DAC TECHNOLOGIES GROUP INTERNATIONAL INC
Form 10QSB
August 14, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-QSB

þ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2006

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

For the transition period from ______ to ______

Commission File Number 000-29211

DAC Technologies Group International, Inc.
(Name of Small Business Issuer in its charter)

Florida	65-0847852
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1601 Westpark Drive #2 Little Rock, AR	72204
(Address of principal executive offices)	(Zip Code)

(501) 661-9100
(Issuer s telephone number)

Check whether the Issuer (1) has filed all reports required to be filed by the 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.

(1) Yes þ No o (2) Yes þ No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

State the number of shares outstanding of each of the issuer s class of common equity, as of the latest practicable date. As of August 7, 2006, 6,323,364 shares of Common Stock are issued and 6,135,599 are outstanding.

Transitional Small Business Disclosure Format: Yes o No þ

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PART I

ITEM 1. FINANCIAL STATEMENTS

Our financial statements are contained in pages 4 through 9 following.

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DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
Condensed Balance Sheet (Consolidated)
June 30, 2006
Unaudited

Assets	
Current assets	
Cash	$ 356,024
Accounts receivable, less allowance for doubtful accounts of $5,000	1,420,850
Due from factor	552,638
Inventories	3,691,108
Income taxes receivable	28,851
Prepaid expenses and deferred charges	132,796
Current deferred income tax benefit	32,943
Total current assets	6,215,210
Property and equipment	
Leasehold improvements	29,049
Furniture and fixtures	209,557
Molds, dies, and artwork	504,283
	742,889
Accumulated depreciation	(524,040)
Net property and equipment	218,849
Other assets	
Patents and trademarks, net of accumulated amortization of $80,537	155,679
Deposits	1,435
Advances to employees	27,634
Note receivable related party	72,945
Note receivable stockholder	102,769
Total other assets	360,462
Total assets	$ 6,794,521

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DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
Condensed Balance Sheet (Consolidated)
June 30, 2006
Unaudited

Liabilities and Stockholders Equity	
Current liabilities	
Notes payable	$ 212,705
Accounts payable	2,378,674
Accrued payroll tax withholdings	30,864
Accrued expenses-other	10,137
Total current liabilities	2,632,380
Deferred income tax liability	33,100
Stockholders equity	
Preferred stock, $.001 par value; authorized 10,000,000 shares; none issued and outstanding	
Common stock, $.001 par value; authorized 50,000,000 shares; 6,323,364 shares issued and 6,135,599 shares outstanding	6,323
Additional paid-in capital	1,963,102
Treasury stock, at cost	(201,333)
Retained earnings	2,360,949
Total stockholders equity	4,129,041
Total liabilities and stockholders equity	$ 6,794,521

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DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
Condensed Statements of Operations (Consolidated)
For The Six Months Ended June 30, 2006 and 2005
Unaudited

	2006	2005
Net sales	$ 5,480,366	$ 4,527,240
Cost of sales	3,540,411	2,911,277
Gross profit	1,939,955	1,615,963
Operating expenses		
Selling	659,331	517,890
General and administrative	510,112	443,319
Total operating expenses	1,169,443	961,209
Income from operations	770,512	654,754
Other income (expense)		
Interest expense	(110,871)	(76,608)
Total other income (expense)	(110,871)	(76,608)
Income before income tax provision	659,641	578,146
Provision for income taxes	256,563	225,054
Net income	$ 403,078	$ 353,092
Basic and diluted earnings per share	$ 0.07	$ 0.06
Weighted-average number of shares		
Basic	6,181,556	6,186,389
Diluted	6,181,556	6,226,146

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DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
Condensed Statements of Operations (Consolidated)
For The Three Months Ended June 30, 2006 and 2005
Unaudited

	2006	2005
Net sales	$ 2,717,169	$ 2,264,162
Cost of sales	1,748,000	1,453,107
Gross profit	969,169	811,055
Operating expenses		
Selling	318,542	241,072
General and administrative	263,843	234,049
Total operating expenses	582,385	475,121
Income from operations	386,784	335,934
Other income (expense)		
Interest expense	(51,136)	(30,547)
Total other income (expense)	(51,136)	(30,547)
Income before income tax provision	335,648	305,387
Provision for income taxes	129,752	118,737
Net income	$ 205,896	$ 186,650
Basic and diluted earnings per share	$ 0.03	$ 0.03
Weighted-average number of shares		
Basic and diluted	6,169,877	6,191,853

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DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
Condensed Statements of Cash Flows (Consolidated)
For the Six Months Ended June 30, 2006 and 2005
Unaudited

