



DAC Technologies Group International, Inc. (DAAT)

DAC Technologies Group International, Inc. is an outsource manufacturer of high quality, reasonably priced security safes, gunlocks, gun cleaning kits, sporting goods, household cleaning tools and various hardware items. DAC distributes its products through mass merchandisers such as Wal-Mart and Kmart, and sporting goods retailers and distributors such as Cabela's, Acusport, Jerry's, RSR, Maurice, Academy Sports and others.

Initial Report – October 26, 2009



Investment Highlights

✓ During the first six months of 2009, DAC Technologies showed significant sales and earnings growth for which there were two main contributors. First of all, there was a major decrease in commodity prices compared with 2008 and secondly, sales for the Company's gun cleaning and maintenance and gun safety products increased 43% compared with last year.

✓ In July of 2009, DAC Technologies was selected as "Company of the Month" in the July 2009 issue of The Bowser Report. The Bowser Report, published by Max Bowser, is one of the top performing investment newsletters specializing in small cap stocks and was selected as one of the top ten newsletters in 2005 by the Hulbert Financial Digest.

✓ Early September of 2009, the Company received its largest purchase order in its 16 year history. The purchase order from Wal-Mart is for a deluxe gun cleaning kit and is well in excess of seven figures.

✓ DAAT has a clean balance sheet as it has a current ratio of 3.16, shareholder equity of almost \$5.3 million and NO long term debt.

✓ DAC sells its gun cleaning kits and accessories to Wal-Mart under the famous Winchester brand name. The Company is currently looking to expand its offerings under the Winchester name.

✓ Management recently raised its guidance for fiscal year 2009 from 12 to 14 cents earnings per share to 14 to 16 cents per share on sales of \$16 to \$18 million.

✓ Based on the information described in this report, we believe DAC Technologies' shares are substantially undervalued at current prices. We are initiating coverage of DAAT with a BUY rating and a \$1.82 per share price target, which is more than double today's stock price.

Symbol:	DAAT
Industry:	Consumer Goods
Market:	Bulletin Board
Recent Price:	\$0.85
52-Week Price Range:	\$0.25 - \$0.94
Market Cap:	approx. 5.40 million

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The Company

DAC Technologies Group International, Inc., is in the business of developing, marketing and outsourcing the manufacture of various consumer products, patented and non-patented. The Company's primary business is gun safety and gun maintenance with a target consumer base of hunters, gun owners, sportsmen and outdoor enthusiasts.

The Company's products have historically been security related, evolving from various personal, home and automotive electronic security devices, to firearm safety devices such as gun and trigger locks, cable locks and safes.

In 2003, DAC's management decided to introduce a line of GunMaster gun cleaning kits to increase revenues and to make the Company less dependent on security related products. This product line has done very well and now even accounts for the majority of the Company's sales.

Because the path of diversification worked, the Company began developing products for the hunting and camping market in 2005 and entered the household products market in 2007.

Virtually all of the Company's products are manufactured and imported from mainland China and shipped to the Company's central warehouse facility in Little Rock, Arkansas for distribution. These products are sold primarily to mass merchants like Wal-Mart and Kmart, and sporting goods retailers such as Cabela's, Academy Sports, Dick's Sporting Goods and Sportsman's Guide.

Additionally, DAC provides gunlocks to OEM gun manufacturers such as Savage Arms, Browning, Marlin, Glock and SIG-Arms. Finally, products are also sold to distributors such as Acusport, RSR Group, Inc., Jerry's Sport Center, Inc. and Maurice.

Products

The Company designs and engineers most of its products with the assistance of its Chinese trading agent and manufacturers.

Through the relationship with these manufacturers, the Company is able to provide high quality, low cost products, providing the consumer with extreme value. The products arrive assembled, packaged and ready for delivery to customers at DAAT's warehouse/office facility.

DAC's products can be grouped into four main categories: gun cleaning and maintenance, hunting and camping, gun safety and household products.

➤ **Gun Cleaning and Maintenance.** DAC sells over fifty different gun cleaning kits, rod sets, tools and accessories used to clean and maintain virtually any firearm on the market. These kits are solid brass, and consist of "universal" kits designed to fit a variety of firearms, caliber specific kits, as well as replacement brushes, mops, etc. These kits are available in solid wood or aluminum cases, as well as blister packed.

