SAC TECHNOLOGIES INC
Form 10QSB
May 15, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED MARCH 31, 2001

[_] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

FOR THE TRANSITION PERIOD FROM ____________ TO ____________

COMMISSION FILE NUMBER 1-13463

SAC TECHNOLOGIES, INC.

(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

MINNESOTA	41-1741861
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

1285 CORPORATE CENTER DRIVE, SUITE # 175, EAGAN, MN 55121

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(651) 687-0414

(ISSUER'S TELEPHONE NUMBER)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No___

Shares of the Registrant's Common Stock, par value $.01 per share, outstanding as of May 10, 2001: 10,706,967.

SAC TECHNOLOGIES, INC., dba BIO-Key International

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PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

SAC TECHNOLOGIES, INC., dba BIO-Key International
(a Corporation in the Development Stage)
BALANCE SHEETS

	December 31, 2000	March 31, 2001
ASSETS		(Unaudited)
CURRENT ASSETS		
Cash and cash equivalents	$ 48,830	$ 78,650
Accounts receivable	9,118	6,596
Prepaid expenses	21,745	8,709
Total current assets	79,693	93,955
EQUIPMENT AND FURNITURE AND FIXTURES - AT COST, less accumulated depreciation	31,942	23,956
OTHER ASSETS	50,595	41,202

	$ 162,230	$ 159,113

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES		
Note Payable	$ 1,400,000	$ 1,900,000
Current Maturities of Convertible Debentures	598,455	508,000
Accounts payable	328,398	307,809
Accrued liabilities	1,121,689	1,264,032
Total current liabilities	3,448,542	3,979,841
COMMITMENTS AND CONTINGENCIES	--	--
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock - authorized, 5,000,000 shares of $ .01 par value: 50,000 designated as Series A 9% Convertible (liquidation preference of $100 per share); issued and outstanding, 19,875 and 19,875, respectively	199	199
Common stock - authorized, 20,000,000 shares of $.01 par value; issued and outstanding, 9,966,724 and 10,706,967 hares, respectively	99,667	107,070
Additional contributed capital	13,133,600	13,339,518
Deficit accumulated during the development stage	(16,519,778)	(17,267,515
	(3,286,312)	(3,820,728
	$ 162,230	$ 159,113

See accompanying notes to interim financial statements.

SAC TECHNOLOGIES, INC., dba BIO-Key International
(a Corporation in the Development Stage)
STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31,		January 7, 1993 (date of inception) through March 31,
	2000	2001	2001

Revenues			
Product sales	$ --	$ --	$ 577,384
Licensing fees	--	--	100,000
Reimbursed research and development	--	--	284,506
Technical support and other services	--	--	429,885
	--	--	1,391,775
Costs and other expenses			
Cost of product sales	--	--	1,736,895
Cost of technical support and other services	--	--	237,317
Selling, general and administrative	375,303	414,426	10,527,095
Research, development and engineering	164,795	279,367	5,137,560
	540,098	693,793	17,638,867
Operating loss	(540,098)	(693,793)	(16,247,092)
Other income (expense)			
Interest income and other	(821)	(5,836)	503,300
Interest expense	(17,996)	(48,106)	(1,059,624)
	(18,817)	(53,942)	(556,324)
NET LOSS	$ (558,915)	$ (747,735)	$(16,803,416)
Loss applicable to Common shareholders			
Net loss	$ (558,915)	$ (747,735)	$(16,803,416)
Series A convertible preferred stock dividend and accretion	(141,000)	(--)	(648,825)
Loss applicable to common stockholders	$ (669,915)	$ (747,735)	$(17,452,241)
Basic and diluted loss Per common share	$ (.06)	$ (.07)	$ (2.61)
Series A convertible preferred Stock dividend and accretion	(.01)	(.00)	(.10)
Loss per Common share	$ (.07)	$ (.07)	$ (2.71)
Weighted average number of common shares outstanding	9,279,319	10,282,083	6,439,175

See accompanying notes to interim financial statements.

