



Acme United Corp. (ACU)

Acme United Corporation is an innovative supplier of cutting devices, measuring instruments and safety products for school, home, office, industrial and hardware use. 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.

Update Report – May 21, 2009



Investment Highlights

✓ Acme's first quarter results were soft. The Company actually performed well, it's just that customers didn't order as much as they did last year.

✓ ACU is fundamentally very sound with a low valuation, as it has a trailing P/E of 6.61, a price to book of 1.09 and 16.88% Return On Equity.

✓ Even in these difficult market circumstances, the Company was able to gain 5 large mass market industrial and hardware customers during the past two quarters.

✓ The Company has implemented a number of cost cutting measures, including incentive pay, travel, telecommunications and legal fees, which will result in annualized savings of approximately \$1 million. These savings will not affect the development of next generation products.

✓ Acme United will release a large number of new products in the coming months. There's a whole line of new pencil sharpeners with titanium blades, cutting tools in the Clauss line with titanium carbonitride coated blades and new non-stick cutting implements.

✓ Late 2008, the board of directors approved a stock repurchase program of up to 150,000 common shares, or almost 4.5% of ACU's shares outstanding. So far 30,000 shares have been bought back, leaving Acme with lots of dry powder to buy additional shares should opportunities present themselves.

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

✓ We remain confident in Acme United's long term future and are therefore adjusting our 12-month price target from \$11.85 to \$11.64, only to reflect the lower average industry P/E.

Symbol:	ACU
Industry:	Office Supplies
Market:	NYSE Alternext U.S.
Recent Price:	\$7.30
52-Week Price Range:	\$5.33 - \$14.87
Market Cap:	approx. \$24.83 million
Acme United Corp. 60 Round Hill Road Fairfield, CT 06824 Phone: (203) 254-6060 http://www.acmeunited.com	

The Company

Acme United Corporation is a leading worldwide supplier of innovative branded cutting, measuring and safety products in the school, home, office, hardware & 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 first quarter of fiscal year 2009, ended March 31, 2009 were: United States (including Asia): \$8.48 million (75.1%), Canada: \$1.29 million (11.4%) and Europe: \$1.52 million (13.5%).

Brands

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 began as a ruler company over 140 years ago. Nowadays, Westcott is the ruler and scissors brand that's in more schools, offices and homes than any other brand. Because of its quality and innovation, it's now the leading scissors brand in the USA and one of the leading ruler brands in North America.

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, hot forged scissors, utility knives, chef shears, hobby

knives and the titanium-bonded spring-assisted pruner.

WESTCOTT
Since 1872*



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.

Recent Financials

Fiscal Year 2008 Results

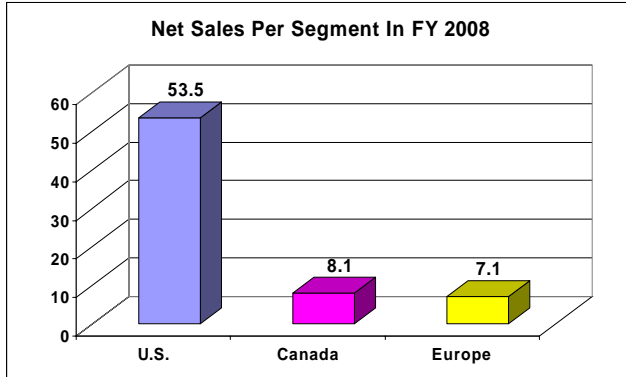
For the fiscal year 2008, ended December 31, 2008, Acme United presented record sales and earnings. Net income came in 4 cents higher than our estimate and despite a challenging environment, the Company's outlook for 2009 remained pretty good. Needless to say we were very pleased with Acme's performance in 2008.

Sales increased to \$68.7 million versus \$63.2 million in the same period in 2007, an increase of 9%. Smallcaps.us' estimate called for sales of \$68 million.

Net income for 2008 was \$4,467,000, or \$1.24 per diluted share, compared to \$4,022,000, or \$1.09 per diluted share in 2007, an increase of 11% in net income and 14% in earnings per share. Smallcaps.us estimated \$1.20 earnings per share. It should be noted that during Q4 2008 the Company recognized a profit of approximately \$265,000 from the sale of its former production facility in Bridgeport, CT.

Gross margins were 40.2% for 2008 compared to 41.9% in 2007. The gross margin decline in 2008 was primarily due to strong growth in the highly competitive school market.

The U.S. segment sales increased by \$4,847,000 or 10% in 2008 compared to 2007. Sales in Canada remained relatively constant in U.S. dollars but declined 3% in local currency compared to 2007 and European sales increased by \$733,000 or 12% (4% in local currency) in 2008 compared to 2007.



The increase in sales in the U.S. segment is principally the result of market share gains in all channels of distribution and market acceptance of new anti-microbial school scissors, rulers and math kits and iPoint pencil sharpeners. Sales of other new products included a new family of KleenEarth recycled scissors, the UltraSmooth spring-assisted scissors and the new Clauss high performance ExtremEdge titanium shears. Net sales in Canada were negatively impacted by the soft demand in the overall office products market as a result of a slow down in the economy. The 4% sales increase in Europe was mainly due to higher sales of manicure items to a major European retailer and expansion in the office trade channel.