	2006	2005
Cash flows from operating activities		
Net income	$ 403,078	$ 353,092
Adjustments to reconcile net income to net cash provided by operating activities:		
Issuance of common stock for services		32,625
Depreciation	27,773	26,808
Amortization	8,098	7,998
Deferred income taxes	(5,743)	
Changes in operating assets and liabilities		
Accounts receivable	(728,160)	(703,103)
Due from factor	760,980	1,106,817
Inventories	(986,798)	(196,653)
Advances to employees	(12,851)	(17,671)
Prepaid expenses and deferred charges	(63,223)	(103,984)
Accounts payable	1,397,632	(151,188)
Accrued payroll tax withholdings	1,401	1,604
Accrued expenses other	(20,401)	(13,212)
Income taxes payable	(409,694)	(217,946)
Net cash provided by operating activities	372,092	125,187
Cash flows from investing activities		
Purchases of property and equipment	(12,595)	(16,473)
Payments for patents and trademarks	(7,246)	
Net advances on note receivable related party	(427)	
Net advances on note receivable stockholder	(3,238)	(37,361)
Purchase of treasury stock	(99,933)	
Net cash used by investing activities	(123,439)	(53,834)
Cash flows from financing activities		
Payments on notes payable	(23,515)	(26,657)
Net cash used by financing activities	(23,515)	(26,657)
Increase in cash	225,138	44,696
Cash beginning of period	130,886	167,846
Cash end of period	$ 356,024	$ 212,542

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DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
Condensed Statements of Cash Flows (Consolidated)
For the Three Months Ended June 30, 2006 and 2005
Unaudited

	2006	2005
Cash flows from operating activities		
Net income	$ 205,896	$ 186,650
Adjustments to reconcile net income to net cash provided by operating activities:		
Issuance of common stock for services		32,625
Depreciation	14,000	13,536
Amortization	4,100	3,999
Deferred income taxes	(5,743)	
Changes in operating assets and liabilities		
Accounts receivable	114,355	(629,336)
Due from factor	88	332,541
Inventories	(1,115,483)	(230,838)
Advances to employees	(2,147)	(1,496)
Prepaid expenses and deferred charges	30,928	(23,665)
Accounts payable	1,360,387	343,107
Accrued payroll tax withholdings	5,329	1,337
Accrued expenses other	(15,327)	(13,610)
Income taxes payable	(156,505)	28,738
Net cash provided by operating activities	439,878	43,588
Cash flows from investing activities		
Purchases of property and equipment	(3,487)	(10,480)
Payments for patents and trademarks	(3,966)	
Net advances on note receivable related party	(427)	
Net advances on note receivable stockholder	(10,011)	13,519
Purchase of treasury stock	(99,933)	
Net cash provided (used) by investing activities	(117,824)	3,039
Cash flows from financing activities		
Payments on notes payable	(12,608)	(13,393)
Net cash used by financing activities	(12,608)	(13,393)
Increase in cash	309,446	33,234
Cash beginning of period	46,578	179,308
Cash end of period	$ 356,024	$ 212,542

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PART F/S
DAC TECHNOLOGIES GROUP INTERNATIONAL, INC.
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nature of Business

DAC Technologies Group International, Inc. (the Company), 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 sportsmen, hunters and outdoorsmen, and recreational 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, the product line was expanded to include a line of gun cleaning kits and accessories. This line has continued to be expanded, and now accounts for approximately 70% of the Company s sales revenues. In 2005, the Company added a line of food processing equipment and accessories for ATV s (All Terrain Vehicles).

The majority 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, along with other items manufactured in the United States, are sold primarily to mass merchants and sporting goods retailers throughout the United States and international locations.

Organization and Summary of Significant Accounting Policies

Organization and basis of presentation

The Company was incorporated as a Florida corporation in July 1998 under the name DAC Technologies of America, Inc. In July 1999, the Company changed its name to DAC Technologies Group International, Inc.

Unaudited interim condensed consolidated financial statements

The accompanying condensed consolidated financial statements of the Company as of and for the six months ended June 30, 2006 and 2005 and for the three months ended June 30, 2006 and 2005 are unaudited, but, in the opinion of management, reflect the adjustments, all of which are of a normal recurring nature, necessary for a fair presentation of such financial statements in accordance with accounting principles generally accepted in the United States. The accompanying condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company s latest 10KSB. The results of operations for an interim period are not necessarily indicative of the results for a full year.

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Inventories

Inventories are stated at the lower of weighted average cost or market. Costs include freight and applicable customs fees. Market is determined based on net realizable value. Appropriate consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value. Inventories are shown net of a valuation reserve of $73,494 at June 30, 2006. The Company receives inventory from overseas at terms of F.O.B. shipping point, bearing the risk of loss at that point in time. During the time period prior to receipt in the warehouse, inventory is classified and recorded as inventory in transit. Inventory held in the warehouse is classified as finished goods.