SAC TECHNOLOGIES, INC., dba BIO-Key International
(a Corporation in the Development Stage)
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months ended March 31, 2000	Three Months ended March 31, 2001	January 7, 1993 (date of inception) through March 31, 2001
Increase (Decrease) in Cash and Cash Equivalents			
Cash flows from operating activities			
Net loss	$ (558,915)	$ (747,735)	$(16,803,416)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	14,662	7,986	218,957
Amortization			
Unearned compensation	--	--	181,809
The intrinsic value of the beneficial conversion feature of the convertible debenture	--	--	561,701
Deferred financing costs	18,501	21,069	447,466
Allowance for doubtful receivables	--	--	--
Write-down of inventory	--	--	916,015
Write-down of deferred financing costs	--	--	132,977
Gain on sale of Inter-Con/PC stock	--	--	(190,000)
Revenues realized due to offset of billings against a stock purchase	--	--	(170,174)
Acquired research and development	--	--	117,000
options and warrants issued for services and other	83,300	13,320	1,343,554
Other	--	--	34,684
Change in assets and liabilities:			
Accounts receivable	10,331	2,522	(6,956)
Inventories	--	--	(916,015)
Prepaid expenses	16,062	13,036	(8,709)
Accounts payable	(110,924)	(20,589)	307,809
Accrued liabilities	131,842	242,343	1,374,992
	163,774	279,687	4,345,470
Net cash used in operating activities	(395,141)	(468,048)	(12,457,946)
Cash flows from investing activities			
Capital expenditures	--	--	(242,913)
Proceeds from sales of Inter-Con/PC stock	--	--	190,000
Other	(1,123)	(2,132)	(41,203)

Net cash used in investing activities	(1,123)	(2,132)	(94,116)
Cash flows from financing activities			
Net proceeds under short-term borrowing agreements	150,000	500,000	2,133,000
Issuance of convertible Bridge note	--	--	175,000
Issuance of convertible debenture	--	--	1,775,000
Issuance of warrants and convertible debentures discount	--	--	830,000
Deferred financing costs	--	--	(312,977)
Exercise of stock options	--	--	190,799
Sales of common stock	--	--	7,093,832
Sale of preferred stock and assigned Value of warrant	433,519	--	884,058
Redemption of common Stock issuance of convertible debentures	--	--	(138,000)
Net cash provided by financing activities	583,519	500,000	12,630,712
Net increase (decrease) in cash and cash equivalents	187,255	29,820	78,650
Cash and cash equivalents, at beginning of period	101,152	48,830	--
Cash and cash equivalents, at end of period	$ 288,407	$ 78,650	$ 78,650

See accompanying notes to interim financial statements.

SAC TECHNOLOGIES, INC., dba BIO-Key International
(a Corporation in the Development Stage)
NOTES TO INTERIM FINANCIAL STATEMENTS
December 31, 2000, and March 31, 2001 (Unaudited)

1. Unaudited Statements

The accompanying unaudited interim financial statements have been prepared by SAC Technologies, Inc., dba BIO-Key International (the "Company") in accordance with accounting principles generally accepted in the United States, pursuant to the rules and regulations of the Securities and Exchange Commission. Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted.

In the opinion of management, the accompanying unaudited interim financial statements contain all necessary adjustments, consisting only of those of a recurring nature, and disclosures to present fairly the financial position and the results of its operations and cash flows for the periods presented. It is suggested that these interim financial statements are read in conjunction with the financial statements and the related notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2000.

2. Liquidity and Capital Resource Matters

Broad commercial acceptance of the Company's products by customers and end users is critical to the Company's success and ability to generate revenues. The Company has limited sales to date, and has accumulated losses since inception of $16,803,416 of which $747,735 was incurred during the quarter ended March 31, 2001. The Company believes operating losses will continue for the foreseeable future.

