



## 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 – November 23, 2009*



### Investment Highlights

Early October 2009, Acme United announced that its Board of Directors approved a new stock repurchase program of up to 200,000 common shares. The Company purchased about 101,000 shares at \$8.65 a few days before this report was published; we view this as a very good value to shareholders. During the past 12 months the Company repurchased over 350,000 shares of its common stock and paid well over \$650,000 dividends to its shareholders.

✓ One of the growth drivers for the near and long term future is the Company's proprietary non-stick technology. With a non-stick coating, blades can be used in difficult environments like the floral area or arts and crafts area. A family of non-stick scissors and a non-stick titanium pencil sharpener has been brought to the market. In the coming months, the non-stick technology will be applied to other items for the school, crafts, kitchen, garden and industrial markets and will be introduced at a wide variety of retailers. Results will show in 2010.

✓ The famous Camillus knife brand, which was re-launched by Acme in May 2009, will soon hit the market. The Camillus knives have been accepted in two major DIY chains for 2010, in one of the largest retailers and at a number of leading industrial distributors. Additionally, the Company is showing the Camillus line to hardware distributors like Lowe's and ACE Hardware, and retailers like Wal-Mart and Target. This is just the beginning of what the Company thinks will be another exciting growth prospect.

✓ Acme United's balance sheet is robust as it has more than \$6.5 million in the bank, a good current ratio, excluding bank debt, of almost 4.7 and a book value of \$7.85 per share. At its current stock price, Acme is trading at a Price/Book of only 1.20.

✓ Based on the financial information in this report and the positive outlook for the Company's new product introductions we reiterate our buy recommendation and adjust our 12-month price target slightly upwards from \$11.83 to \$11.97, which is 26% above today's stock price.

Symbol:	ACU
Industry:	Office Supplies
Market:	NYSE Alternext U.S.
Recent Price:	\$9.45
52-Week Price Range:	\$5.33 - \$14.87
Market Cap:	approx. \$29.84 million
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## 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 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.

## Brands

Acme United's products are organized under three global brands: Westcott, PhysiciansCare and Clauss, 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.



**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.



**The iPoint Curve offers an auto stop feature so the sharpener automatically shuts off power when your pencil reaches the perfect point.**

More recently a family of non-stick scissors was introduced. With the non-stick layer, materials like glue and paste will not adhere to the titanium blades, making the scissors perfectly suited to be used in difficult environments like the arts and crafts area.

**PhysiciansCare** offers a wide assortment of first aid kits, over-the-counter medicines, emergency and disaster kits and kit refills. These 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.

A new product under the PhysiciansCare name is the Flu Protection Kit. It contains an N95 face mask, a hand sanitizer, cleaning wipes, facial tissues and gloves, basically all the essential items to help prevent the spread of germs. With the flu season unfolding, people will want to protect themselves to reduce the risk of being infected. The kit is currently nationwide available at Office Depot.



**Thanks to its wide variety, PhysiciansCare has become one of the leading suppliers of first-aid kits, which are mainly sold in office superstores.**

In addition, PhysiciansCare is shipping 24 new items, like generic medication, face masks and first aid kits, to a major office superstore chain. These items are expected to positively contribute to the Company's fourth quarter results and beyond.

**Clauss** was founded in 1877 and 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.

## Financials

### Third Quarter And Nine Months 2009 Results

The business environment remained difficult in the third quarter, primarily in the US. Large employers continued to lay off people, resulting in weak office products sales. Gross margins also suffered because there's been a focus on lower cost products at the expense of higher performing units. Acme's management expects these trade downs to stabilize in the coming quarters.

For the third quarter ended September 30, 2009, net sales were \$15.3 million compared to \$19.2 million in the comparable period of 2008, a decrease of 20%. Contributing to the decline was an unexpected order of approximately \$1.2 million from a major retailer in the third quarter 2008, which did not reoccur this year.

Net income was \$728,000, or \$.22 per diluted share, for the quarter ended September 30, 2009 compared to \$1,351,000 or \$.37 per diluted share for the comparable period last year, a decrease of 46% in net income and 41% in diluted earnings per share. Earnings included a pre-tax income of \$458,000 due to completion below estimated costs of a major portion of the remediation of the Bridgeport property which was sold in December 2008.