	June 30, 2006
Inventories consist of:	
Finished goods	$ 2,608,406
Inventory in transit	1,059,735
Parts	22,967
	$ 3,691,108

Earnings per Share

Basic earnings per share of common stock are computed by dividing net income applicable to common shares by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of common shares and, if dilutive, the incremental common shares issuable upon the exercise of outstanding stock warrants (using the treasury stock method). For the three months and ended June 30, 2006 and 2005 and for the six months ended June 30, 2006, approximately 394,000 stock warrants to purchase common stock were excluded from the calculation, as their exercise price of $2.57 was greater than the average market price of the common stock during the period. A reconciliation of the net income and number of shares used in computing basic and diluted earnings per share was as follows for the three month and six month periods ended June 30:

	Three Months Ended		**Six Months Ended**	
	2006	**2005**	**2006**	**2005**
Numerator:				
Net income	$ 205,896	$ 186,650	$ 403,078	$ 353,092
Denominator:				
Weighted average common shares for basic calculation	6,169,877	6,191,853	6,181,556	6,186,389
Weighted average effect of dilutive securities:				
Warrants				39,757
Denominator for diluted calculation	6,169,877	6,191,853	6,181,556	6,226,146
Earnings per share- basic	$ 0.03	$ 0.03	$ 0.07	$ 0.06

Earnings per share- diluted	$	0.03	$	0.03	$	0.07	$	0.06

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Equity Transactions

Dan Lasater and members of his family, affiliates of the Company, executed a stock purchase agreement as of May 4, 2006, where by Mr. Lasater and family agreed to sell their combined 679,065 common shares ownership in the Company to several investors for a gross sales price of $1,174,782 or $1.73 per share. Of such number, the Company purchased 57,765 shares for $99,933. The shares will bear a restrictive legend and may only be sold by the purchasers, in absence of an effective registration statement, in a manner consistent with Rule 144, or other applicable exemption from registration. This transaction was completed on May 25, 2006.

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

The following Management Discussion and Analysis of Financial Condition is qualified by reference to and should be read in conjunction with our Consolidated Financial Statements and the Notes thereto as set forth at the end of this document. We include the following cautionary statement in this Form 10QSB for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, strategies, expectations, future events or performances and underlying assumptions and other statements, which are other than statements of historical facts. Certain statements contained herein are forward-looking statements and, accordingly, involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. The Company s expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitations, management s examination of historical operating trends, data contained in the Company s records and other data available from third parties, but there can be no assurance that management s expectations, beliefs or projections will result or be achieved or accomplished.

Historically, the identification and development of new products and expansion of the Company s sales organization have achieved growth. There can be no assurance that we will be able to continue to develop new products or expand sales to sustain rates of revenue growth and profitability in future periods. Any future success that the Company may achieve will depend upon many factors including those that may be beyond the control of the Company or which cannot be predicted at this time. Although we believe that our expectations are based on reasonable assumptions within the bounds of our knowledge of our business and operations, actual results may differ materially from our expectations.

Factors that could cause actual results to differ from expectations include, without limitations:

achieving planned revenue and profit growth in each of the Company s business units;

renewal of purchase orders consistent with past experience;

increasing price, products and services competition;

emergence of new competitors or consolidation of existing competitors;

the timing of orders and shipments;

continuing availability of appropriate raw materials and manufacturing relationships;

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- maintaining and improving current product mix;
- changes in customer requirements and in the volume of sales to principal customers;
- changes in governmental regulations in the various geographical regions where the Company operates;
- general economic and political conditions;
- attracting and retaining qualified key employees;
- the ability of the Company to control manufacturing and operating costs; and
- continued availability of financing, and financial resources on the terms required to support the Company s future business strategies.

In evaluating these statements, you should consider various factors, including those summarized above, and, from time to time, in other reports the Company files with the SEC. These factors may cause the Company s actual results to differ materially from any forward-looking statement. The Company disclaims any obligation to publicly update these statements, or disclose any difference between its actual results and those reflected in these statements. The information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

(a) Background

Summary

The Company reported net income of $403,078 on net sales of $5,480,366 for the six months ended June 30, 2006 as compared to $353,092 and $4,527,240, respectively, for the six months ended June 30, 2005. These represent increases in net income and net sales of 14% and 21%, respectively.

The Company completed the Wal-Mart permanent module set in June, which included the Company s new game processing kit (knives). In addition, the Company s electric meat grinder went into 2,200 Wal-Mart stores in the current year as compared to 280 stores in the prior year.

Details

We are in the business of developing, marketing and outsourcing the manufacture of various consumer products, patented and non-patented, designed to enhance and provide security for the consumer and for his property. Our products consist of gun cleaning kits and accessories, gunlocks, trigger locks, security safes, specialty safes, personal protection devices and items such as medical alarm alerts for the health care industry. In recent years we have placed particular emphasis on gun cleaning kits and gun accessories, in addition to our standard gun safety devices.

