



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 four global brands: Westcott, Clauss, Camillus and PhysiciansCare, all of which serve a growing customer base that includes the world's premier retailers and merchandisers.

Update Report – August 27, 2011



Investment Highlights

✓ Net sales for Acme United's second quarter were \$24.0 million, compared to \$20.6 million in the comparable period of 2010, or an increase of 17%. Net income, for the second quarter ended June 30, 2011, was \$1,743,000, or \$.56 per diluted share compared to \$1,567,000 or \$.48 per diluted share for the comparable period last year, an increase of 11% in net income and 17% in diluted earnings per share.

✓ In August of 2011, Acme's Board of Directors increased the Company's quarterly dividend with 1 cent to 7 cents per share. At today's share price, that's an annual yield of almost 3%, which is substantially higher than the interest rate you earn on a regular savings account or a 10-year bond. This is an excellent way to show confidence in the business and the market.

✓ In Europe, increased mass market promotional sales, along with new business in the manicure and office channel, are expected later this year. These sales, along with the deep cost reductions announced earlier this year, will make the European segment profitable during the remainder of 2011.

✓ Acme intensifies its focus on the Asia Pacific region for both sales and manufacturing. It hired YB Pek as Vice President and General Manager for Asia Pacific. He will help Acme to get products developed faster with higher quality and to get to the market faster with better prices. Dennis Liang was promoted to Vice President of Sales for the region and he will direct resources and his full time attention to increasing Acme's revenues in Asia. It's a smart move to increase sales efforts in the Asia Pacific region as many people there, for the first time, have enough money to spend on Acme's products thanks to the sustained economic growth.

✓ Our overall guidance for fiscal year 2011 remains at \$70 to \$75 million in sales and \$1.00 to \$1.05 earnings per share with potential upward revision in the following report thanks to increased business and possible higher gross margins than first anticipated. Based on our calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$12.98, which is about 30% above today's stock price.

Symbol:	ACU
Industry:	Office Supplies
Market:	NYSE Amex
Recent Price:	\$10.10
52-Week Price Range:	\$6.53 - \$13.04
Market Cap:	approx. \$31.33 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 for the school, home, office, hardware & industrial markets. Principal products are scissors, shears, rulers, pencil sharpeners, first aid kits and related products. These goods are primarily sold 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 Asian operations consist of sourcing, quality control and sales.

Product innovation and attention to customer needs is what really separates Acme from its competitors and what makes it grow and prosper. The Company works with new, often proprietary, materials and adds new user-friendly features to existing tools. Acme has an on-going goal of generating 30% of its sales from products developed in the last 3 years.

The Company's customers include Staples, Office Depot, Office Max, United Stationers, SP Richards, W.B. Mason, Home Depot, Target, Wal-Mart, Walgreen, School Specialty, Grainger, McMaster Carr, Meijer, Fred Meyer, Zellers, Schlecker, WH Smith, and many other major chains.

Brands

Acme United's products are organized under five global brands: Westcott, Clauss, Camillus, PhysiciansCare and Pac-Kit, which was recently acquired. All these brands serve a growing customer base that includes the world's premier retailers and merchandisers.

The number of products under the five brands continues to expand, providing customers with ever better solutions to their cutting, measuring and safety needs.

Westcott began as a ruler company almost 140 years ago. Today, Westcott sells between 60 and 80 million scissors, and 15 and 18 million rulers annually, making them the leading scissors brand in

the USA and one of the leading ruler brands in North America.

Acme United excels because it constantly re-invents everyday products like scissors, knives and school and office items. The Company applies new materials like titanium carbonitride coatings, making the knives and scissors blades more than 10 times harder than stainless steel. It adds a non-stick coating to scissors, making them useful 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. It also opens up new markets by adding Microban, an ingredient that inhibits the growth of bacteria, to school and office products.



Next to scissors and rulers, Westcott is also known for the iPoint electric pencil sharpener. With its trendy design* and ease of use, the iPoint has become a phenomenal success and is in fact Acme United's single best selling product at this moment. In fiscal year 2010, iPoint's revenues reached about \$10 million.

