



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 – September 3, 2009



Investment Highlights

✓ Although Acme United's sales and earnings were impacted by the economic downturn in the second quarter, it's encouraging to note that while net sales in the U.S. segment decreased 17% compared to the same period in 2008, sales in Canada only declined approximately 1% in local currency (down 12% in U.S. dollars) and even increased 11% in Europe in local currency (down 3% in U.S. dollars).

✓ Product innovation and attention to customer needs is what really separates Acme from its competitors and what makes it grow and prosper. As a result, Acme's design and utility patents are part of a large and growing intellectual property, and are increasingly valuable corporate assets.

✓ Acme has been paying quarterly dividends for many years and has increased the amount by 1 cent every 6 quarters. Currently it pays 5 cents per quarter.

✓ A whole line of non-stick products is being developed, we also expect a nice contribution to revenues from the Flu Protection Kit and the 24 new PhysiciansCare items that are ready to be shipped. Additionally, the recently re-launched Camillus Cutlery is selling more knives than originally planned and the SpeedPak is also selling well and gaining distribution. All these items will add momentum to the Company's revenue line, which should positively impact late FY 2009 and FY 2010 earnings.

✓ ACU's balance sheet remains healthy as it has more than \$3 million in the bank, a satisfying current ratio, excluding bank debt (see page 4), of 4 and a book value of \$7.12 per share. At its current stock price, Acme is trading at a Price/Book of only 1.26.

✓ Although Acme's shares have already gone up more than 20% since our initial report, we're convinced there's plenty of room for further appreciation. Based on this report, we reiterate our Buy recommendation and adjust our 12-month price target slightly upwards from \$11.64 to \$11.83, which is 32% above today's stock price.

Symbol:	ACU
Industry:	Office Supplies
Market:	NYSE Alternext U.S.
Recent Price:	\$8.94
52-Week Price Range:	\$5.33 - \$14.87
Market Cap:	approx. \$29.67 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 office superstores, contract stationers and wholesalers, school distributors, mass market, and industrial, hardware and floral distributors.

The Company has its roots dating back to 1867 and currently 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.

Product innovation and attention to customer needs is what really separates Acme from its competitors and what makes it grow and prosper. This is achieved by inventing new products, working with new materials or adding new features. As a result, Acme's design and utility patents are part of a large and growing intellectual property, and are increasingly valuable corporate assets.



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.

ACU groups 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 second quarter of FY 2009, ended June 30, 2009 were: United States: \$14.89

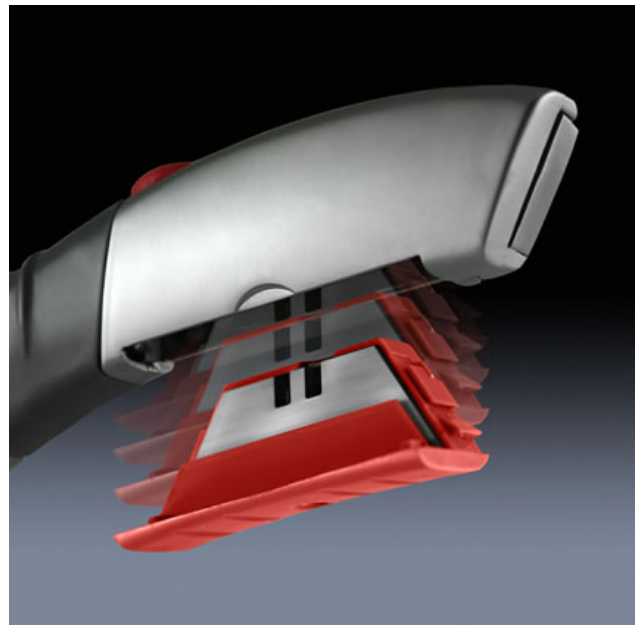
million (77.7%), Canada: \$2.62 million (13.7%) and Europe: \$1.65 million (8.6%).

Brands

Acme United's products are organized under three global brands: Clauss, Westcott and PhysiciansCare, all of which serve a growing customer base that includes the world's premier retailers and merchandisers. The number of products under the three brands continues to expand, providing customers with ever better solutions to their cutting, measuring and safety needs.

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.

Another excellent Clauss product is the SpeedPak Utility Knife. The SpeedPak is a lightweight, ergonomic and innovative alternative for a regular utility knife. The cartridge, which contains 10 replaceable titanium bonded blades, can be changed in a matter of seconds without the user ever touching a blade.



