



Acme United Corp. (ACU)

Acme United Corporation is a leading worldwide supplier of innovative branded cutting, measuring and safety products in the school, home, office, hardware & industrial markets. The company has facilities in the United States, Canada, Germany, Hong Kong and China. Acme United's products are organized under three global brands: Westcott, Clauss, and PhysiciansCare, all of which serve a growing customer base that includes the world's premier retailers and merchandisers.

Initial Report – February 14, 2009



Investment Highlights

✓ Acme United has old roots, giving them strong brand names and a very solid reputation. At the same time Acme United is young at heart as it's able to re-invent everyday goods through innovation and product development.

✓ The Company's global brand Westcott, is the leading scissors brand in the USA and the worldwide number one ruler brand.

✓ Late 2008, the board of directors approved a new stock repurchase program of up to 150,000 common shares, almost 4.5% of ACU's shares outstanding.

✓ Acme has been paying quarterly dividends for many years and has increased the amounts gradually. Currently it pays 5 cents per quarter.

✓ Acme's management has indicated this fragile market is an excellent environment to take over a weakened Company. This is an extra driver for growth and in the past, management has proven they can handle an acquisition

✓ ACU's balance sheet is very healthy as it has almost \$5.5 million USD in the bank, a very good current ratio of 5.2 and a price to book of 1.02.

✓ During the past 5 years net sales grew 16% annually on average, while earnings per share rose by an average of 34% annually in the same period.

✓ Based on the information described in this report, we are initiating coverage of Acme United Corp. with a buy recommendation and a 12-month price target of \$11.85, which is 60 percent above today's stock price.

Symbol:	ACU
Industry:	Office Supplies
Market:	NYSE Alternext U.S.
Recent Price:	\$7.41
52-Week Price Range:	\$5.33 - \$14.87
Market Cap:	approx. \$25.55 million
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The Company

Acme United Corporation aims to be a leading worldwide supplier of cutting, measuring and safety products to the school, home, office and industrial markets. Principal products are scissors, shears, rulers, first aid kits and related products, sold primarily to wholesale, contract and retail stationery distributors, office supply super stores, school supply distributors, drug store retailers, wholesale florists and mass market retailers.

The Company, which has its roots dating back to 1867, has facilities in the United States, Canada, Europe (located in Germany) and Asia (located in Hong Kong and China). The operations in the United States, Canada and Europe are primarily involved in product development, manufacturing, marketing, sales, administrative and distribution activities. The operations in Asia consist of sourcing, quality control and sales activities.

ACU has grouped its operations into three reportable segments based on its geographical organization and structure: United States (which includes its Asian operations); Canada and Europe. Net sales per segment, for the nine months ended September 30, 2008 were: United States (including Asia): \$44.05 million (75.5%), Canada: \$6.59 million (11.7%) and Europe: \$5.49 million (9.8%).

Although Acme sells everyday products, it's becoming the quality and cost leader in the categories where it competes, thanks to its strong focus on innovation and customer service.



Acme was recognized by Forbes as one of the “200 Best Small Companies in 2007” and by Business Week as one of its “100 hottest small companies in 2007”. Fortune Small Business even recognized Acme in 2005, 2006, and 2007 as one of “America’s 100 Fastest Growing Small Public Companies”. Additionally, The company was Office Products International “Vendor of the Year” in 2005.

Business Strategy

The Company's business strategy includes the following key elements:

- a commitment to technological innovation achieved through consumer insight, creativity and speed to market;
- a broad selection of products in both brand and private label;
- prompt response and same-day shipping;
- superior customer service; and
- value pricing.

Passion For Innovation

Innovation is really the heart and soul of Acme. It's what separates the Company from its competitors and what makes it grow and prosper.

If you believe that scissors, shears and knives always stay the same, think again. Underneath we have listed three of Acme's recent innovative ideas.

The Company uses titanium nitride and titanium carbonitride coatings on its materials. These are extremely hard ceramic materials, often used as a coating on titanium alloy, steel, carbide, and aluminum components to improve the substrate's surface properties. Applying these coatings to scissors or knives makes the material up to 3 times harder than steel, the blades are sharper and stay sharper longer, and they have a high corrosion and rust resistance.