The blades from the ExtremEdge shears are titanium bonded, which makes them 3 times harder than steel.

First Quarter 2009 Results

As expected, Acme United's first quarter sales and earnings were soft due to a reduction in orders from many of the Company's customers as a result of the contracting global economy.

Thanks to a number of cost cutting measures including incentive pay, travel, telecommunications and legal fees, the Company did manage to remain profitable. These cost reductions will result in **annualized savings of approximately \$1 million**. Additionally, it's important to note that Acme continues to fund the development of next generation products.

Net sales for the first quarter ended March 31, 2009 were \$11.3 million, compared to \$14.3 million in the comparable period of 2008, a decrease of 21% (19% in local currency). Net income was \$42,000 or \$.01 per diluted share for the first quarter of 2009 compared to \$753,000 or \$.21 per diluted share for the comparable period last year.

Amounts in \$000's	03/31/09	03/31/08
Net Sales	11,297	14,269
Cost of Goods Sold	7,000	8,283
S, G & A Expenses	4,216	4,918
Income From Operations	82	1,068
Pre-Tax Income	63	1,158
Income Tax Expense	21	405
Net Income	42	753
Shares Outstanding	3,402	3,666
Earnings Per Share	0.01	0.21

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

Gross margins were 38.1% compared to 42.0% in the first quarter of 2008. The margin in 2009 declined mainly due to the product mix, the weaker Canadian dollar which raised the cost of products in the Canadian segment, and fixed costs spread over lower sales.

Net sales in the U.S. and Canadian operating segments decreased 22% and 24% (5% in local currency), respectively for the three months ended March 31, 2009, principally due to a reduction in customer orders across all principal product lines as a result of the contracting global economy. Net sales in Europe decreased by 8% in U.S. dollars but increased by 6% in local currency primarily due to increased distribution of manicure products.

Even though the Company's sales were soft in the first quarter, **it's important to notice that orders have picked up significantly since March compared to the first two months of 2009**. At the Company's annual meeting, Mr. Johnsen, Acme's chairman and CEO, felt business was getting stronger and that possibly the worst was behind them.

Another positive fact is that the Company added five major new customers during the past 6 months in the hardware, industrial and mass markets which are expected to generate incremental sales during 2009.

Balance Sheet As Of March 31, 2009

During the first three months of 2009, working capital and inventory remained essentially constant compared to December 31, 2008. Inventory turnover, calculated using a twelve month average inventory balance, decreased to 1.9 at March 31, 2009 from 2.0 at December 31, 2008. Receivables decreased as a result of a sales decline in the first quarter of 2009. The average number of days sales outstanding in accounts receivable was 64 days at March 31, 2009 and December 31, 2008.

Amounts in \$000's	03/31/09	03/31/08
Cash and Cash Equivalents	3,283	4,815
Accounts Receivable	9,625	12,482
Inventories	21,734	20,076
Total Current Assets	35,888	38,601
Total Assets	42,672	43,016
Accounts Payable	2,824	3,912
Total Current Liabilities	6,591	6,815
Long-Term Debt	11,880	12,711
Total Liabilities	20,415	20,062
Total Stockholder Equity	22,257	22,954

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

During the first three months of 2009, total debt outstanding under the Company's Modified Loan Agreement, increased by \$129,000 compared to total debt at December 31, 2008, principally due to the repurchase of common stock under a previously announced share buyback program (see Recent Events). As of March 31, 2009 \$11,848,000 was outstanding and \$8,152,000 was available for borrowing under the Modified Loan Agreement.

Recent Events

Swine Flu & N95 Masks

Every time there's a global alert for a highly contagious disease, like SARS or avian influenza, people wear face masks as first line of defense. These masks, also called N95 respirators, cover your nose and mouth so you reduce the risk of breathing in dangerous airborne particles.

A few weeks ago the world was startled by swine flu. What started as an obscure contamination in a small village in Mexico, spread very rapidly across the globe to infect thousands and kill several people. Soon after the first reports about the swine flu outbreak became public, many people in Mexico started wearing these N95 respirators.



With these N95 respirators you can cover your nose and mouth so you reduce the risk of breathing in dangerous airborne particles

Next to a large number of other items, Acme United's PhysiciansCare division also sells the N95 respirators. Acme's first aid products have a large customer base in the U.S., as they are sold at Staples, Office Depot, United Stationers, Office Max, Corporate Express and many more. So, if demand for a certain product goes up, Acme is at the forefront to supply that item.

If swine flu spreads across the United States, we believe Acme is in a good position to receive a number of orders for N95 masks.

NIOSH

Acme's masks are made to NIOSH standards. NIOSH stands for National Institute for Occupational Safety and Health, and is the United States federal agency responsible for conducting research and making recommendations for the prevention of work-related injury and illness. NIOSH is part of the Centers for Disease Control and Prevention (CDC) within the US Department of Health and Human Services.