Acme is shipping around \$50,000 worth of SpeedPak's per month

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.

Next to scissors and rulers, Westcott is also known for its iPoint line of electric pencil sharpeners. They were extremely well received shortly after being announced and won a Good Design Award from the Chicago Athenaeum, Museum of Architecture and Design.

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.

Financials

Second Quarter And Six Months 2009 Results

Acme United announced net sales for the second quarter ended June 30, 2009 of \$19.2 million, compared to \$22.7 million in the same period of 2008, a decrease of 16% (13% in local currency). Although sales continue to be down compared to last year, management believes there is some stabilization. Net income, for the quarter ended June 30, 2009, was \$1,341,000, or \$.40 per diluted share compared to \$1,730,000 or \$.47 per diluted share for the comparable period last year, a decrease of 22% in net income and 15% in diluted earnings per share.

For the six months ended June 30, 2009 net sales were \$30.5 million, compared to \$37.0 million in the same period in 2008, a decrease of 18% (14% in local currency). Net income for the six months ended June 30, 2009 was \$1,383,000, or \$.41 per diluted share, compared to \$2,482,000, or \$.68 per diluted share in the comparable period last year, a 44% decrease in net income and 40% in diluted earnings per share. The lower net income, in both the three and six month period, was primarily the result of lower sales, partially offset by savings resulting from the Company's cost savings plan.

Although Acme United's sales and earnings were impacted by the economic downturn, it's encouraging to note that while net sales in the U.S. segment decreased 17% in the second quarter compared to the same period in 2008, sales in

Canada only declined approximately 1% in local currency (down 12% in U.S. dollars) and even increased 11% in Europe in local currency (down 3% in U.S. dollars). Higher revenues in Europe were primarily driven by increased sales of manicure products.

Amounts in \$000's	06/30/09	06/30/08
Net Sales	30,458	36,977
Cost of Goods Sold	19,056	22,073
S, G & A Expenses	9,302	11,039
Income From Operations	2,100	3,865
Pre-Tax Income	2,099	3,841
Income Tax Expense	716	1,358
Net Income	1,383	2,483
Shares Outstanding - Diluted	3,396	3,666
Earnings Per Share	0.41	0.68

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

Gross margins were 37.1% in the second quarter of 2009 versus 39.3% in the comparable period last year. For the first six months of 2009, gross margins were 37.4% compared to 40.3% in the same period in 2008. The gross margin decline for the three and six month periods was primarily due to fixed costs spread over lower sales, the weaker Canadian dollar which raised the cost of products in the Canadian segment and product mix.

Walter C. Johnsen, Chairman and CEO said, "We have reduced costs in many areas, but continue to fund new product development. The earnings in the second quarter reflect aggressive attention to costs. Our debt has declined due to working capital reductions and earnings. We believe we are well positioned to take advantage of market opportunities during the coming quarters."

Given the tough market conditions, we believe Acme United reported good second quarter revenues and earnings, partly aided by the Company's cost savings plan, which will result in savings of approximately \$1 million in FY 2009. We're convinced that once the economy returns to normal levels, ACU will be even stronger and leaner than before the crisis.

Balance Sheet As Of June 30, 2009

ACU's balance sheet remains healthy as it has more than \$3 million in the bank, a satisfying current ratio,

excluding bank debt (see below), of 4 and a book value of \$7.12 per share. At its current stock price, Acme is trading at a Price/Book of only 1.21.

Inventory decreased by approximately \$2.4 million compared to June 30, 2008. This decline is principally related to the Company managing inventory levels to compensate for lower sales in the trailing twelve months ended June 30, 2009.

Amounts in \$000's	06/30/09	06/30/08
Cash and Cash Equivalents	3,228	3,703
Accounts Receivable	18,467	20,852
Inventories	19,299	21,458
Total Current Assets	41,955	47,134
Long Term Receivable	1,919	-
Total Assets	48,632	51,540
Accounts Payable	4,276	6,623
Bank Debt (due June 30, 2010)	12,122	-
Total Current Liabilities	22,529	11,253
Long-Term Debt	-	14,992
Other Non Current Liabilities	1,995	551
Total Liabilities	24,524	26,796
Total Stockholder Equity	24,108	24,744

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

In the table above, you'll notice that the Company's current line of credit with Wachovia Bank has been reclassified from a long-term debt to a current liability because the due date is now in less than 1 year. Funds borrowed under the loan agreement are used for working capital, general operating expenses, share repurchases and certain other purposes. The Company's bank debt less cash on June 30, 2009 was \$8.9 million compared to \$11.3 million on June 30, 2008.