Furthermore, Acme introduced non-stick coatings on some of its cutting items like scissors and paper trimmers. This will allow the titanium blades to be used in difficult environments like the floral area for cutting and trimming flowers and bushes, or in the arts and crafts area, where lots of glue and paste is used. In the near future, non-stick coatings will find their way onto other products, like pencil sharpeners.

ACU also has a whole line of Microban anti-microbial school and office products. Microban is an ingredient that is infused into the plastic during manufacturing, and inhibits the growth of bacteria for the lifetime of the product. When these anti-microbial products were introduced, it opened up new markets at Wal-Mart and Target. The Company will soon be bringing more products to the market with Microban protection.



The above shears include Microban, an ingredient that is infused into the plastic during manufacturing, and inhibits the growth of bacteria for the lifetime of the product.

Ideas

If you're wondering how they come up with all these ideas? Well, first of all, the Company spends a lot of time concentrating on product innovation and paying attention to customer needs across all product brands and lines.

And secondly, they listen to their consumers. When Acme interviewed students aged between 5 and 15, they came up with some really interesting ideas. The Company went to work and redesigned many of its products. As a result they now have a full range of products that are fun, functional and designed to appeal to students of all ages. And that makes sense, 15 year old boys don't want the same ruler as 5 year old girls.

Patents

In a innovation-driven Company, a major step is protecting the new technology and designs. Acme has covered that area as it has over a hundred patents and trademarks, which are part of increasingly valuable corporate assets.

Acme created a culture based on the free exchange of ideas and the opportunities to turn

those ideas into better products. This strategy is proving successful as the company continues to increase revenue and market share.

Products

Acme United's products are organized under three global brands: Westcott, Clauss and PhysiciansCare, all of which serve a growing customer base that includes the world's premier retailers and merchandisers.

Westcott

Westcott began as a ruler company over 140 years ago. Nowadays, Westcott is the ruler brand that is in more schools, offices and homes than any other brand. They come in wood, plastic, stainless steel, acrylic and aluminum with plentiful designs, innovations and fashionable colors. Each year, Acme sells between 15 and 18 million Westcott rulers.

Following the success in rulers, Westcott extended to other precision office tools such as scissors, trimmers, pencil sharpeners, etc. Because of its quality and innovation, it's now the leading scissors brand in the USA and the worldwide number one ruler brand.



The iPoint Curve takes its design and color inspiration from the Apple iPhone. It's available in classic black and pearl white colors and offers antimicrobial protection.

At Westcott, innovation is part of a daily routine. To give an idea, 30% of the products in the Westcott brand didn't exist three years ago! In 2006, for instance, they came up with a revolutionary pencil sharpener, called the iPoint pencil sharpener.

The iPoint pencil sharpener is a prime example of what innovation can do for a Company. The first year the product was on the market it generated revenues of about \$800,000, the second year \$3.8 million and for 2008 somewhere between 5 to 8 million dollars.

Another product that just hit the market is the iPoint Curve pencil sharpener. Like the iPoint, it offers an auto stop feature so the sharpener automatically shuts off power when your pencil reaches the perfect point. It has Microban anti-microbial product protection and comes in fancy black and white colors.

Clauss

Clauss, which was founded in 1877, is all about cutting instruments for the professional market. Recent product announcements from Clauss include a comprehensive line of quality tools for professionals: True Professional™ sewing shears, utility knives, chef shears, hobby knives and craft implements. In the industrial market, Clauss has recently created a complete range of high-performance cutting tools



The SpeedPak may become a big hit in the do-it-yourself market.

Also at Clauss, there's a focus on innovation. The SpeedPak and its 10 titanium blades cartridge, for instance, was launched in 2008. Once you insert the cartridge into the body of the SpeedPak, it works like a normal utility knife. However, when the blade is

dull, you simply push the button on the side, pull the blade out, retract the top button, and it automatically reloads another blade.

An additional example is the Transfer of Power. It's a titanium blade shear that can cut through 40 layers of denim. Acme commercialized the product in the power industry and introduced it in the sewing market. Today, the Transfer of Power can be found in quite a number of the specialty sewing shops as well as in Wal-Mart.

PhysiciansCare

PhysiciansCare offers a wide assortment of first aid kits, over-the-counter medicines, emergency and disaster kits, preparedness products and kit refills. The brand is expanding with a focus on increased comfort, ease-of-use and easy access.