Between March 31, 2000 and May 15, 2001 the Company has obtained a series of unsecured short term loans from the Shaar Fund Ltd, an international investment fund (the "Fund") in the aggregate principal amount of $2,100,000. The loans bear interest at the rate of 10% per annum and are due on the earlier of December 31, 2001, or the Company completing a private equity financing resulting in gross proceeds of at least $5,000,000.

As of the date of this filing, the Company has minimal cash resources and is in need of substantial additional capital to maintain operations beyond the end of the second quarter of 2001. The Company is seeking to obtain additional financing through the issuance of debt or equity securities of the Company on a negotiated private placement basis with institutional and accredited investors. As of the date of this filing, the Company has not reached any definitive agreement with any such investor regarding the specific terms of an investment in the Company. No assurance can be given that any form of additional financing will be available on terms acceptable to the Company, that adequate financing will be obtained to meet its needs, or that such financing would not be dilutive to existing stockholders. Management believes it will need $4,000,000 to $6,000,000 to support its operations through the next twelve months.

3. Loss Per Common Share

Basic loss per share is calculated by dividing the net loss attributable to common stockholders by the number of weighted average common shares outstanding. Diluted earnings per share are calculated by dividing the net loss attributable to common stockholders by the weighted average common shares, and when dilutive, by including options, warrants and convertible securities outstanding using the treasury stock method. There was no difference between basic and diluted loss per share for all periods presented, because the impact of including options, warrants and convertible securities would be antidilutive.

SAC TECHNOLOGIES, INC., dba BIO-Key International
(a Corporation in the Development Stage)
NOTES TO INTERIM FINANCIAL STATEMENTS
December 31, 2000, and March 31, 2001 (Unaudited)

4. Other Assets

	December 31, 2000	March 31, 2001
Deferred financing costs, less accumulated amortization	$ 11,524	$ 0
Security deposits	16,123	16,688
Patents pending	22,948	24,514
	$ 50,595	$ 41,202

5. Accrued Liabilities

	December 31, 2000	March 31, 2001
Compensation	$ 85,860	$ 85,680
Interest	256,071	204,177
Shaar Fund Penalty	763,625	942,500
Other	16,313	31,675
	$ 1,121,689	$ 1,264,032

6. Convertible Debentures

During January 2001, the Fund converted $100,000 of convertible debentures into 432,077 shares of common stock. The balance outstanding under the convertible debentures is due June 2001. In addition, during March 2001, the Fund converted $100,000 of interest due under the convertible debenture into 308,166 shares of common stock.

SAC TECHNOLOGIES, INC., dba BIO-Key International
(a Corporation in the Development Stage)
NOTES TO INTERIM FINANCIAL STATEMENTS
December 31, 2000, and March 31, 2001 (Unaudited)

7. Stockholders Equity

The following summarizes option and warrant activity since December 31, 2000:

	Number of Shares		
	1996 Plan	1999 Plan	Non-Plan
Balance, December 31, 2000	114,380	616,669	1,481,000
Granted	--	--	90,000
Exercised	--	--	--
Cancelled	--	--	--
Balance, March 31, 2001	114,380	616,669	1,571,000
Available for future grants, March 31, 2001	542,620	1,383,331	--

Series A Convertible Preferred Stock

On March 17, 2000 the Company completed a private placement of $675,000 face amount of its Series A Convertible Preferred Stock and a 5-year warrant to purchase 67,500 shares of Common Stock exercisable at $1.196 per share to the Fund. The Company received net proceeds of $185,000 after giving effect to a 33% discount ($225,000) to the face amount of the preferred stock, offering costs of $15,000 and the repayment of $250,000 in notes outstanding to the Fund. On July 9, 1999, the Company issued $1,312,500 face amount of its Series A Convertible Preferred Stock realizing gross proceeds of $875,000.

The preferred shares provide for a 9% dividend payable semi-annually in arrears. At the option of the Company, the dividends are payable in kind through the issuance of additional shares of Company common stock. As of March 31, 2001, dividends in arrears totaled approximately $223,000. The preferred shares are immediately convertible into shares of common stock at a conversion price equal to the lesser of (a) 110% of the closing bid of the Company's common stock on the date of issuance or (b) a 22% discount to the average closing bid prices of the Company's common stock during the five trading day period prior to conversion. The preferred shares are redeemable, in whole or in part, at the option of the Company at 100% of face value ($100 per share).