Amounts in \$000's	09/30/09	09/30/08
Net Sales	15,269	19,158
Cost of Goods Sold	9,771	11,288
S, G & A Expenses	4,864	5,651
<b>Income From Operations</b>	<b>634</b>	<b>2,219</b>
Other Income (Expense)	461	(138)
Pre-Tax Income	1,088	1,961
Income Tax Expense	360	610
<b>Net Income</b>	<b>728</b>	<b>1,351</b>
Shares Outstanding - Diluted	3,353	3,650
Earnings Per Share	0.22	0.37

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

Net sales for the nine months ended September 30, 2009 were \$45.7 million, compared to \$56.1 million in the same period in 2008, a decrease of 19%. Net income for the nine months ended September 30, 2009 was \$2,111,000, or \$.63 per diluted share

compared to \$3,833,000, or \$1.05 per diluted share in the comparable period last year, a 45% decrease in net income and 40% in diluted earnings per share. The lower net income is primarily the result of reduced sales, partially offset by savings from Acme's cost savings plan.

In the U.S. segment, net sales for the three and nine months ended September 30, 2009 decreased 26% and 22% percent respectively compared to the same periods in 2008. Net sales in Canada for the three and nine months ended September 30, 2009 decreased by 7% and 14%, respectively, in U.S. dollars but declined 2% for both periods respectively, in local currency compared to the same periods in 2008. European net sales for the three and nine months ended September 30, 2009 increased 10% and 1% respectively, in U.S. dollars compared to the same periods in 2008 and increased 16% and 12% respectively, in local currency. It's positive to note that the European operations grew in all areas. The European back to school promotions were very successful and sales in the office channel and manicure business were up.

Walter C. Johnsen, Chairman and CEO commented, "We have been aggressively seeking new sales opportunities, continuing to reduce expenses, and improving our balance sheet. We are seeing commitments from our customers for new products and programs for the coming year, and are encouraged."

Mr. Johnsen added that during the past 12 months, the Company repurchased about 11% of its outstanding stock, increased its dividend and reduced net debt by approximately 60%. He noted that the Company is very well positioned for future growth opportunities.

**Although revenues and earnings came in slightly under our projections, we feel Acme United's stock was punished way to much after the numbers were released. The Company remains profitable, its balance sheet continues to be an example for many other companies and management constantly tries to increase sales and reduce costs.**

## Balance Sheet As Of September 30, 2009

Acme United's balance sheet is robust as it has more than \$6.5 million in the bank, a good current ratio, excluding bank debt (see below), of almost 4.7 and a book value of \$7.85 per share. At its current

stock price, Acme is trading at a Price/Book of only 1.20.

Thanks to a new inventory management system, which was installed early 2009, the Company was able to decreased its inventory by almost \$2.4 million compared to September 30, 2008. Despite this reduction, ACU maintained exceptional on time delivery metrics.

Amounts in \$000's	09/30/09	09/30/08
Cash and Cash Equivalents	6,599	5,485
Accounts Receivable	11,846	16,045
Inventories	17,850	20,240
<b>Total Current Assets</b>	<b>37,502</b>	<b>42,721</b>
Long Term Receivable	1,905	-
<b>Total Assets</b>	<b>44,071</b>	<b>47,099</b>
Accounts Payable	3,305	3,734
Bank Debt (due June 30, 2010)	9,324	-
<b>Total Current Liabilities</b>	<b>17,308</b>	<b>8,161</b>
Long-Term Debt	-	12,994
Other Non Current Liabilities	1,990	542
<b>Total Liabilities</b>	<b>19,299</b>	<b>21,697</b>
Total Stockholder Equity	24,772	25,402

**Most important balance sheet data for the period ending September 30, 2009 versus September 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 September 30, 2009 was \$2.8 million compared to \$7.5 million on September 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. Most likely, the

terms of the new agreement will not be as favorable as the current one.