PhysiciansCare is generating about \$15 million in sales annually and is growing.

Distribution

Independent manufacturer representatives and direct sales are primarily used to sell the Company's line of consumer products to wholesale, contract and retail stationery distributors, office supply super stores, school supply distributors, industrial distributors, wholesale florists and mass market retailers.

Acme sells its products to major customers like Home Depot, Wal-Mart, Office Depot, Staples, Grainger, McMaster Carr, Lowe's and Fred Meyer.

Traditionally, the Company's sales are stronger in the second and third quarters of the fiscal year due

to the seasonal nature of the back-to-school business.

Acme United has old roots, giving them strong brand names and a very solid reputation. At the same time Acme United is young at heart as it's able to re-invent everyday goods through innovation and product development.

Recent Events

Late 2008, the Company had three interesting news releases. First, it announced the sale of a property it owned in Bridgeport, Connecticut to B & E Juices, Inc. for \$2.5 million. Acme intends to remediate the property for approximately \$1.8 million. Additionally, legal, environmental studies, transaction costs and other expenses will total approximately \$400,000. As a results, the Company will record a gain of about \$300,000 in the fourth quarter from the sale.

A few days later, Acme's board of directors approved a new stock repurchase program of up to 150,000 common shares, almost 4.5% of shares outstanding. Mr. Walter Johnsen, Chairman and CEO of Acme United, said: "We are pleased to announce this buy-back program as it demonstrates management's commitment to build long term shareholder value."

Also in December the board approved a cash dividend. ACU has been paying quarterly dividends for many years and has increased the amounts gradually. Currently it pays 5 cents per quarter.

Financial Analysis

Third Quarter and nine months results

In October 2008, Acme announced excellent third quarter and nine months results for the quarter ended September 30, 2008. Third quarter sales were \$19.2 million, compared to \$17.1 million in the same period in 2007, or an increase of 12%. Net income was \$1.35 million, or \$.37 per diluted share, compared to \$1.30 million, or \$.35 per diluted share, for the comparable period last year.

Net sales for the nine months ended September 30, 2008 were \$56.1 million, compared to \$48.3 million in the same period in 2007, an increase of 16%. Net income was \$3.83 million, or \$1.05 per diluted share, compared to \$3.47 million, or \$.94 per diluted share, in the comparable period last year.

Mr. Johnsen said: "Acme United has just completed its largest and most successful back to school season. Recent third party surveys show that our Westcott branded scissors now have the highest market share in North America. We continue to gain momentum, and look forward to building off this base next year."

Amounts in \$000's	09/30/08	09/30/07
Net Sales	19,158	17,081
Cost of Goods Sold	11,288	9,700
S, G & A Expenses	5,651	5,229
Income From Operations	2,219	2,152
Pre-Tax Income	1,961	2,035
Income Tax Expense	610	730
Net Income	1,351	1,305
Shares Outstanding	3,515	3,710
Earnings Per Share	0.37	0.35

Mr. Johnsen also said that during the third quarter, Acme United began shipping its SpeedPak utility knives to a major hardware chain in the U.S. The Company opened new industrial distributors as well, and is making progress in these channels.

Gross margins were 41.1% in the third quarter of 2008 versus 43.2% in the same period last year. Margins declined due to increased costs of material, labor, energy and the appreciation of the Chinese currency against the U.S. dollar.

THE CHINESE RMB IN A NUTSHELL

Since the 1990s, the Chinese RMB was pegged to the U.S. dollar at a level of 8.62 yuan per USD. An improving current account balance during the latter half of the 1990s enabled the Chinese government to maintain a peg of 8.27 yuan per USD from 1997 to 2005.

However, on July 21st, 2005, the peg was lifted and the RMB started trading in relationship with a basket of foreign currencies dominated by the U.S. dollar, euro, Japanese yen and South Korean won, with a smaller proportion made up of the British pound, Thai baht, Russian ruble, Australian dollar, etc.

The worldwide declining USD and the booming Chinese economy caused the USD/RMB exchange rate to steadily decrease from 8.62 in 2005 to 6.84 nowadays.

We're hopeful margins won't continue to decline, as commodity prices have dropped significantly from their highs in May/June and the US dollar has stabilized against the Chinese currency. On the other hand, business may slow down a bit due to current economic conditions.

