



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 – December 8, 2009



Investment Highlights

✓ During the first nine months of 2009, DAC Technologies showed significant earnings growth for which there are two contributors. First of all, there was a major decrease in commodity prices compared with 2008, and secondly, sales for the Company's high margin gun cleaning and maintenance and gun safety products increased 31% compared with last year. As a result, gross margins in the first nine months increased from 25% in 2008 to 30% in 2009.

✓ In July 2009, DAAT opened a new warehouse in Los Angeles to better service certain Wal-Mart distribution centers west of the Rocky Mountains. The Company plans to eventually use this facility to service some of its other customers located in the western United States, thereby reducing its freight costs to those customers.

✓ 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 in both Wal-Mart and other retailers in 2010.

✓ DAC Technologies has a clean balance sheet as it has a current ratio of 2.62, a book value of \$0.93, shareholder equity of \$5.3 million and NO long term debt.

✓ 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. The order was completely shipped in October and is in stores at present time.

✓ As we are confident in DAC Technologies' long term future, we reiterate our buy recommendation. We do adjust our 12-month price target downwards from \$1.82 to \$1.69 to reflect management's new FY 2009 projections. Our price target remains more than double today's stock price.

Symbol:	DAAT
Industry:	Consumer Goods
Market:	Bulletin Board
Recent Price:	\$0.80
52-Week Price Range:	\$0.25 - \$0.94
Market Cap:	approx. 5.06 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 warehouses in Little Rock, Arkansas and Los Angeles for further 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 warehouses.

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 (NYSE: OLN), 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 52% of gross sales during the first nine months of 2009 and 2008, respectively.

➤ **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 23% of gross sales during the first nine months of 2009 and 2008, respectively.



DAC's began manufacturing products for the hunting and camping market in 2005. Above, the aluminum camping table.

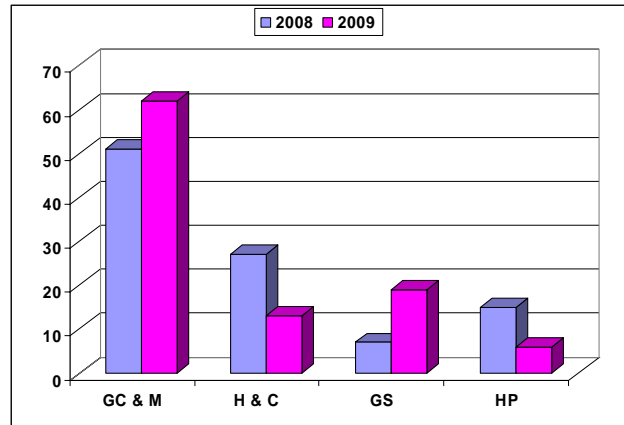
➤ **Gun Safety.** The Company sells twelve different gun safety locks with compositions ranging from plastic to steel. Additionally, five security and specialty safes are manufactured, which are heavy-duty, all steel constructions and are designed to protect firearms, jewelry and other valuables.

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, one of the most regulated states in the United States concerning gun safety. This product area was good for 17% and 11% of gross sales during the first nine 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 8% and 14% of gross sales during the first nine months of 2009 and 2008, respectively.



Sales breakdown per category in percentage for the quarters ending September 30, 2009 and September 30, 2008. It's obvious from the graph above there's been a big shift in sales from low margin to high margin products. Source: Company Filings

Approximately 48% of DAC's business in the first nine months of 2009 is with the mass-market retailer Wal-Mart. 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, many of its 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

Third Quarter And Nine Months 2009 Results

For the third quarter ended September 30, 2009, net sales were \$3,098,202 compared to \$3,920,460 in

the same period last year, a decrease of 21%. Net income was \$73,375, or \$.01 per diluted share, for the quarter ended September 30, 2009 compared to \$83,484 or \$.01 per diluted share for the comparable period last year, a decrease of 12%.

Net sales decreased \$1,112,000 because a number of low gross margin products in the camping and household areas were eliminated. The decline was slightly offset by an increase of \$293,615 in the higher margin gun cleaning and maintenance and gun safety area. As a results, gross margins increased from 23% for the three months ended September 30, 2008 to 28% for the three months ended September 30, 2009.

Net sales for the nine months ended September 30, 2009 were \$9,774,700, compared with \$9,360,487 in the same period in 2008, an increase of 4%. Net income for the first nine months of 2009 was \$386,240, or \$.07 per diluted share, compared with \$133,548, or \$.02 per diluted share in the comparable period last year, a 189% increase. Noteworthy is that net income for the first nine months of 2009 is higher than the net income of the entire fiscal year 2008.