Acme has accrued and expects to pay \$1.3 million for remediation costs related to the sale of the Company's former production facility in Bridgeport, CT. Through September 30, 2009, the Company had paid approximately \$350,000 for legal, pre-remediation and remediation costs related to the Bridgeport property and expects to pay an additional \$540,000 over the next twelve months. Remediation work on the property commenced in the third quarter of 2009. 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).

## Growth Drivers

In FY 2009, the Company's sales will decline for the first time in many years due to a general decline in demand and due to inventory reductions with its customers. So it's safe to assume that revenues and earnings will increase again once the economy turns around.

However, it's not good enough to see the numbers return to pre-2009 levels, they have to be better. The Company believes the necessary growth can be achieved in a number of ways.

## Camillus

For more than a hundred years, Camillus Cutlery was a synonym for the finest knives available. In 2007, Camillus filed for bankruptcy and had to close its doors due to fierce overseas competition. A few months later, 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 with a whole set of new products. For instance, some knives have a titanium carbonitride coating, making the blades more than 10 times harder than stainless steel.

The Camillus knives have been accepted in two major DIY chains for 2010, in one of the largest retailers and at a number of leading industrial distributors. Additionally, the Company is showing

the Camillus line to hardware distributors like Lowe's and ACE Hardware, and retailers like Wal-Mart and Target. This is just the beginning of what the Company thinks will be an exciting growth prospect.



**Camillus has an outstanding reputation and will be available soon in two major DIY chains and in a number of retailers**

**Prior to acquiring Camillus, it was an \$18 million business. Although it will take some time to reach that level again, we're convinced Camillus is still a very strong brand name with an outstanding reputation.**

## Non-Stick Technology

The non-stick technology is something Acme worked very hard on the past 2-1/2 years both in research labs at two leading universities and in its operations in Germany and China. The Company secured the necessary patents and is convinced that the non-stick coating technology has a wide range of applications across many different materials and products.



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

First, a family of non-stick scissors was introduced. The 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. With a non-stick coating, 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.

Next, a non-stick titanium pencil sharpener was brought to the market. The idea of a non-stick sharpener may seem silly at first, but it isn't, because composite and colored pencils jam pencil sharpeners or kids put crayons in them.

In the coming months, the non-stick technology will be applied to other items for the school, crafts, kitchen, garden and industrial markets and will be introduced at a wide variety of retailers. Results will show in 2010.

## Major Retailers

Not only will Acme increase its number of products and diversify its product line, it will also concentrate on increasing its number of distribution channels. There's a lot of revenue potential with big customers, but entering them is very difficult.

At Wal-Mart, for instance, the Company may try to sell scissors in its office channel and later in the school and kitchen area. After that, other products can be offered as well.

Also entering the industrial and hardware channels like Home Depot, Grainger, McMaster-Carr, Lowe's, Fred Meyer give ACU a significant upside potential that may be as big as the Company's current size.

## Recent Developments

### New Share Buyback Program

Early October 2009, Acme announced that its Board of Directors approved a new stock repurchase program of up to 200,000 common shares. This new program goes on top of 49,335 shares that may still be repurchased under its previous program, which was announced in December of 2008.

To get this in perspective, 249,335 shares represent almost 8% of ACU's total shares outstanding. The shares will be repurchased when the stock is soft or when a good opportunity presents itself in the market. The Company purchased about 101,000 shares at \$8.65 a few days before this report was published from a fund that had to liquidate part of its holdings.

**During the past 12 months Acme United repurchased over 350,000 shares of its common stock and paid well over \$650,000 dividends to its shareholders. The Company has the cash and**

**liquidity to do this and it's their way of rewarding loyal shareholders.**

## Outlook & Valuation

During the first nine months of 2009, Acme United continued to feel 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 3.16 million shares outstanding, a cost reduction of \$1 million increases earnings per share with approximately 21 cents after tax.

The Company's sales experienced the first effects of the economic downturn in the fourth quarter of 2008. So we could see the first stabilization of results in the fourth quarter of 2009 compared with the same period last year. By our estimates, FY 2009 revenue will drop approximately 16% to \$58.06 million compared with \$68,72 million in FY 2008. This is slightly lower than our previous estimate of \$58.12 million.