In June 2008, Acme negotiated a number of modifications to its revolving loan agreement with Wachovia. The amendments included an increase in the maximum borrowing amount to \$20 million, an extension of the maturity date to June 30, 2010 and a decrease in the interest rate to 1 month LIBOR plus 7/8%. At today's 1 month LIBOR rate, Acme pays less than 1.5% interest. Management indicated that they will be working on a new line of credit during the next several months. The terms of the

new agreement may not be as favorable as the current one.

Acme has accrued and expects to pay \$1.8 million for remediation costs related to the sale of the Company's former production facility in Bridgeport, CT (see Other non current liabilities). Through June 30, 2009, the Company had paid approximately \$200,000 for legal and pre-remediation costs related to the Bridgeport property. The Company plans to begin the remediation work on the property in the second half of 2009 and expects to pay approximately \$1.2 million over the next twelve months. The Company will use cash flow from operations or borrowings under its loan agreement to pay for these costs. In addition, the buyer of the property has financed the purchase by providing the Company with a \$2.0 million mortgage at 6 percent interest. Payments on the mortgage are due monthly and will also help fund the remediation (see Long term receivable).

Recent Developments

The Camillus Re-Launch

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

In May 2009 Acme re-launched Camillus at the National Hardware Show in Las Vegas. According to Mr. Johnsen, the response by customers has been strong and they're actually selling more knives than originally planned.



The Camillus knives have an outstanding design and the blades are made out of high performance titanium carbonitrite

We're convinced it was a good decision by Acme to bring the Camillus Cutlery brand back to life and we're looking forward to the first revenues being reported.

SpeedPak Update

In our previous report we mentioned that the Company started shipping its SpeedPak Utility Knife to Home Depot. Now, three months later, the major do-it-yourself chain is selling the knife nationally.

What's noteworthy is that distribution of the SpeedPak is increasing and where it's distributed, it's selling quite well. Currently, Acme is shipping around \$50,000 worth of SpeedPak's per month.

The utility knife will also be in several industrial and hardware catalogues next year, so we expect revenues will continue to increase.

Share Buyback Program

Since 2005, Acme United's board of directors has authorized to buy back 450,000 shares of common stock. During the 12 month period ended June 30, 2009, Acme purchased 208,065 shares. Usually, the Company purchased them if there was some excessive selling and when the shares were attractively valued.

As of June 30, 2009, there were 124,335 shares that may be purchased.

We believe the share buyback programs along with the quarterly dividends are indications that the Company's management is committed to build long term shareholder value.

Products In The Pipeline

Non-Stick Technology

Recently a family of non-stick scissors was introduced. A non-stick coating allows 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. Sticky materials will not adhere to the scissors' blades. Currently, three non-stick items are being sold throughout North America at Staples and are doing well.

In the coming months, the non-stick technology, which is developed internally by Acme, will be applied to other items for the school, crafts, kitchen, garden and industrial markets. Results will show in 2010.



The new non-stick scissors work like a charm even in the most difficult environments

PhysiciansCare

A new product, where Acme's passion for innovation stands out again, is the Flu Protection Kit. This kit contains an N95 face mask, a hand sanitizer, antiseptic towelettes and gloves, basically all the essential items to help prevent the spread of germs.

Even though the fear of swine flu has diminished the last couple of weeks, the World Health Organization's pandemic alert is still at the highest level and doctors and governments around the world warn that the worst is yet to come later this year. If the disease really escalates, people will want to protect themselves to reduce the risk of being infected.

“Acme United is becoming the quality and cost leader in the categories where it competes, thanks to its strong focus on product innovation and customer service.”

The Company is currently offering the Flu Protection Kit to potential customers and management has indicated there's high interest for it. The kit will be ready for shipping in September.

We think it's a very good idea by Acme to introduce a product that contains all the necessary items to protect yourself as good as possible from an infection.

In addition to the Flu Protection Kit, PhysiciansCare will also start shipping 24 new items to a major office superstore chain. Mr. Johnsen expects these items

to positively contribute to the Company's fourth quarter results and beyond.



Innovation is what really separates Acme United from its competitors. The Flu Protection Kit is an excellent example

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.

Outlook & Valuation

During the first half of 2009, Acme continued to experience the effects of the ongoing global recession. In response to these circumstances, the Company's management has cut expenses where possible, including incentive pay, travel, professional service fees and other discretionary spending. The Company has also implemented a freeze on salary increases and hiring employees. All these cost cutting measures are expected to reduce FY 2009 costs by \$1 million. With only 3.32 million shares outstanding, a cost reduction of \$1 million increases earnings per share with approximately 20 cents after tax.