	09/30/09	09/30/08
Net Sales	3,098,202	3,920,460
Cost of Goods Sold	2,221,830	2,999,174
S, G & A Expenses	713,944	688,796
Income From Operations	162,428	232,490
Interest Expense	41,668	63,893
Income Tax Expense	47,385	85,113
Net Income	73,375	83,484
Shares Outstanding	5,793,699	6,032,899
Earnings Per Share	0.01	0.01

Most important income statement data for the quarters ending September 30, 2009 and September 30, 2008. Source: Company Filings

DAC's gross margins continue to improve compared with last year due to a reversal of the significant commodity price increases in 2008 and due to the elimination of low margin items. Gross margins for the nine months ended September 30, 2009 were 30%, as compared to 25% for the same period in 2008.

Operating expenses for the nine months ended September 30, 2009 increased \$225,608, or 12%, over the same period in 2008. This increase can be attributed to the opening of a west coast warehouse in Los Angeles in July 2009, and an office in

Bentonville, Arkansas, as well as increases in sales commissions, freight and other shipping costs.

The Los Angeles warehouse is a third party arrangement under a month-to-month lease at a rate of \$2,375 per month. The Company currently utilizes this facility to service certain Wal-Mart distribution centers located west of the Rocky Mountains. The Company plans to eventually use this facility to service some of its other customers located in the western United States, thereby reducing its freight costs to those customers.

The Company is picking up market share and new products at all major retailers, including Wal-Mart, Cabela's, Dick's and Academy Sports.

Mr. Collins stated: "As discussed in previous press releases, the Company stopped manufacturing low gross margin items such as fireplace accessories and game processing equipment. This business was all done in the 3rd and 4th quarters of 2008 and totaled \$4,796,387 in revenue during that period. Although we knew this would affect sales in 2009, the Company has chosen to concentrate on its core business of gun cleaning kits and gun accessories and in increasing its gross margins. The Company has introduced a new line of Winchester gun cleaning kits into Wal-Mart in 2009 and looks forward to expanding its Winchester products in both Wal-Mart and other retailers in 2010."

During an audio interview, conducted a few days after the third quarter results were announced, Mr. Collins said that it was still too early in the fourth quarter to tell what revenues and earnings the Company would realize in fiscal year 2009.

Mr. Collins did feel comfortable with his initial guidance for FY 2009 earnings of 12 to 14 cents per share. This is down from his increased EPS forecast of 14 to 16 cents, which he gave after the second quarter. Nevertheless, this is more than a 100% increase over last year's earnings of 6 cents per share.

Balance Sheet As Of September 30, 2009

DAC Technologies has a clean balance sheet as it has a current ratio of 2.62, a book value of \$0.93, shareholder equity of \$5.3 million and NO long term debt. The Company has a six month, \$1,000,000 line of credit, collateralized by its inventory, with its local bank. On September 30, 2009, the Company had

drawn \$350,000 against the line of credit, but repaid it in full by November 10, 2009.

Compared with December 31, 2008, inventories have increased significantly, but this is planned and normal due to the seasonality of the Company's business. A more appropriate comparison would be to the September 30, 2008 inventory of \$5,449,191. A significant portion of the increase in inventory is related to the large holiday promotion order from Wal-Mart for the Company's Deluxe Gun Cleaning kit that shipped in October 2009 (see Recent Developments). The increase in accounts payable is directly related to the increase in inventory.

	09/30/09	12/31/08
Cash and Cash Equivalents	212,325	599,103
Accounts Receivable	682,479	495,718
Due From Factor	4,913	1,542,918
Inventories	6,502,796	2,742,563
Total Current Assets	7,506,627	5,483,389
Net Property and Equipment	266,359	266,011
Total Assets	8,291,303	6,179,986
Accounts Payable	2,174,836	795,136
Total Current Liabilities	2,861,810	1,107,814
Deferred Income Tax Liability	66,574	66,574
Total Liabilities	2,928,384	1,174,388
Total Stockholder Equity	5,362,919	5,005,598

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

Another important change in the Company's balance sheet as of September 30, 2009, is due from factor, which decreased to practically zero. 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 period ending September 30, 2009, the factor had advanced all but \$4,913 of its \$1,848,824 in assigned receivables.

On November 1, 2009, CIT Group, Inc. (CIT) the parent company of the Company's factor, filed for

Chapter 11 protection under the federal bankruptcy code. The U.S. Bankruptcy Court for the Southern District of New York has scheduled a hearing for December 8, 2009 to consider the confirmation of CIT's prepackaged plan of reorganization. In addition, the Court approved CIT's motions to allow CIT to continue to operate in the ordinary course of business. As of November 13, 2009, CIT Group/Commercial Services continues to service the Company as it did prior to the bankruptcy filing.