The Camillus Re-Birth

At last week's National Hardware Show in Las Vegas, the highly recognized Camillus Cutlery brand was re-launched. This may not seem like a big event at first, but if you know a little bit about this Company's history, it is.



The Camillus booth at the 2009 National Hardware Show in Las Vegas

For more than a hundred years, Camillus was dedicated to produce the finest knives available. In 2007 however, due to fierce overseas competition, Camillus filed for bankruptcy and closed its doors. The product brand names and intellectual property of the company were acquired by Acme United.

Now Acme re-launched the brand at the 2009 National Hardware Show. It's actively showing the line to customers, which will hopefully result in first revenues for Camillus in the second half of the year.

With Camillus Cutlery, Acme is bringing a legendary brand back to life. We believe this is a good decision which will be positive for Acme's results.

Dividend

In December of 2008, Acme's board decided to increase the quarterly cash dividend with 1 cent to 5 cents per share as a sign of their faith in the Company's future. During the 12 month period, ended March 31, 2009, Acme paid approximately \$600,000 in dividends.

ACU has gradually increased its quarterly dividend over the past years.

Update On Share Buyback Program

Also in December of 2008, the board authorized a buyback of 150,000 shares of common stock, or almost 4.5% of Acme's shares outstanding at that time. So far, 30,000 shares have been repurchased for a total cost of \$214,500. Usually, the Company purchased them if there was some excessive selling and when the shares were attractively valued.

With 120,000 shares left to purchase, **the Company has plenty of dry powder to buy additional shares should opportunities present themselves.**

Outlook & Valuation

New Products

Acme United will release quite a number of new products in the coming months. For example, there's a whole line of new pencil sharpeners with titanium blades, cutting tools in the Clauss line with titanium carbonitride coated blades and new non-stick cutting implements which will first be introduced at Staples. All of these products add momentum to the Company's revenue line.



With the new iPoint Titanium pencil sharpener you have a true piece of art on your desk

Additionally, the Company recently started shipping their SpeakPak Utility Knife to Home Depot where it has a prominent place at eye level.

What's very encouraging is that re-orders are already coming in from the major do-it-yourself chain.



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.

We also look forward to the 2nd and 3rd quarter, because those have been historically stronger due to back-to-school shipments. This year should particularly be interesting as the next generation non-stick cutting tools will be on the market when the back-to-school season starts.

Growth

Acme United is on the outlook to take over a competitor who's weakened due to the economic downturn. So far, no acquisition has been announced, but the Company is keeping their eyes on multiple potential opportunities.

Not only does Acme seek to grow externally, it also continues to grow organically as the Company gained five large mass market industrial and hardware accounts during the past two quarters. Those new customers are now placing orders.

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. The average P/E ratio for a company in the office supplies industry is 12.95x, down from 13.18x in our initial report.

Valuation

The current share price of ACU's common stock is \$7.30, leaving it attractively priced with a trailing P/E of 6.61, a price to book of 1.09 and 16.88% Return On Equity.

While first quarter results were weak, Acme is likely to report stronger numbers for the rest of the year. Traditionally, the second and third quarter are the strongest ones due to back-to-school items being shipped.

Additionally, it's important to remember that Acme has implemented cost reductions that will result in annualized savings of about \$1 million. They are bringing a large number of new products to the market in the coming quarters and are selling items to new customers.

Moreover, Acme still has 120,000 shares left to purchase in its share buyback program, it's on the outlook for a takeover and is paying a nice quarterly dividend.

Basically, we're dealing with a fundamentally very sound Company. The lower sales and earnings in the first quarter simply had to do with the economic downturn.

We remain confident in Acme United's long term future and are therefore adjusting our 12-month price target slightly from \$11.85 to \$11.64, only to reflect the lower average P/E as described above, 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.

➤ **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.

➤ **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.

Income Statement

All numbers in thousands

PERIOD ENDING	FY 2006	FY 2007	FY 2008	3M 2009
Total Revenue	56,863	63,173	68,719	11,297
Cost of Revenue	32,280	36,680	41,062	7,000
Gross Profit	24,583	26,493	27,657	4,299
Operating Expenses				
Research Development	-	-	-	-
Selling General and Administrative	17,870	19,741	20,778	4,216
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	17,870	19,741	20,778	4,216
Operating Income or Loss	6,713	6,752	6,879	82
Income from Continuing Operations				
Total Other Income/Expenses Net	252	206	193	23
Earnings Before Interest And Taxes	6,965	6,958	7,072	105
Interest Expense	616	655	396	42
Income Before Tax	6,349	6,303	6,676	63
Income Tax Expense	2,463	2,280	2,209	21
Minority Interest	-	-	-	-
Net Income From Continuing Ops	3,886	4,022	4,467	42
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	3,886	4,022	4,467	42
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$3,886	\$4,022	\$4,467	\$42



Acme United Corporation

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