Given current market conditions Acme presented great numbers. For full fiscal year 2008, management is aiming at sales around \$68 and EPS of \$1.20 including the sale of Bridgeport.

Balance Sheet & Liquidity

Acme's balance sheet is very healthy as it has almost \$5.5 million USD in the bank, a very good current ratio of 5.2 and a book value of \$7.247 per share. At the current stock price that's a Price/Book of only 1.02.

Amounts in \$000's	09/30/08	09/30/07
Cash and Cash Equivalents	5,485	3,651
Amounts Receivable	16,045	16,223
Inventories	20,240	17,521
Total Current Assets	42,721	38,697
Total Assets	47,099	42,850
Accounts Payable	3,734	3,687
Total Current Liabilities	8,162	7,527
Long-Term Debt	12,994	12,302
Total Liabilities	21,697	20,525
Total Stockholder Equity	25,402	22,325

Most important balance sheet data for the period ending September 30, 2008 versus September 30, 2007. Source: Company Reports

As indicated in the above chart, inventories increased about 15%. This was mainly due to an increase in finished goods. Management has indicated it would try to reduce inventories slightly. Another positive development is that on June 23, 2008, the Company modified its revolving loan agreement with Wachovia Bank. The amendments include:

- an increase in the maximum borrowing amount from \$15 million to \$20 million;

- an extension of the maturity date of the loan from June 30, 2009 to June 30, 2010;
- a decrease in the interest rate to 1 month LIBOR plus 7/8% (from 1 month LIBOR plus 1.0%).

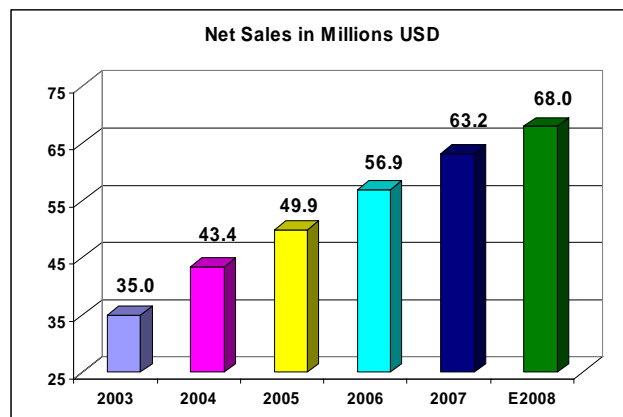
Funds borrowed under this agreement are primarily used for working capital, general operating expenses, share repurchases and certain other purposes. The fact that the loan agreement was modified at such favorable terms, is an indication of the strength of the Acme and of the confidence of Wachovia.

As an immediate result of this agreement, interest expense for the three months ended September 30, 2008 was only \$120,000, compared with \$208,000 for the same period of 2007, a \$88,000 decrease.

Outlook & Valuation

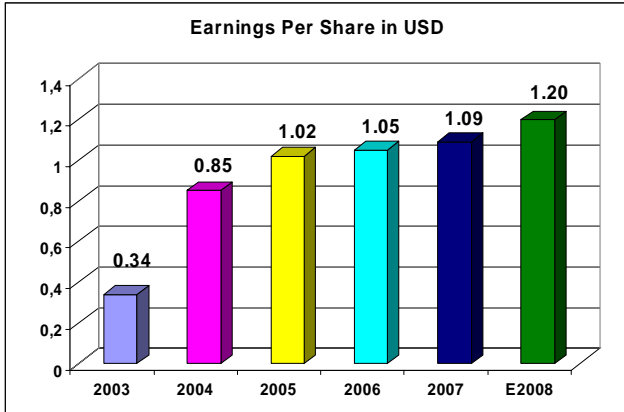
We believe Acme United is a strong Company with good growth prospects. During the past 5 years net sales grew 16% annually on average.

In light of current market conditions, management said it's temporarily freezing all salaries and no bonuses will be paid this year. Additionally, there will be a tight control on all other expenses, which shows management is responsible.



Net sales between 2003 - 2007 and FY 2008 estimate

By bringing new products to the market and introducing products in new market segments, earnings per share (EPS) rose by an average of 34% annually in the past 5 years. We believe sales and earnings growth will continue to come from the Company's passion for innovation.



EPS between 2003 - 2007 and FY 2008 estimate

A final driver for growth may be an acquisition. This fragile market is an excellent environment to take over a weakened Company. In the past, Acme's management has proven they can handle these situations.