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 should go bankrupt. The Company has secured a six month, \$1,000,000 line of credit with its local bank, collateralized by its inventory and personal guarantee of its CEO. In addition, the Company has been preliminarily approved by another factor, but has not signed the final contract, pending the outcome of CIT's bankruptcy. The Company is also in the process of being approved under a new vendor finance program specifically for Wal-Mart vendors, which may eliminate the need for the Company to use any other factor. **We believe, regardless of what may or may not happen with respect to CIT, the Company has taken sufficient steps to ensure it has an uninterrupted source of working capital and liquidity.**

Recent Developments

Holiday Purchase Order

Early September 2009, DAC announced it had received the largest single purchase order in its 16 year history. The purchase order from Wal-Mart was for the Company's deluxe gun cleaning kit and was well in excess of seven figures.



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

During the before mentioned audio interview, Mr. Collins confirmed the order was completely shipped in October and was in stores at present time.

Outlook & Valuation

During the first nine months of 2009, DAC Technologies showed significant earnings growth for which there are two contributors. First of all, there was a major decrease in commodity prices compared with 2008, and secondly, sales for the Company's high margin gun cleaning and maintenance and gun safety products increased 31% 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. As a result, gross margins in the first nine months increased from 25% in 2008 to 30% in 2009.

Next to revenues being lower in the third quarter compared to last year, we also expect this to be the case in the fourth quarter because of the discontinuation of the fireplace and game processing equipment. These items combined, accounted for sales of almost \$5 million in the second half 2008. The loss will partially be offset by increased sales in the gun cleaning and maintenance and gun safety areas.

Although, revenues will most likely be down in the fourth quarter compared to last year, we believe earnings will be up significantly as the gun related items have much higher margins. Remember, the holiday purchase order from Wal-Mart also shipped in the fourth quarter.

The Company is also picking up market share and new products at all major retailers, including Wal-Mart, Cabela's, Dick's and Academy Sports. This way, the Company hopes to increase its revenues and gross margins in 2010.

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.

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, where the average P/E ratio is 16.70x. This is significantly higher compared with the 13.00x average in our previous report because earnings in the third quarter of 2009 were much lower compared with the same period last year in most of the industry.

Because we believe the 16.70x average is of temporarily nature and exaggerated, we decided to stick to the 13.00x average in our calculations below as it better reflects the true state of the economy and the consumer goods industry.

Valuation

Although revenues will be down in 2009 compared with last year, we believe DAC Technologies is going into the right direction as they focus on high margin products and gain business at large retailers. As a results, we expect earnings to be up significantly in FY 2009.

Management adjusted its earnings per share projection for FY 2009 slightly downwards from 14 to 16 cents per share to 12 to 14 cents per share. In our previous report we were conservative and used the low end of the 14 to 16 cents projection. We will continue to be conservative, and use 13 cents per share, the average of the new projection, in further calculations. This is more than double FY 2008 earnings.

Applying the 13.00x P/E multiple for the peer group, results in the following calculation: \$0.13 EPS multiplied by 13.00 = \$1.69.

Based on this report, we reiterate our buy recommendation and adjust our 12-month price target downwards from \$1.82 to \$1.69, which is more than double today's stock price.

Ownership

The principal owners of the company's common stock are Heidtke & Company Investments, Inc. (17.73%), Kennerman Associates, Inc. (13.55%), David Collins (8.64%), Praetorian Capital Management, L.L.C. (0.59%) and Robert Goodwin (0.33%).

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 – 9M 2009

All numbers in thousands

PERIOD ENDING	FY 2006	FY 2007	FY 2008	9M 2009
Total Revenue	15,476	14,778	17,042	9,775
Cost of Revenue	10,986	10,839	13,206	6,879
Gross Profit	4,490	3,939	3,837	2,896
Operating Expenses				
Research Development	-	-	-	-
Selling General and Administrative	2,960	3,054	2,923	2,136
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	2,960	3,054	2,923	2,136
Operating Income or Loss	1,530	884	914	760
Income from Continuing Operations				
Total Other Income/Expenses Net	13	-	-	-
Earnings Before Interest And Taxes	1,543	884	914	760
Interest Expense	318	326	276	130
Income Before Tax	1,225	558	639	630
Income Tax Expense	472	217	282	244
Minority Interest	-	-	-	-
Net Income From Continuing Ops	753	341	357	386
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	753	341	357	386
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$753	\$341	\$357	\$386

Annual Income Statement FY 2006 – 9M 2009. Source: Company Filings



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