Despite the economic downturn and the cost savings plan, the Company continues to invest in product development. As a result, they're bringing a large number of new, innovative items to the market in the coming quarters. A whole line of non-stick products is being developed, we also expect a nice contribution to revenues from the Flu Protection Kit and the 24 new PhysiciansCare items that are ready to be shipped. Additionally, the recently re-launched Camillus is selling more knives than originally planned and the SpeedPak is also selling well and gaining distribution.

On a short term basis, we also might see a positive impact from customers that substantially reduced their inventories during the fourth quarter of 2008 and the first quarter of 2009. It appears that their inventory levels are now so low that any increase in demand will result in immediate orders for Acme, which foresaw adequate stock to fulfil the orders coming in.

Management recently indicated they are starting to see a stabilization in revenues. If this trend continues in the next two quarters, Acme could begin to achieve a sales recovery in FY 2010. By our estimates, FY 2009 revenue will drop approximately 15% to \$58.12 million compared with \$68.72 million in FY 2008. Additionally, we project modest revenue growth with 4.5% in FY 2010 to \$60.76 million. We believe the sales decline will be reversed in FY 2010 partly because the economy will start to recover from the current recession and partly because Acme will continue to introduce valuable and innovative products.

Amounts in \$000's	2008A	2009E	2010E
Total Revenue	68,719	58,116	60,762
Net Income	4,467	2,293	2,999

Annual sales and earnings FY 2008 – 2010E. Source: Company Filings and Smallcaps.us estimates

For FY 2009, we project profits to decline 45% to \$2.29 million, or \$0.67 per share, vs. FY 2008 earnings of \$4.47 million or \$1.24 per share. It should be noted that during the fourth quarter of FY 2008 the Company recognized a gain of approximately \$164,000 after tax from the sale of its Bridgeport facility. In FY 2010 we estimate profits to climb with 31% to \$2.99 million or 88 cents per share. Although a impressive climb, this is still short of levels seen in the FY2006-08 period. The improvement in earnings per share, will both be the results of the recovery of the economy and the introduction of new products.

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 13.45x, up from 12.95x in our previous report.

Valuation

Acme United is fundamentally very sound. Even in these troubled times, the Company's balance sheet and results remain solid. The current share price of ACU's common stock is \$8.94, leaving it attractively priced with a trailing P/E of 8.99 and a 13.97% Return On Equity.

Using the \$0.88 EPS projection for FY 2010 and applying the 13.45x P/E multiple for the peer group, we reach the following calculation: \$0.88 estimated EPS multiplied by 13.45 = \$11.83.

Although Acme's shares have already gone up more than 20% since our initial report, we're convinced there's plenty of room for further appreciation. Based on this report, we reiterate our Buy recommendation and adjust our 12-month price target slightly upwards from \$11.64 to \$11.83, which is 32% 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 January 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.

Annual Income Statement FY 2006 – 6M 2009

All numbers in thousands

PERIOD ENDING	FY 2006	FY 2007	FY 2008	6M 2009
Total Revenue	56,863	63,173	68,719	30,458
Cost of Revenue	32,280	36,680	41,062	19,056
Gross Profit	24,583	26,493	27,657	11,402
Operating Expenses				
Research Development	-	-	-	-
Selling General and Administrative	17,870	19,741	20,778	9,302
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	17,870	19,741	20,778	9,302
Operating Income or Loss	6,713	6,752	6,879	2,100
Income from Continuing Operations				
Total Other Income/Expenses Net	252	206	193	85
Earnings Before Interest And Taxes	6,965	6,958	7,072	2,185
Interest Expense	616	655	396	86
Income Before Tax	6,349	6,303	6,676	2,099
Income Tax Expense	2,463	2,280	2,209	716
Minority Interest	-	-	-	-
Net Income From Continuing Ops	3,886	4,022	4,467	1,383
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	3,886	4,022	4,467	1,383
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$3,886	\$4,022	\$4,467	\$1,383

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



Acme United Corporation

NYSE Amex: ACU

Company Headquarters

60 Round Hill Road
Fairfield, CT 06824
United States

Phone: +1 203-254-6060

Fax: +1 203-254-6019

Company Contact

Paul G. Driscoll, Chief Financial Officer

This Company Report is prepared and distributed by Smallcaps.us
editor@smallcaps.us

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