All gun cleaning kits and accessories sold to Wal-Mart are under the famous Winchester brand name as part of a licensing agreement between the Company and Olin Corporation, owner of the Winchester trademark. DAC is currently looking to expand its relationship with Winchester. Additionally, several privately labeled kits are sold for certain customers.

This product area accounted for 62% and 53% of gross sales during the first six months of 2009 and 2008, respectively.



DAC's gun cleaning kits and accessories sold to Wal-Mart are under the famous Winchester brand name.

➤ **Hunting and Camping** items include a Sportsman's Lighter, a aluminum camping table and a turkey hunting seat. In 2008, this category also included three meat processing items and a knife set, but were discontinued because of their very low gross margins. This product area accounted for 13% and 20% of gross sales during the first six months of 2009 and 2008, respectively.

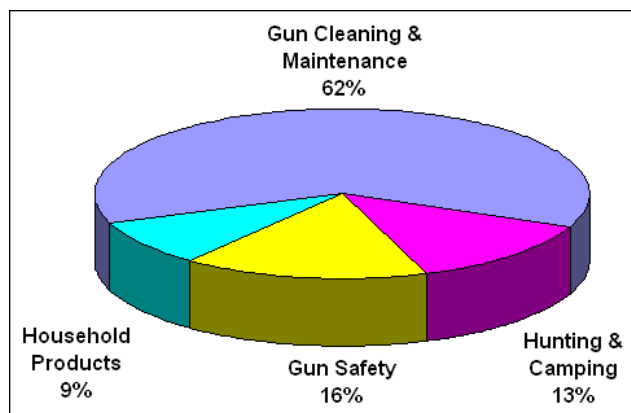
➤ **Gun Safety.** The Company sells twelve different gun safety locks with compositions ranging from plastic to steel. Additionally, five security and specialty safes are manufactured, which are heavy-duty, all steel constructions and are designed to protect firearms, jewelry and other valuables.

Eight of the Company's gunlocks and two safes have been certified for sale consistent with the standards set out by the State of California. This product area was good for 16% and 14% of gross sales during the first six months of 2009 and 2008, respectively.



The Company's products have historically been security related, evolving from various personal, home and automotive electronic security devices, to firearm safety devices such as gun and trigger locks, cable locks and safes. Above, a gun safety lock.

➤ **Household Products.** The Company sells five household cleaner dusters. DAC also used to sell a line of household fireplace screens, tools and accessories, but discontinued these products because of their low margins. This product area accounted for 9% and 13% of gross sales during the first six months of 2009 and 2008, respectively.



Sales breakdown by product category (6M 2009)

A significant portion of DAC's business is with the mass-market retailer Wal-Mart (approximately 50% for the first six months in 2009). Although it may hold a threat, we believe that Mr. Collins', DAC's Chairman and CEO, long term personal relationship with Wal-Mart, which has been built on trust over the

course of 15 years, is very strong. Additionally, the Company has been able to considerably increase its business with other large sporting goods retailers, distributors and catalog companies.

The Market

The buyers of DAC's gun cleaning, gun safety and hunting and camping products include hunters, gun owners, sportsmen and outdoor enthusiasts.

An *American Firearms Industry* report published in 2008, says there are between 192 and 200 million privately owned guns in the United States (33% to 41% of all US homes report at least 1 gun in the home). And although a majority of those guns isn't frequently used, most owners need a gun cleaning kit, which immediately explains the Company's tremendous growth in this product category over the past years.

Moving over to gun safety products like trigger locks and cable locks. Most gun manufacturers already provide some kind of lock with new firearms, but the practice is voluntary. Despite several federal laws that regulate the ownership, purchase and use of handguns, there isn't a federal law that requires the use of gunlocks. Seven states however, including California, do require that locks be sold with some firearms. This can only be encouraged, as according to a study of *American Journal of Public Health* more than 22 million children live in homes in which there is at least one firearm present. Among homes with children and firearms, between 41.5% and 43% had at least 1 unlocked firearm.

These numbers make it obvious there's a great need for a better legislation and for DAAT's gun safety products.

The market for household cleaning tools is a completely different one. DAC has been successful in entering this market by manufacturing a number of cleaning dusters for Wal-Mart. However, this could only be the beginning as the U.S. market for household cleaning products is enormous. Think about it: dusters, brooms, brushes, mops, buckets are used daily in and outside the house in almost every household.