Clauss, for instance, was bought a couple of years ago for about \$400,000. They repositioned the brand, moved manufacturing from an inefficient plant in Toledo, Ohio to Asia and earned back their acquisition in two months time.

Peer Comparison

The Company competes with many other companies in each market and geographic area. For example, the major competitor in the cutting category is Fiskars Corporation, the major competitor in the measuring category is Helix International Ltd and the major competitor in the safety category is Johnson and Johnson.

Nevertheless, it's hard to identify a peer group of companies, because there's no other Company that's in exactly the same line of business as Acme United. Moreover, some of these other companies that engage in the Company's line-of-business do so through divisions or subsidiaries that are not publicly-traded.

For reason of comparison, we have placed the Company in the office supplies industry.

Valuation

The current share price of the ACU's common stock is \$7.32. It's, therefore selling around book value, has a trailing P/E of only 6.12 and an impressive 18.4% Return On Equity.

The average P/E ratio for a company in the office supplies industry is 13.18x. We will be very conservative and only apply a 9.88x P/E ratio (25% below the industry's average).

Management is projecting revenues of \$68 million and earnings per share, including the sale of the Bridgeport plant, of \$1.20 for 2008.

For FY 2009 EPS, we will remain extremely conservative and project a flat to modest rise. As new products continue to be rolled out and ACU buys back shares, this estimate can be adjusted upwards along the way.

When we use the \$1.20 EPS projection for FY 2009 and apply the 9.88x P/E multiple, it results in the following calculation: \$1.20 estimated EPS multiplied by 9.88 = \$11.85.

While worsening economic conditions could be an issue in 2009, we would also note that the Company has the ability to pursue additional accretive acquisitions, the business is growing and is profitable, management is focused on operational efficiencies and they have a premier customer base.

Based on this information, we are initiating coverage of Acme United Corp. with a buy recommendation and a conservative 12-month price target of \$11.85, which is 60% above today's stock price.

Management

➤ Walter Johnsen - Chairman and CEO

Mr. Johnsen has served as director since 1995 and as Chairman and Chief Executive Officer since November 30, 1995. Before joining the Company he was Vice Chairman and a principal of Marshall Products, Inc., a medical supply distributor.

➤ Brian Olschan - President and COO

Mr. Olschan served as Senior Vice President of Sales and Marketing from September 10, 1996 until February 22, 1999. Effective January 23, 1999, he was promoted to President and Chief Operating Officer. From 1984 to 1996, he was employed by General Cable Corporation in various executive positions.

➤ Paul Driscoll - Vice President and CFO, Secretary and Treasurer

Mr. Driscoll has served as Vice President and Chief Financial Officer, Secretary and Treasurer since

October 2, 2002. Mr. Driscoll joined Acme as Director International Finance on March 19, 2001. From 1997 to 2001 he was employed by Ernest and Julio Gallo Winery including two years in Japan as

Director of Finance and Operations. Prior to Gallo he served in several increasingly responsible positions in Sterling Winthrop Inc. in New York City and Sanofi S.A. in France.

Income Statement

All numbers in thousands

PERIOD ENDING	FY 2005	FY 2006	FY 2007	9M 2008
Total Revenue	49,946	56,863	63,173	56,135
Cost of Revenue	27,592	32,280	36,680	33,361
Gross Profit	22,355	24,583	26,493	22,774
Operating Expenses				
Research Development	-	-	-	-
Selling General and Administrative	15,512	17,870	19,741	16,690
Non Recurring	1,500	-	-	-
Others	-	-	-	-
Total Operating Expenses	17,012	17,870	19,741	16,690
Operating Income or Loss	5,342	6,713	6,752	6,084
Income from Continuing Operations				
Total Other Income/Expenses Net	(341)	252	206	23
Earnings Before Interest And Taxes	5,001	6,965	6,958	6,107
Interest Expense	235	616	655	306
Income Before Tax	4,766	6,349	6,303	5,801
Income Tax Expense	1,829	2,463	2,280	1,968
Minority Interest	-	-	-	-
Net Income From Continuing Ops	2,937	3,886	4,022	3,833
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	2,937	3,886	4,022	3,833
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$2,937	\$3,886	\$4,022	\$3,833



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