In connection with these financings, the Company was obligated to file a registration statement with the SEC covering the resale of the shares of common stock issuable upon conversion of the preferred shares or the exercise of the warrant issued to the Fund. As of the date of this filing the Company has not filed the registration statement, has accrued a penalty of $942,500 related thereto, and the Fund has not demanded payment of these amounts.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PRIVATE SECURITIES LITIGATION REFORM ACT

The information contained in this Report on Form 10-QSB and in other public statements by the Company and Company officers include or may contain certain forward-looking statements. When used in this Report or in such statements, the words "estimate," "project," "intends," "expects," "believes" and similar expressions are intended to identify forward-looking statements regarding events and financial trends which may affect the Company's future operating results and financial position. Such statements are not guarantees of future performance and are subject to risks and uncertainties that could cause the Company's actual results and financial position to differ materially from those included within the forward-looking statements. Such factors are described in detail in the Company's Annual Report on Form 10-KSB under the caption "RISK FACTORS." Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to publicly release the results of any revision to these forward-looking statements to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

OVERVIEW

The Company is in the business of developing and marketing proprietary biometric technology and software solutions. Biometric technology, the science of analyzing specific human characteristics which are unique to each individual in order to identify a specific person from a broader population, is an emerging technology. Examples of the unique biological characteristics that can be used to identify an individual include fingerprints, iris patterns, hand geometry, voice recognition and facial structure. Fingerprint analysis is an accurate and reliable method to distinguish one individual from another and is viewed as less intrusive than many other biometric identification methods. As a result, fingerprint analysis has gained the most widespread use for biometric identification. Biometric technology represents a novel approach to identity verification which has only been used in limited applications and has not gained widespread acceptance in any commercial or consumer markets.

The Company's proprietary biometric technology scans a person's fingerprint and identifies a person typically within a few seconds without the use of a password, key card, personal identification number (PIN) or other identifying data. The Company believes that its fingerprint identification technology will have a broad range of possible applications relating to information security and access control, including:

* Securing Internet sites and Web pages
* Securing access to corporate intranets and extranets
* General access control, i.e., facility access control

Over the past 18 months, recognizing the growth in electronic commerce, corporate intranets and ethernets and related security concerns, the Company has been actively positioning its technology for the licensing of a Web based biometric authentication software solution to e-commerce and other companies conducting business over the Internet. This integrated solution will involve the licensing of client and server based software to provide for reliable and cost effective user authentication in connection with the processing of e-commerce transactions or securing access to private networks. This solution is also intended to be available to secure e-commerce and other general purpose Web site applications. During the past year, the Company has completed the development of enhanced software to provide an effective interface between client and server-based software. The Company's current business plan, which continues to evolve, consists of a threefold strategy of (i) continued development of technology; (ii) marketing its technologies through licensing agreements with OEMs and private labelers addressing industry-specific applications; and (iii) the development and licensing of a Web-based biometric authentication software solution to e-commerce and Internet content companies to secure Web based transactions and corporations to secure private networks.

Although the Company has developed significant identification technology and readers, neither has gained any meaningful commercial acceptance and the Company has only generated minimal revenue since inception. The Company does not intend to distribute readers, but rather intends to license its core technology. The Company's business model, particularly the Web authentication initiative, represents a unique approach to Internet security. As of the date of this report, the Web authentication initiative has not been adopted by any company conducting business over the Internet and there can be no assurance that there will be a demand for such a solution or that the Company will have the financial or other resources necessary to successfully market such a software solution.