According to a Packaged Facts report, the U.S. market for household cleaning products will continue to grow at a CAGR of two percent through 2012 to reach \$8.1 billion. This is a market place with tremendous possibilities for DAC Technologies.

Competition

The Company operates in very competitive industries, dominated by national and international companies with well-established brands. While DAC's products are favorably priced to comparable products on the current market, many of their competitors' products are more widely known.

Some of the competitors in the gun safety industry are: Master Lock (which presently controls 60% to 70% of the market), Smith & Wesson, Shot Lock, Sentry Safes, Pro-Loc and Gun Vault.

Although it's important to achieve brand name recognition to establish market share and recurring consumers, there's also significant opportunity for lesser-known names with specific products and solutions that appeal to consumers. The Company will try to maintain a competitive position by product design, pricing, quality of the products and the maintenance of favorable relationships with various mass merchandisers.

Financials

Second Quarter And Six Months 2009 Results

DAC Technologies announced net sales for the second quarter ended June 30, 2009 of \$3,143,041 versus \$2,724,258 for the second quarter of 2008, an increase of \$418,783, or 15%. Net income for the quarter ending June 30, 2009 was \$128,566, or \$.02 per diluted share, compared with \$8,090, or \$.00 per diluted share, for the same period in 2008, an increase of \$120,476, or 1489%.

Net sales for the six months ended June 30, 2009 were \$6,676,498, compared with \$5,440,027 in the same period in 2008, an increase of 23%. Net income for the first six months of 2009 was \$312,865, or \$.05 per diluted share, compared with \$50,064, or \$.01 per diluted share in the comparable period last year, a 525% increase. Noteworthy is that net income for the first six months of 2009 is almost equal to the net income of the entire fiscal year 2008.

Sales of the Company's gun cleaning and maintenance and gun safety products increased 43% for the six months ended June 30, 2009 as compared to the same period in 2008. This is a trend that has been seen across the United States for guns and gun related products since President Obama took office, because many believe the

President and a Democratic-controlled Congress will move to restrict firearm ownership.

	06/30/09	12/31/08
Net Sales	3,143,041	2,724,258
Cost of Goods Sold	2,195,174	2,043,077
S, G & A Expenses	697,866	623,895
Income From Operations	250,001	57,286
Pre-Tax Income	41,265	43,579
Income Tax Expense	80,170	5,617
Net Income	128,566	8,090
Shares Outstanding	5,793,699	6,032,899
Earnings Per Share	0.02	0.00

Most important income statement data for the period ending June 30, 2009 versus December 31, 2008. Source: Company Reports

The Company's gross margins continue to increase compared with 2008, due to a significant drop in commodity prices. Gross margins for the six months ended June 30, 2009 were 30.2%, as compared to 25.9% for the same period in 2008. Management expects this improvement to continue through 2009 into 2010, even as commodity prices go to average levels.

Operating expenses for the six months ended June 30, 2009 increased \$200,460, or 16% over the six months ended June 30, 2008. This increase is a direct result of the increase in sales, resulting in increases in sales commissions, freight and other related warehouse costs.

Mr. Collins said: "It will be difficult to maintain the large sales increases we have enjoyed in the first six months, mainly due to the fact that most of the low gross margin products we have eliminated were fall sales items. We do expect to maintain large sales increases in our core business of gun accessories, both through existing customers and increased market share. **Due to these facts, the Company is raising guidance for fiscal year 2009 from 12 to 14 cents earnings per share to 14 to 16 cents per share on sales of \$16 to \$18 million.**"

Balance Sheet As Of June 30, 2009

DAC Technologies has a clean balance sheet as it has a current ratio of 3.16, shareholder equity of almost \$5.3 million and NO long term debt. After June 30, 2009, the Company did secure a six month, \$1,000,000 line of credit, collateralized by its inventory, with its local bank. This credit line has

been secured to meet the Company's cash flow needs if problems should occur with its factoring company (see below).

Compared with December 31, 2008, inventories increased by \$2,656,519 and accounts payable increased by \$1,043,058. These changes are normal and expected based on the seasonality of the Company's line of products.

