS 123(R), the estimated full grant-date fair value of the Stock Appreciation Rights is US\$193,233 using the Black-Scholes method.

### Terms of Stock Appreciation Right Agreements

Date of Grant	31 December 2007
Exercise Price per share of Common Stock:	An amount equal to the per Share Listing Price of US\$10.00 or the Per Share Private Investment Price (as applicable)
Expiration Date	31 December 2017
Vesting Schedule	25% annually on the first, second, third and fourth

anniversaries of the Date of Grant. Vesting is accelerated in full upon Change in Control

In accordance with disclosure requirement under SFAS 123(R), the estimated full grant-date fair value of the warrants US\$20 using the Black-Scholes method.

Terms of Warrants

Date of Grant	31 December 2007
Exercise Price per share of Common Stock:	US\$12.50
Expiration Date	31 December 2009
Warrant Exercise Date	The earliest to occur of 31 December 2009, or the date, if any, of any further issuance of Common Stock by the Company in a public offering or other material transaction.

No compensation expense is recognised during fiscal year 2007 as the first vesting period occurs in 2008. As such, all of the above RSUs and SARs are unvested as of 31 December 2007. There were no exercises, forfeitures, or expirations during the year. Compensation expense per FAS 123R requirements will be recognised rateably over the four year period.

The following table shows unrecognised compensation expense related to unvested RSUs and SARs outstanding as of 31 December 2007. This table does not include an estimate for future grants that may be issued.

<b>Fiscal Year Ended 31 December:</b>	<b>Amount US\$</b>
2008	1,144,558
2009	1,144,558
2010	1,144,558
2011	1,144,559
Total	<u>4,578,233</u>

**NOTE 6 - RESEARCH AND DEVELOPMENT COSTS**

Expenditures for research activities relating to product development are charged to expense as incurred. In September 2006, the Subsidiary entered into a contract to provide additional product testing. For the period ended 31 December 2007 and 2006, the Subsidiary earned US\$291,780 and US\$551,892, respectively, under this contract. These amounts are netted against the gross research and development costs incurred of US\$1,024,922 and US\$1,340,248 respectively, for the period ended 31 December 2007 and 2006, respectively.

**NOTE 7 - RELATED PARTY TRANSACTIONS**

Since inception, the Subsidiary, Armor Designs, LLC, has conducted the majority of its business through transactions with a related corporation, Hawthorne & York International, Ltd., owned by James A. St Ville, who owns approximately 86 per cent. of Armor Designs, Inc. subsequent to Admission.

During 2004, the Subsidiary entered into a services agreement with the related party whereby the related party provides interim management and administrative services, including accounting and human resources. Additionally, the related party has been providing interim

research and development services, including labour, subcontracting, consulting, equipment and technical upgrades, materials, and other related research and development activities.

The services agreement, as it relates to research and development activities, is structured in the form of a Line of Credit with interest on unpaid invoices for services charged at an annual rate of 9%. The outstanding balance of the Line of Credit as of 31 December 2007 was US\$2,941,467, and accrued interest totalled of US\$22,061.

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 31 December 2007 and 31 December 2006	US\$494,642	US\$354,002
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Included in the accompanying consolidated balance sheets is accounts payable of US\$111,266 due to the related party at 31 December 2007, for billings related to interest expense, general and administrative and research and development activities, as well as US\$47,038 for employee health premiums paid by the related party.

Interest expense to the related party was as follows:

Period ended 31 December 2007 and 31 December 2006	US\$288,986	US\$378,490
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The Subsidiary began repaying principal and accrued interest during 2006.

The Subsidiary paid rent and other facility occupancy costs on behalf of the related party for the period ended 31 December 2007. Accordingly, the accompanying consolidated balance sheets include receivables from the related party at 31 December 2007 and 31 December 2006.

Facility Occupancy costs incurred on behalf of the related party were as follows:

Period ended 31 December 2007 and 31 December 2006	US\$28,267	US\$6,860
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Receivables due from the related party were as follows:

Period ended 31 December 2007 and 31 December 2006	US\$7,763	US\$6,860
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Effective in 2007, the Company no longer utilises the interim management and administrative services of the related party. The Company maintains independent management, human resources, etc. The Company has also entered into a lease for independent facilities (see Note 10). In January 2008, the outstanding balance of the Line of Credit was repaid, along with all accrued interest due. The Company continues to utilise the related party for select research and development activities, and the Line of Credit remains open.