The Company believes its existing cash will only last through June 2001. Due to these and other uncertainties, the Company's independent auditors have included an explanatory paragraph in their opinion for the year ended December 31, 2000 as to the substantial doubt about the Company's ability to continue as a going concern. The Company's long-term viability and growth will depend upon the successful commercialization of its technologies and its ability to obtain adequate financing, among other matters, as to which there can be no assurances.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 AS COMPARED TO THREE MONTHS ENDED MARCH 31, 2000

Revenues

The Company is a development stage corporation. Accordingly, the Company does not have significant sales revenue and generated no revenue during the quarters ended March 31, 2000 and March 31, 2001. The Company continues to deploy substantially all human and capital resources to executing its revised business plan targeted at Internet, intranet and electronic commerce security. As a result the Company's limited resources were used to refine its technology to develop the applications needed to execute against the Company's revised business plan.

Costs and Other Expenses

The Company did not generate any revenue during the three month periods ended March 31, 2001 and 2000 and, therefore, did not incur any cost of sales.

Selling, general and administrative expenses increased $39,123 to $414,426 during the three months ended March 31, 2001 as compared to $375,303 for the corresponding period in 2000. Of the decrease, $38,846 was due to a decrease in salaries and wages for administrative personnel, $41,830 was due to a reduction in professional services costs, $115,557 was due to a reduction for the fair marked value of options issued, and $13,459 was due to a reduction in general operating expenses. These were offset by a increase of $65,622 in selling costs as the Company focused on marketing its web based biometric authentication software solution, an increase of $4,320 in administrative consulting services and $178,875 for non-cash accrual of penalties incurred for failing to file a registration statement for the Company's Series A Convertible Preferred Stock.

Research, development, and engineering expenses increased $114,572 to $279,367 during the three months ended March 31, 2001 as compared to $164,795 for the corresponding period in 2000. Of the increase, $22,108 was due to additional development personnel and $137,699 was due to an increase in software sub-contracting costs. The increase in software subcontracting costs during 2001 relates to the development of the Web authentication solution. These were offset by a decrease of $45,235 in general operating costs of this department.

Other income and (expense) increased $39,228 to $58,045 during the three months ended March 31, 2001 as compared to $18,817 for the corresponding period in 2000 due primarily to the interest costs associated with the increase in short term notes payable to the Fund.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities during the three months ended March 31, 2001 was $468,048 compared to $395,141 during the same period in 2000. The primary use of cash for both years was to fund the net loss. Net cash used by investing activities for the three months ended March 31, 2001 was $2,132 compared to a net use of cash of $1,123 for the same period in 2000. Net cash provided by financing activities during the three months of 2001 was $500,000 compared to $583,519 in the same period in 2000 and was principally from cash received from net short term borrowing activities of $500,000 in 2001.

Working capital deficit increased $534,416 during the three months ended March 31, 2001 to $3,820,728 as compared to $3,286,312 as of December 31, 2000.

The Company's capital needs have been principally met through proceeds from the sale of debt and equity securities.

The Company does not currently maintain a line of credit or term loan with any commercial bank or other financial institution.

On June 30, 1998, the Company sold to Shaar Fund, Ltd., an international investment fund and principal stockholder of the Company (the "Fund") $2,500,000 of 5% Convertible Debenture due June 30, 2001 (the "Convertible Debenture"). The Convertible Debenture is convertible into shares of the Company's Common Stock at a conversion price equal to the lesser of (i) $7.15; or (ii) the average closing bid price of the Company's Common Stock for a five-day period ending the day prior to the notice of conversion multiplied by a discount factor of 22%. The Convertible Debenture is redeemable at the option of the Company under certain circumstances. Interest is payable quarterly in arrears, and at the option of the Company, is payable in-kind through the issuance of additional shares of the Company's Common Stock at the conversion price. As of the date of this filing, $1,992,000 principal amount and $100,000 of accrued interest due under the Convertible Debenture has been converted into an aggregate of 3,170,000 shares of Common Stock. The Convertible Debenture contains certain anti dilution and conversion price adjustment provisions if certain events occur. In the event of repayment, the Company is subject to certain repayment costs of up to 24% of the principal amount repaid.