	06/30/09	12/31/08
Cash and Cash Equivalents	69,026	599,103
Accounts Receivable	610,838	495,718
Due From Factor	524,170	1,542,918
Inventories	5,399,082	2,742,563
Total Current Assets	6,742,319	5,483,389
Net Property and Equipment	269,943	266,011
Total Assets	7,492,988	6,179,986
Accounts Payable	1,838,194	795,136
Total Current Liabilities	2,136,870	1,107,814
Deferred Income Tax Liability	66,574	66,574
Total Liabilities	2,203,444	1,174,388
Total Stockholder Equity	5,289,544	5,005,598

Most important balance sheet data for the period ending June 30, 2009 versus December 31, 2008. Source: Company Reports

Another significant change on the Company's balance sheet at June 30, 2009 was its accounts receivable/due from factor, which decreased by \$903,628, or 66 percent.

The Company maintains a factoring agreement wherein it assigns its receivables (on a non-recourse basis). The factor performs all credit and collection functions, and assumes all risks associated with the collection of the receivables. The Company pays a fee of 65/100ths of 1% of the face value of each receivable for this service. The factor may also, at its discretion, advance funds prior to the collection for which the Company is charged interest. The interest rate charged is the JPMorgan Chase Bank prime rate, or 4%, whichever is greater. For the three-month period ending June 30, 2009, the factor had advanced \$1,416,559 to DAC.

The Company's factor, The CIT Group, Inc. (NYSE: CIT) has been experiencing financial difficulties, and its ability to continue to operate in the future is the

subject of great debate in the financial markets. On October 1, 2009, CIT announced that it had commenced a restructuring of its capital structure. Under the plan, CIT Group Inc. and CIT Group Funding Company of Delaware LLC (Delaware Funding) are launching exchange offers for certain unsecured notes. If the Company does not achieve the objectives of the exchange offers, it may decide to initiate a voluntary filing under Chapter 11 of the U.S. Bankruptcy Code.

Although The CIT Group is doing everything it can to survive the financial crisis, DAC has proactively taken the necessary steps to protect itself in the event CIT files for bankruptcy, or is otherwise unable to fulfill its obligations to the Company. After June 30, 2009, the Company has received additional advances from CIT that virtually eliminate all risk of financial loss to the Company. Furthermore, the Company requested and received proposals from two other factors under terms and conditions more favorable to the Company than its existing contract with CIT, although there can be no assurance that these proposals will eventually be closed.

Recent Developments

The Bowser Report Recommendation

In July, DAC Technologies announced that it was selected as the "Company of the Month" in the July 2009 issue of The Bowser Report. The Bowser Report is a monthly, subscription-based, newsletter that highlights small cap stocks trading at \$3.00 per share or less. The Bowser Report, published by Max Bowser, is one of the top performing investment newsletters specializing in small cap stocks and was selected as one of the top ten newsletters in 2005 by the Hulbert Financial Digest.

Mr. Collins commented: "We are pleased to be selected as the featured company in The Bowser Report. The Newport News, Virginia company uses fundamental analysis to select and recommend companies. Companies do not pay for the research and coverage and do not edit the newsletter's recommendation."

Holiday Purchase Orders

Early September 2009, DAC announced it had received the largest single purchase order in its 16 year history. The purchase order from Wal-Mart is for the Company's deluxe gun cleaning kit and will ship in October and November of 2009. The purchase

order is for a Holiday promotion and is well in excess of seven figures.

Mr. Collins said: "The Company is very excited about receiving purchase orders of this magnitude and continues to concentrate on its core business of gun cleaning kits and firearm accessories. The Company is experiencing large sales increases in this area and expects the trend to continue."



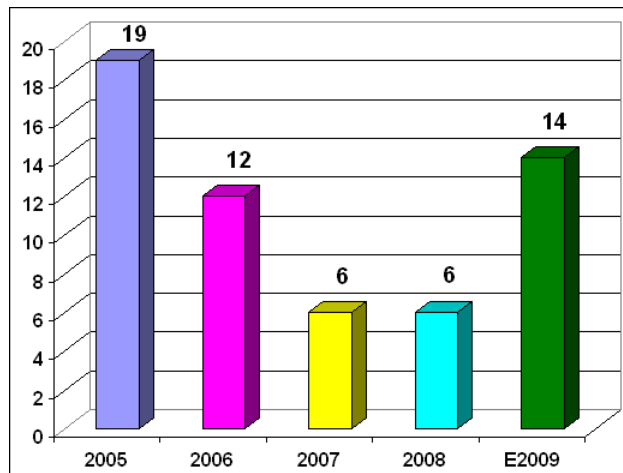
DAC recently received a seven figure purchase order from Wal-Mart for its deluxe gun cleaning kit.