A significant portion of our business is with mass-market retailers, primarily Wal-Mart, as well as gun manufacturers. With the addition of our Gunmaster gun cleaning kits, we continue to increase our business with sporting goods retailers and distributors.

The Company s business plan and strategy for growth focuses on**:**

- increased penetration of our existing markets, particularly in the gun cleaning and accessories market;
- development of new products for the sporting goods market;
- identification and development of new markets for gun cleaning kits, i.e. government, law enforcement and military;

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- adoption of new technologies for safety and security products and adoption of new product lines;
- identification and recruitment of effective manufacturer s representatives to actively market these products on a national and international basis; and
- aggressive cost containment.

Management believes that continued growth would require the Company to continually innovate and improve its existing line of products and services to meet consumer, industry and governmental demands. In addition, we must continue to develop or acquire new and unique products that will appeal to gun owners and other outdoor activities.

In addition to our traditional products, our management is actively pursuing initiatives, which may add complementary businesses, products and services. These initiatives are intended to broaden the base of revenues to make us less dependent on particular products. By developing businesses which focus on products and services which complement our current line of products, and our current customer base, management hopes to leverage these opportunities to not only develop new sources of revenue, but to strengthen the demand for our existing products.

Our products can be grouped into four main categories: (a) gun maintenance, (b) gun safety, (c) personal security, and (d) non-security products. In developing these products, we focus on developing features, establishing patents, and formulating pricing to obtain a competitive edge. We currently design and engineer our products with the assistance of our Chinese and domestic manufacturers, who are responsible for the tooling, manufacture and packaging of our products.

Gun Maintenance. We market over thirty-two (32) 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.

Gun Safety. We market twelve (12) different gun safety locks and five (5) security and specialty safes. The gun-locks composition range from plastic to steel, keyed trigger locks to cable locks. The security safes are of heavy-duty, all steel construction and are designed for 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.

Personal Security. We market four (4) different electronic security devices designed to protect the person. These include the Body Alarm, Key Alert, Glass Window Alert and Patient Alarm.

Non-Security Products. We market through Wal-Mart and other customers nationwide, the Sportsman s Cigarette/Cigar Lighter, a windproof, water-resistant refillable butane lighter. We also market two licensed exclusive products, the Clampit Cupholder and Plateholder. We also market four (4) food processing items and ATV accessories.

Our website (www.dactec.com) has been redesigned. All of our products are available via e-commerce on this new site. Our web site is intended to be the only direct link by the Company to the retail market.

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(b) Financial Condition and Results of Operations

Results of Operations

For the six months ended June 30, 2006, the Company had net income of $403,078 on net sales of $5,480,366 as compared to net income of $353,092 on net sales of $4,527,240 for the six months ended June 30, 2005. This represents increases of 14% in net income and 21% in net sales.

For the three months ended June 30, 2006, the Company had net income of $205,896 on net sales of $2,717,169 as compared to net income of $186,650 on net sales of $2,264,162 for the same period in 2005. This represents increases of 10% in net income, and 20% in net sales.

Sales of the Company s line of GunMaster gun cleaning kits continue to grow significantly, accounting for approximately 72% and 64% of the Company s sales for the six months and three months ended June 30, 2006, respectively. Sales of these kits for the six month period were $3,975,799 and for the three months were $1,756,927.

Operating expenses for the six months ended June 30, 2006 were $1,169,443 as compared to $961,209 for the same period in the prior year, an increase of $208,234, or 22%. For the three month period ended June 30, 2006, operating expenses were $582,385 as compared to $475,121 for the prior year, an increase $107,264 or 23%. Since the first quarter of 2005, the Company has added additional administrative and warehouse personnel. Rate increases in the Company s liability insurance and employee s health insurance, as well as the increase in sales volume and number of employees, added to an increase in insurance costs, which has added to the increased operating expenses. The Company has also experienced an increase in freight rates due to the increase in fuel costs.

Income from operations for the six months ended June 30, 2006 was $770,512 as compared to $654,754 for the prior year, an increase of 18%. For the three months ended June 30, 2006, income from operations was $386,784 as compared to $335,934 for the prior year, an increase of 15%. These increases are due to the increase in sales, offset by the increases in operating expenses.

Financial Condition

A summary of the significant balance sheet items at June 30, 2006 as compared to year-end December 31, 2005 is presented below:

	June 30, 2006	Dec. 31, 2005
Accounts receivable	$ 1,420,850	$ 692,690
Due from factor	552,638	1,313,618
Inventories	3,691,108	2,704,310
Total current assets	6,215,210	4,920,677
Accounts payable	2,378,674	981,042
Total current liabilities	2,632,380	1,658,106
Working capital	3,582,830	3,262,571

As explained below, accounts receivable on the Company s balance sheet represents those receivables that have not yet been legally assigned to the factor. Due to the large Wal-Mart module rollout at the end of June, a significant portion of those receivables were not legally assigned until July. This is reflected in the $728,160 increase in accounts receivable at June 30, 2006 as compared to December 31, 2005. The

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Company s total receivables, as detailed below, were $3,423,804 at June 30, 2006 as compared to $5,512,193 as compared to December 31, 2005. This decrease of $2,088,389 is a result of the decrease in sales during the quarter ended June 30, 2006 as compared to the quarter ended December 31, 2005. Historically, sales in the fourth quarter have been the largest quarter. It is normal and expected that total receivables would decrease during the first and second quarters as compared to the fourth quarter.