We continue to project modest revenue growth of 4.5% to \$60.70 million for FY 2010. We believe the revenue decline will be reversed in FY 2010 partly because the economy will start to recover, which will increase Acme's regular sales, and partly because of new product introductions like the non-stick items and Camillus knives.

Amounts in \$000's	2008A	2009E	2010E
<b>Total Revenue</b>	68,719	58,059	60,698
<b>Net Income</b>	4,467	2,506	2,816

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

For FY 2009, we project profits to decline 44% to \$2.51 million, or \$0.79 per share, vs. FY 2008 earnings of \$4.47 million or \$1.24 per share. This is higher compared with our previous estimate of \$2.29 million because of the unexpected below estimated costs for the remediation of the Bridgeport property, as described above.

For FY 2010 we estimate profits to climb with 12% to \$2.82 million or \$0.89 per share. Although a good increase, this is still short of levels seen in the FY 2006-08 period. We believe the improvement in

earnings per share, will be the result of customers buying more and higher margin products as the economy starts to recover.

## 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, where the average P/E ratio is 17.60. This is significantly higher compared with the 13.45 average in our previous report because earnings in the third quarter of 2009 were much lower in the entire industry compared with the same period last year.

However, because we believe the 17.60x average is of temporarily nature and exaggerated, we decided to stick to the 13.45 average in our calculations below as it better reflects the true state of the economy and the office supplies industry.

## Valuation

Acme United is fundamentally very sound as it has a strong balance sheet and good results, all things considered. At ACU's current share price of \$9.45, the stock has a trailing P/E of 10.87 and a 11.08% Return On Equity.

Using the \$0.89 EPS projection for FY 2010 and applying the 13.45x P/E multiple for the peer group, we reach the following calculation: \$0.89 estimated EPS multiplied by 13.45 = \$11.97.

**Based on the financial information in this report and the positive outlook for the Company's new product introductions we reiterate our buy recommendation and adjust our 12-month price target slightly upwards from \$11.83 to \$11.97, which is 26% above today's stock price.**

## Ownership

The principal owners of the company's common stock are Walter Johnsen (15.59%), North Star Investment Management Corporation (6.52%), Greenwood Investments (2.92%), Dimensional Fund Advisors, LP (3.45%), Renaissance Technologies Corp. (2.09%) and Brian Olschan (1.26%).

## 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 – 9M 2009

All numbers in thousands

PERIOD ENDING	FY 2006	FY 2007	FY 2008	6M 2009
<b>Total Revenue</b>	<b>56,863</b>	<b>63,173</b>	<b>68,719</b>	<b>45,727</b>
Cost of Revenue	32,280	36,680	41,062	28,827
<b>Gross Profit</b>	<b>24,583</b>	<b>26,493</b>	<b>27,657</b>	<b>16,900</b>
<b>Operating Expenses</b>				
Research Development	-	-	-	-
Selling General and Administrative	17,870	19,741	20,778	14,166
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	17,870	19,741	20,778	14,166
<b>Operating Income or Loss</b>	<b>6,713</b>	<b>6,752</b>	<b>6,879</b>	<b>2,734</b>
<b>Income from Continuing Operations</b>				
Total Other Income/Expenses Net	252	206	193	480
Earnings Before Interest And Taxes	6,965	6,958	7,072	3,214
Interest Expense	616	655	396	27
Income Before Tax	6,349	6,303	6,676	3,187
Income Tax Expense	2,463	2,280	2,209	1,076
Minority Interest	-	-	-	-
Net Income From Continuing Ops	3,886	4,022	4,467	2,111
<b>Non-recurring Events</b>				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
<b>Net Income</b>	<b>3,886</b>	<b>4,022</b>	<b>4,467</b>	<b>2,111</b>
Preferred Stock And Other Adjustments	-	-	-	-
<b>Net Income Applicable To Common Shares</b>	<b>\$3,886</b>	<b>\$4,022</b>	<b>\$4,467</b>	<b>\$2,111</b>

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



# Acme United Corporation

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