## NOTE 8 - INCOME TAXES

For fiscal 2007, the Company recorded no current or deferred income tax provision expense for state or federal taxes.

The provision for income taxes for the year ended 31 December 2007 differs from the amount computed by applying the statutory U.S. federal income tax rate to pre-tax loss as a result of the following:

	US\$	%
Computed tax benefit	(1,398,000)	40
Increases (reductions) in tax expense resulting from:		
Change in valuation allowance for deferred tax assets	1,355,000	36.9
Permanent items	<u>43,000</u>	<u>3.1</u>
Provision for income taxes	<u>-</u>	<u>-</u>

The Company provides deferred income taxes which reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at 31 December 2007 were as follows:

Deferred tax assets:	2007
	US\$
Non-current	
Net operating loss carryforwards	1,571,000
Depreciation and amortisation	12,000
Research & development tax credits	96,000
Current deferred tax assets (liabilities)	
Accruals	21,000
Prepaid expenses	(15,000)
Total deferred tax assets	1,685,000
Valuation allowance	<u>(1,685,000)</u>
Net deferred tax assets	<u>-</u>

The Company has available at 31 December 2007, unused federal and state net operating loss carryforwards of approximately US\$3,928,000, which may be applied against future taxable income expiring in 2027 and 2012, respectively.

Since the Company is a development stage entity and future revenues are unpredictable, a valuation allowance equal to deferred tax benefits associated with the above items has been provided. The valuation allowance increased by US\$1,685,000 in 2007.

## NOTE 9 - 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 31 December 2007, the Company capitalised and was depreciating fixed assets per the following schedule:

	<u>Life</u>	<u>Book Value</u> US\$
Equipment	7	114,070
Computer equipment	3	12,890
		<hr/> 126,960
Less:accumulated depreciation		(4,282)
		<hr/> 122,678 <hr/>

#### **NOTE 10 - 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:

Years ending December 31,	US\$
2008	442,339
2009	539,368
2010	547,930
2011	565,052
2012	582,175
	<hr/> 2,676,864 <hr/>

In December 2007, the Company entered into an Option Agreement to purchase the facility located at 4645 S. 35<sup>th</sup> Street in Phoenix, Arizona. Under the agreement, the Company was granted the exclusive right and option to purchase the property. The option became effective at the signing of the lease and continues until the earliest to occur of: (a) one hundred twenty (120) days after the Commencement Date under the Lease; or (b) the date the Lease is terminated if such Lease is terminated prior to Company purchasing the property. The purchase price for the property is Seven Million Five Hundred Thousand Dollars (US\$7,500,000.00).

As of 31 December 2007, the Company had a commitment to purchase manufacturing equipment per the following schedule:

<u>Fixed Asset</u>	<u>Total Cost</u> US\$	<u>Deposit</u> US\$	<u>Commitment</u> US\$
900 Ton Thermal Press	336,359	336,359	0
1,500 Ton Thermal Press	749,696	655,818	93,878
Front Mold Sets	30,000	13,300	16,700
Total	1,116,055	1,005,477	110,578

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 (86% ownership of the Company), for use of certain licensed technological products and processes owned by the related party. The Subsidiary is obligated to pay 4% of gross sales on a quarterly basis to the related party until September 13, 2009, at such time the contract will automatically renew for five-year terms 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 (86% ownership of the Company) 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 11 - RETIREMENT PLAN**

Effective 1 January 2006, employees of the Company that meet certain age and service requirements are eligible to participate in 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 years ended 31 December 2007 or 2006.

#### **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>2007</u></b>	<b><u>2006</u></b>
Net loss after tax	US\$(3,493,967)	US\$(2,400,458)
Divided by weighted average shares	22,509,377	22,500,000
Basic loss per share	US\$(0.16)	US\$(0.11)
Diluted loss per share	US\$(0.16)	US\$(0.11)

For 2007 and 2006, because of our reported net loss, potentially diluted securities were excluded from the per share computations due to their anti-dilutive effect.

**- Ends -**