Inventories increased $986,798 at June 30, 2006 as compared to December 31, 2005. This increase is normal and planned as the Company begins to increase its inventory to meet the expected increase in sales beginning in the third quarter. Of the $3,691,108 in inventory at June 30, 2006, $1,059,735 was in-transit, or on the ocean from China. This is an increase of $661,135 over in-transit inventory at December 31, 2005. This in-transit inventory was shipped the later part of June, and was not received into the Company s warehouse until late July or early August, when it is needed for the increased sales that typically begin the later part of August.

Accounts payable increased $1,397,632 at June 30, 2006 as compared to December 31, 2005. This increase is primarily related to the increase in inventory.

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. In addition, in order to generate immediate cash flow, the Company may borrow against the assigned receivables prior to their collection and is charged interest on any such advances.

Accounts receivable on the Company s balance sheet represents those receivables that have not yet been legally assigned to the factor. Due from factor represents the net equity the Company has in its assigned receivables reduced by any funds advanced by the factor. At June 30, 2006 and year end December 31, 2005, these amounts were as follows:

	Jun 30, 2006	Dec. 31, 2005
Total accounts receivable	$ 3,423,804	$ 5,512,193
Less: assigned receivables	(2,002,954)	(4,819,503)
Net accounts receivables	$ 1,420,850	$ 692,690
Assigned receivables	$ 2,002,954	$ 4,819,503
Less: Funds advanced	(1,450,316)	(3,505,885)
Due from factor	$ 552,638	$ 1,313,618

(c) Liquidity and Capital Resources

Our primary source of cash is funds from our operations. We believe that external sources of liquidity could be obtained in the form of bank loans, letters of credit, etc. We maintain an account receivable factoring arrangement in order to insure an immediate cash flow. The factor may also, at its discretion, advance funds prior to the collection of our accounts. Advances are payable to the factor on demand. Should our sales

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revenues significantly decline, it could affect our short-term liquidity. For the period ending June 30, 2006, our factor had advanced us $1,450,316.

(d) Trends

Handgun safety remains a major concern and interest to the American public, particularly in light of accidental and intentional shootings involving children. Moreover, the tragic terrorist attack against the United States on September 11, 2001 continues to have many Americans concerned about their personal security. As a result, many people are purchasing firearms to maintain for home defense purposes. While they are purchasing handguns, many are also concerned with the safe storage and maintenance of the firearm in the home and want to purchase affordable gun safes to increase security and cleaning kits for gun care.

The focus continues to be one of gun safety rather than legislative attempts to ban guns possibly due to the strong gun lobby and the nature of politics. Gun safety issues have been moving from the federal level to the state level through the introduction of mandatory gun-lock legislation, while those at the federal level are seemingly in accord with the approach being taken by the Consumer Products Safety Commission to set measurable standards of performance for gun-locking devices. The Company, with developed products that address preventive handgun safety, anticipates that it will be in a position to benefit from this trend, although this, of course, cannot be guaranteed. We believe that the continued focus on handgun safety, the use of gun-locks by law enforcement agencies, and the litigation aimed at gun manufacturers as well as the gun legislation will hopefully will enhance our product line revenues.

State legislation has been effective in increasing gun safety and minimizing gun violence. One way of accomplishing this is to require gun manufacturers to incorporate safety devices similar to the Company s products into all handguns sold. The first regulation of this kind was passed by the Maryland state legislature in early April 2000. This legislation required gun manufacturers to incorporate safety devices similar to the Company s products into all handguns sold. The State of California enacted legislation to establish performance standards for firearm safety devices , lock-boxes , and safes . These standards prevent an attack on the gun-lock or safe with hand tools, such as hammers, screwdrivers, electric drills, screw and hack saws. This legislation requires manufacturers to have their products tested by an independent testing laboratory in order to be listed as an approved device. This testing has resulted in significant expenditures to the Company. We anticipate that similar standards will be adopted throughout the United States in the next few years.

Because many of the Company s competitors are not subject to public filing requirements and industry-wide data is generally not available in a timely manner, the Company is unable to compare its performance to other companies or specific current industry trends. Instead, the Company measures itself against its own historical results. The Company does not consider its overall business to be predictably seasonal; however, sales of its gun cleaning kits have shown increased volume particularly in the fourth quarter of the year.