On July 9, 1999 the Company completed a private placement of 13,125 shares of its Series A Convertible Preferred Stock and 5-year warrants to purchase 131,250 shares of Common Stock exercisable at $1.196 per share to the Fund. The Company realized net proceeds of $700,539 from the sale of these securities after giving effect to the repayment of $100,000 note payable to the Fund. On March 17, 2000 the Company completed a private placement of 6,750 shares of its Series A Convertible Preferred Stock and 5-year warrants to purchase 67,500 shares of common stock with the Fund. The Company realized net proceeds of $183,519 after giving effect to the repayment of $250,000 of notes payable to the Fund.

The preferred shares provide for a 9% dividend payable semi-annually in arrears. At the option of the Company, the dividends are payable in kind through the issuance of additional shares of Company common stock.

The preferred shares are immediately convertible into shares of common stock at a conversion price equal to the lesser of (a) 110% of the closing bid of the Company's common stock on the date of issuance or (b) a 22% discount to the average closing bid prices of the Company's common stock during the five trading day period prior to conversion. The preferred shares are redeemable, in whole or in part, at the option of the Company at 100% of face value ($100 per share). The Company is obligated to file a registration statement with the Securities and Exchange Commission covering the resale of the shares of common stock issuable upon conversion of the preferred shares or exercise of the warrants. As of the date of this filing, the Company has not filed the registration statement, has accrued penalties of $942,500 payable to the Fund and will continue to accrue a penalty until such a registration statement is filed. The Fund has not demanded payment of these amounts. As of March 31, 2001 cumulative undeclared dividends were $223,000.

Between March 31, 2000 and May 15, 2001, the Company has obtained a series of unsecured short term loans from the Fund in the aggregate principal amount of $2,100,000. The loans bear interest at the rate of 10% per annum and are due on the earlier of December 31, 2001, or the Company completing a private equity financing resulting in gross proceeds of at least $5,000,000. There can be no assurance that the Fund will continue to provide any additional loans to the Company.

As of the date of this filing the Company has minimal cash resources and is in need of substantial additional capital to maintain operations beyond the second quarter of 2001. Management is seeking to obtain additional financing through the issuance of additional debt or equity securities of the Company on a negotiated private placement basis to institutional and accredited investors. In this regard, the Company has been engaged in discussions with certain investors, however, as of the date of this filing, the Company has not reached any definitive agreement with any such investor regarding the specific terms of an investment in the Company. Given the number of shares of common stock reserved for issuance upon conversion or exercise, as applicable, of outstanding options, warrants, preferred stock and the Convertible Debenture, in order to raise the necessary funds through the issuance of equity securities or securities convertible into equity securities, the Company will likely be required to amend its Articles of Incorporation to authorize the issuance of additional shares of common stock. This will result in increased costs associated with calling and convening a shareholder meeting and could delay the timing of any financing. No assurance can be given that any form of additional financing will be available on terms acceptable to the Company, that adequate financing will be obtained to meet its needs, or that such financing would not be dilutive to existing stockholders. Management believes it will need $4,000,000 to $6,000,000 to execute its business plan and support operations through 2001.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

NONE

ITEM 2. CHANGES IN SECURITIES

1. On March 31, April 15 and April 30, 2001 the Company issued options to purchase 15,000 shares of Common stock at strike prices equal to the closing market price of the Company's common stock on the dates of grant to Bruce Nordin, an executive management consultant to the Company. The options were issued in a private placement transaction exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereunder without payment of underwriting discounts or commissions to any person.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As of the date of this Report, the Company has cumulative undeclared dividends on its Series A 9% Convertible Preferred stock in the amount of $223,000.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE

ITEM 5. OTHER EVENTS

ITEM 6. EXHIBITS

(a) Exhibits

None

(b) Reports on Form 8-K

None.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 15, 2001 SAC Technologies, Inc.

/s/ Barry Wendt

Barry Wendt, Chief Executive Officer

/s/ Gary Wendt

Gary Wendt, Chief Financial Officer

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