Outlook & Valuation

During the first six months of 2009, DAC Technologies showed significant sales and earnings growth for which there were two major contributors. First of all, there was a major decrease in commodity prices compared with 2008. As a direct result, gross margins increased in the first six months from 25.9% in 2008 to 30.2% in 2009.

Secondly, sales for the Company's gun cleaning and maintenance and gun safety products increased 43% compared with last year. Weapons dealers throughout the United States are reporting sharply higher sales since Barack Obama was elected President as many thought he would tighten firearm legislation, which hasn't happened so far.

We believe revenues will be down in the third and fourth quarter of 2009 compared to last year because of the discontinuation of the fireplace and game processing equipment. These items combined accounted for sales of approximately \$3.5 to \$4 million in 2008. The loss in sales will partially be offset by an increase of gun cleaning and maintenance sales. Although, revenues will most likely be down, we also believe earnings will be up as the gun related items have much higher margins.



Earnings per share for FY 2005 – 2009E in cents per share.

All in all, we think it was a good decision of the Company's management to focus on high margin products and discontinue the low margin items.

Peer Comparison

Due to the unique nature of DAC's products it's hard to situate the Company in a certain sector and compare it with a few of its peers. Smith & Wesson Holding Corp. (SWHC) and Alliant Techsystems Inc. (ATK) for instance, both offer gun safety products, but these companies are much larger and only compete against DAC in one or two of their segments. Another factor to consider is Mr. Collins' exceptional relationship with Wal-Mart, which again makes it hard to compare the Company with others.

However, for reason of comparison and because the Company is rapidly developing other product lines besides gun safety products, we have placed the Company in the consumer goods industry. The average P/E ratio for a company in the consumer goods industry is 13.00x (Source: Yahoo! Finance).

Valuation

DAC Technologies' business is going into the right direction. Current products are doing very well and the Company is introducing new items in the market.

Although we believe revenues will be down in the second half of 2009 compared with last year, we still expect earnings to be up significantly because the Company has been selling more high margin gun related items.

Management is projecting earnings between 14 and 16 cents per share for FY 2009. We will remain conservative, and use the 14 cents per share estimate in further calculations.

Applying the 13.00x P/E multiple for the peer group, results in the following calculation: \$0.14 EPS multiplied by 13.00 = \$1.82.

Based on this report, we initiate coverage of DAC Technologies with a Buy recommendation and a price target of \$1.82, which is more than double today's stock price.

Management

The management list is exceptionally short as the Company runs a very tight ship with only 9 employees.

➤ **David A. Collins - Founder, Chairman, CEO and President**

Mr. Collins is a founder of the Company and its predecessors, and previously served as its President, CEO and Director from inception in 1993 until July 11, 2001. From July 2001 until May 2002, Mr. Collins served as a consultant to the Company, particularly in the areas of sales and marketing. In May 2002, Mr. Collins was reappointed as President, CEO and Chairman upon the resignation of James R. Pledger.

➤ **Robert C. Goodwin - CFO and Principal Accounting Officer**

Mr. Goodwin has served as the Company's CFO since its inception in July 1998, as well as DAC Arkansas continuously since 1993. In July 1998, Mr. Goodwin was elected to the Company's board.

Annual Income Statement FY 2006 – 6M 2009

All numbers in thousands

PERIOD ENDING	FY 2006	FY 2007	FY 2008	6M 2009
Total Revenue	15,476	14,778	17,042	6,676
Cost of Revenue	10,986	10,839	13,206	4,657
Gross Profit	4,490	3,939	3,837	2,020
Operating Expenses				
Research Development	-	-	-	-
Selling General and Administrative	2,960	3,054	2,923	1,422
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	2,960	3,054	2,923	1,422
Operating Income or Loss	1,530	884	914	598
Income from Continuing Operations				
Total Other Income/Expenses Net	13	-	-	-
Earnings Before Interest And Taxes	1,543	884	914	598
Interest Expense	318	326	276	88
Income Before Tax	1,225	558	639	510
Income Tax Expense	472	217	282	197
Minority Interest	-	-	-	-
Net Income From Continuing Ops	753	341	357	313
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	753	341	357	313
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$753	\$341	\$357	\$313

Annual Income Statement FY 2006 – 6M 2009. Source: Company Filings



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