(e) Gun Legislation

Several federal laws regulate the ownership, purchase and use of handguns, including the 1968 Gun Control Act and the Brady Bill. The Brady Bill was implemented on February 28, 1994. This law established a national five (5) business day waiting period on handgun purchases through licensed dealers. It also required local

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authorities to conduct background checks on handgun purchasers. As of December 1998, an amendment to the Brady Bill replaced the five (5) business-day waiting period with a national instant felon ID system. Dealers are required to conduct this background check on all gun purchases, not just handgun purchases. The Assault Weapons Ban was enacted on September 14, 1994. This bill banned the manufacture, possession, and importation of semiautomatic assault weapons for civilian use. Guns manufactured before September 14th, 1994 were grandfathered. Guns manufactured after this date (for use by the military, police, and government agencies) must be marked with the date they are manufactured. The law was allowed to expire in 2004.

Notwithstanding these laws, there is not any federal law that requires the use of gunlocks, despite numerous attempts in Congress to pass such legislation. Most recently, on January 5, 2005, House Bill H.R 246 (Child Gun Safety and Gun Access Prevention Act of 2005) was introduced for the purpose of increasing youth gun safety by raising the age of handgun eligibility and prohibiting youth from possessing semiautomatic assault weapons. The Bill, if passed into law in its present form, will make it unlawful for any licensed importer, licensed manufacturer, or licensed dealer to sell, transfer, or deliver any firearm to any person (other than a licensed importer, licensed manufacturer, or licensed dealer) unless the transferee is provided with a secure gun storage or safety device.

Child Access Prevention (or CAP) Laws hold gun owners responsible if they leave guns easily accessible to children and a child improperly gains access to the weapon. In 1989, Florida became the first state to pass a CAP law because of increasing gun fatalities among children. The Florida law only applies if the minor gains access to a gun that was not stored securely. The law does not apply if the firearm is stored in a locked box, secured with an effective child-safety lock, or obtained by a minor through unlawful entry. Eighteen states have enacted standard CAP laws: California, Connecticut, Delaware, Florida, Hawaii, Illinois, Iowa, Maryland, Massachusetts, Minnesota, Nevada, New Hampshire, New Jersey, North Carolina, Rhode Island, Texas, Virginia, and Wisconsin.

In addition to the 18 standard CAP laws, Kansas courts have held that gun owners may be held civilly liable for leaving guns easily accessible to children; Maine has a child endangerment statute that references children under 16 obtaining firearms and requires gun stores and gun shows to post signs warning gun owners that they may be prosecuted if they leave firearms where children can access them; and Montana holds adults/guardians responsible if a child under 14 possesses a firearm in public without adult supervision.

Many CAP laws require that the guns be safely secured this can be done easily by storing the gun in a locked box, or by attaching an effective child-safety lock. These locks can preserve quick access by the owner for self-protection in the home while preventing young children from firing the locked gun. California, Connecticut, Maryland, Massachusetts, Michigan, New Jersey, New York, Pennsylvania and Rhode Island specifically require dealers to sell child-safety locks with every handgun.

Additionally, the State of California has enacted legislation that establishes performance standards for firearm safety devices , lock-boxes and safes . This legislation requires manufacturers to have their products tested by an independent testing laboratory in order to be listed as an approved device. Effective January 1, 2002, this legislation required that an approved safety device accompany every firearm sold in the state. Effective January 1, 2003, the legislation was expanded in that any firearm safety device sold within the state must be approved. Our products sold in California comply with these standards.

The fact that gun safety laws are passed by federal, state, or local governments does not ensure that the demand for our gun safety products will increase.

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We have obtained the required approvals from the Federal Communications Commission for the Rf signals emitted by our remote control units used with our car alarms. Other than as stated above, we are not aware of any other required governmental approvals on any of our products.

(f) Critical Accounting Estimates

The Company prepares its condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The Company s significant accounting policies are discussed in detail in Note 2 to the December 31, 2005 audited consolidated financial statements included in the Company s Form 10KSB. The quarterly financial statements for the period ended June 30, 2006, attached hereto, should therefore be read in conjunction with that discussion. Certain of these accounting policies as discussed below require management to make estimates and assumptions about future events that could materially affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties. For all of these estimates, we caution that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment. Since December 31, 2005, there have been no changes in our critical accounting policies and no significant change to the assumptions and estimates related to them.

Long-lived Assets. Depreciation expense is based on the estimated useful lives of the underlying property and equipment. Although the Company believes it is unlikely that any significant changes to the useful lives of its property and equipment will occur in the near term, an increase or decrease in the estimated useful lives would result in changes to depreciation expense.

The Company continually reevaluates the carrying value of its long-lived assets, for events or changes in circumstances, which indicate that the carrying value may not be recoverable. As part of this reevaluation, if impairment indicators are present, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposal. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying value of the asset, an impairment loss is recognized to reduce the carrying value of the long-lived asset to the estimated fair value of the asset.

Inventories. Inventories are valued at the lower of weighted cost or market. Market is determined based on net realizable value. Appropriate consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value. The Company records a valuation reserve for inventories for which costs exceed the net realizable value. Although the Company believes it is unlikely that any significant changes to the valuation reserve will be necessary in the near term, changes in demand for our products would result in changes to the valuation reserve.

Patents and Trademarks. Amortization expense is based on the estimated economic useful lives of the underlying patents and trademarks. Although the Company believes it is unlikely that any significant changes to the useful lives of its patents and trademarks will occur in the near term, rapid changes in technology or changes in market conditions could result in revisions to such estimates that could materially affect the carrying value of these assets and the Company s future consolidated operating results.

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(g) Off-Balance Sheet Arrangements

Since 2003, our Chief Executive Officer, David Collins, leased a portion of his home in Miami, Florida to the Company, which serves as the Company s executive office. The Company pays a monthly office allowance to Mr. Collins of $5,500, for approximately 1,200 square feet and secretarial support. There is no lease agreement for these premises. This office arrangement was not the product of arm s length negotiation; however, the Company has determined the arrangement to be competitive with comparable office space and secretarial support.

The Company does not use affiliation with special purpose entities, variable interest entities or synthetic leases to finance its operations. Additionally, the Company has not entered into any arrangement requiring it to guarantee payment of third party debt or to fund losses of an unconsolidated special purpose entity.

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company s management, with the participation of the Principal Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on that evaluation, the Company s Principal Executive Officer and Principal Financial Officer have concluded that, as of June 30, 2006, such controls and procedures were effective.

(b) Definition of Disclosure Controls

Disclosure Controls are controls and other procedures of the Company designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure Controls are also designed to ensure that such information is accumulated and communicated to our management, including the Company s principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

(c) Limitations on the Effectiveness of Controls

Our CEO and CFO do not expect that our Disclosure Controls or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

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These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

(d) Conclusions

Based upon the Disclosure Controls evaluation referenced above, our acting CEO and our CFO have concluded that, subject to the limitations noted above, as of the end of the period covered by this Quarterly Report, our Disclosure Controls were effective.

(e) Changes in Internal Controls

The Company s management, with the participation of the Principal Executive Officer and Principal Financial Officer, have evaluated any changes in the Company s internal control over financial reporting that occurred during the period covered by this quarterly report, and they have concluded that there was no material change to the Company s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

(f) Sarbanes-Oxley Section 404 Compliance

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission adopted rules requiring public companies to include a report of management on the Company s internal controls over financial reporting in their annual reports. In addition, the independent registered public accounting firm auditing a company s financial statements must also attest to and report on management s assessment of the effectiveness of the company s internal controls over financial reporting as well as the operating effectiveness of the company s internal controls. We were not subject to these requirements for the fiscal year ended December 31, 2005 and we will also not be subject to such requirements for the current fiscal year ending December 31, 2006.

Notwithstanding, there is risk that we may not be able to comply with all of the requirements imposed by this rule. At present there is no precedent available with which to measure compliance adequacy. In the event we identify significant deficiencies or material weaknesses in our internal controls that we cannot remediate in a timely manner or we are unable to receive a positive attestation from our independent registered public accounting firm with respect to our internal controls, investors and others may lose confidence in the reliability of our financial statements and our stock price and ability to obtain equity or debt financing as needed could suffer. In addition, in the event that our independent registered public accounting firm is unable to rely on our internal controls in connection with their audit of our financial statements, and in the further event that they are unable to devise alternative procedures in order to satisfy themselves as to the material accuracy of our financial statements and related disclosures, it is possible that we would receive a qualified or adverse audit opinion on those financial statements which could also adversely affect the market price of our common stock and our ability to secure additional financing as needed.

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PART II

ITEM 1. LEGAL PROCEEDINGS

On December 16, 2005, Continental Western Insurance Company filed suit against the Company in the Circuit Court of Pulaski County, Arkansas, claiming unpaid insurance premiums in the amount of $236,121 relating to the product liability portion of the policy. The premiums are calculated based upon the Company s revenues and a classification code applied by the insurance company. The Company s counsel believes that the Company will prevail on the merits and defeat the claim, should the matter go to trial. As a result of the dispute, the Company has changed its insurance carrier for the period commencing July 12, 2005.

On November 8, 2005, the Company was sued in the Court of Common Pleas, in Dauphin County, Pennsylvania, by Marie Ann Rhayam, on a products liability claim involving a 12-year-old boy who allegedly defeated a gunlock manufactured by the Company, and shot and wounded the plaintiff s son. The suit seeks unspecified damages. The Company s attorney believes that the Company will prevail on the merits and defeat the claim. A demand has been made on the Company s former insurance company, Continental Western Insurance Company for coverage of the claim. Continental Western has engaged the services of an attorney (at their expense) to represent themselves and the Company in this matter.

The Company was the plaintiff against a former manufacturer Skit International, Ltd. and Uni-Skit Technologies, Inc. which alleged breach of a manufacturing contract which required defendants to manufacture certain of its products within the range of competitive pricing , a defined term. The Company sought damages and rescission of 165,000 shares of its common stock as part of the compensation paid to the defendants. The defendants denied the allegations and counterclaimed for an outstanding balance of $182,625, for rescission of the manufacturing agreement and for damage to its business reputation.

In August of 2003, this suit went to trial before a twelve (12)-member jury in the Circuit Court of Pulaski County, Arkansas. The jury awarded the Company damages in the amount of $1,650,560, against Skit and Uni-Skit, which includes the value of the returned shares of stock previously issued to the defendants. In addition, all counterclaims of the defendants were dismissed. Pursuant to an order of the Court, the shares issued to the defendants have been cancelled and reissued to the Company. Thereafter, defendant Skit International, Ltd. filed a Motion to Set Aside Judgment. The Court denied this motion and no appeal has been filed.

On November 9, 2005, Skit International, Ltd. filed a Complaint for Declaratory Judgment in the United States District Court, Eastern District of Arkansas, Western Division, seeking once again to set aside the judgment against Skit International, Ltd., based upon the allegation that Skit International, Ltd. s former attorney did not have authorization to act on its behalf with respect to the Pulaski County case, and that the Arkansas Court did not have personal jurisdiction over the defendant. On June 6, 2006, the Court dismissed Skit International, Ltd. s Complaint and entered a Judgment in favor of the Company for the original judgment amount. On June 16, 2006, Skit International, Ltd. filed a Motion for Reconsideration, which the Company, through advice from legal counsel, believes will also be denied.

On October 23, 2003, the Company initiated suit, seeking unspecified damages, in the Circuit Court of Pulaski County, Arkansas against former manufacturers, Uni-Tat International, Inc., Uni-Champion Ltd., and

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their respective principals, Victor Lee and Arthur Yung, for common law fraud (as to Unit-Tat, Lee and Yung), breach of contract, and violation of the Deceptive Trade Practices Act, and for vicarious liability. On January 5, 2005, the Court denied our claim, on grounds that that it was barred by the statute of limitations.

The litigation, Legel v. DAC Technologies Group International, Inc., et al. which has previously been reported in the Company s periodic reports, involving the suit and countersuit between Larry Legel, the Company s former director, and his wife Brenda Legel, and the Company and its CEO, David Collins, has been resolved. The litigation has been dismissed with prejudice, and the Company and its stock transfer agent have been released from all claims and liability to the Legels. Of the 177,400 shares of the Company stock which the Legels received, 115,400 will be returned to the Collins Childrens Trust, leaving the Legels with 62,000 shares (placed in the name of their company Glacier Marketing International, Inc.), and cash to be paid by the Trust and not the Company. The Company will not be required to compensate the Legels in any manner, other than to pay costs of the transfer of stock and the costs for any legal opinion to transfer stock. If and when the Legels, who no longer serve in any capacity with the Company except as shareholders, decide to sell the 62,000 shares of the Company s common stock in the marketplace they may do so at the rate of no more than 5,000 shares per week. This matter had been previously reported in the Company s 8-K on September 6, 2005.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8 K

A Form 8K was filed on September 7, 2005, and is incorporated herein by reference. The following documents are incorporated by reference from Registrant s Form 10SB filed with the Securities and Exchange Commission (the Commission), File No. 000-29211, on January 28, 2000:

Exhibits

2	Acquisition Agreement
3(i)	Articles of Incorporation
3(ii)	By-laws

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Exhibits required by Item 601 of Regulation S-B attached:

Exhibits

31.1	Certification of David A. Collins Pursuant to Rule 13a-14(a)/15d-14(a)
31.2	Certification of Robert C. Goodwin Pursuant to Rule 13a-14(a)/15d-14(a)
32.1	Certification of David A. Collins Pursuant to Rule 13a-14(b) or Rule 15d-14(c) of the Securities Exchange Act of 1934 and 18U.S.C. Section 1350
32.2	Certification of Robert C. Goodwin Pursuant to Rule 13a-14(b) or Rule 15d-14(c) of the Securities Exchange Act of 1934 and 18U.S.C. Section 1350

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, hereunto duly authorized:

By: /s/ David A. Collins
David A. Collins, Chairman, CEO and
Principal Executive Officer

By: /s/ Robert C. Goodwin
Robert C. Goodwin, Principal
Accounting Officer and Principal
Financial Officer

Dated: August 14, 2006