* Both the original iPoint and its successor the iPoint Evolution won a GOOD DESIGN Award from the Chicago Athenaeum, Museum of Architecture and Design. This is one of the oldest and most prestigious design competitions worldwide. Each year, the Museum receives hundreds of submissions from the biggest and most famous brands like Apple, Hewlett Packard, BMW, Porsche, Microsoft, etc.

PhysiciansCare offers a wide assortment of first aid kits, emergency and disaster kits, kit refills, hearing, eye, and head protection, and ergonomic supports and braces. PhysiciansCare also carries a successful branded line of over-the-counter medications, including the active ingredients aspirin, acetaminophen and Ibuprofen, etc. These products are sold at Staples, Office Depot, United Stationers, Office Max, Corporate Express and many more.

Acme United owns and operates a U.S. Food and Drug Administration (FDA) facility through which these products are distributed.

Clauss has its roots dating back to 1877 as a scissors, razors and kitchen knives manufacturer. Nowadays, Clauss offers a substantial line of quality cutting tools for professionals in the hardware & industrial, lawn & garden, food processing, sewing and housewares channels.

An important product for Clauss is its SpeedPak Utility Knife, a lightweight, ergonomic and innovative alternative for a regular utility knife. The SpeedPak features an interchangeable color coded cartridge system that allows the user to switch between four different blade styles: utility, dubbed, serrated and hook. Each cartridge contains 10 replaceable titanium bonded blades, making them three times stronger than steel. And when a blade is dull, you simply push the button on the side of the SpeedPak, pull the blade out, retract the top button, and it automatically reloads another blade.



The interchangeable color coded cartridges allow users to easily switch between a utility, dubbed, serrated and hook blade. Each cartridge contains 10 replaceable titanium bonded blades.

SpeedPak continues to gain traction, both in Europe and the U.S. SpeedPak recently received an excellent 9.1 member rating from Handy Magazine and it was chosen as "Tool of the month" in a large hardware chain in the U.S. The SpeedPak is available through major industrial catalogues and at retailers like Lowe's and Home Depot.

Clauss' latest products are two lines of gardening tools. The Enviro-Line is a new line of lawn & garden products like pruners, snips, floral knives, spring assisted scissors, etc. The blades are titanium bonded and the packaging and handles of the tools are made from recycled materials.

The new AirShoc line of professional lawn & garden tools includes loppers, hedge shears, branch saws and grass and garden shears as well as their respective replacement blades. The Titanium-Bonded Non-Stick blades prevent saps and adhesives from sticking to the blades. The tools also feature Microban antibacterial treated blades and

grips to protect the user as well as the plants themselves. The AirShoc grips are engineered to reduce the impact and fatigue of cutting through branches, etc. Like the Enviro-Line, the AirShoc packaging is also environmentally sustainable.

Similar as with the iPoint pencil sharpener, Acme's designers went the extra mile for the garden tools. A couple of months ago, the entire AirShoc line won a prestigious IDEA award** in the 'Home Living' category.

** The Industrial Designers Society of America (IDSA) is the world's oldest, and largest, member-driven organisation for product design. The Society has an international presence with local chapters in 27 different locations and annually organizes its renowned International Design Excellence Award (IDEA) competition. Every year contestants from all over the world and from almost every industry compete to win an IDEA award.

The Clauss gardening tools have now been in stores for approximately 5 months and have received excellent responses from their customers. Also see growth drivers on page 6.

Camillus is one of the oldest knife manufacturers in the United States. Since its inception in 1876, it has been a synonym for the finest knives available. In 2007, Acme purchased the Camillus brand name and intellectual property rights and re-launched the brand at the 2009 National Hardware Show in Las Vegas.



A 9.75" fixed blade knife with a 2-tone bamboo handle. The AUS-8 Japanese Steel / Carbonitride Titanium blade is up to 10x harder than untreated steel.

The new knives immediately had an eye-catching design and were made out of the finest materials, like bamboo handles or blades with titanium carbonitride coatings.

Since then a host of additional knives have been brought to the market, including a line featuring VG10 steel blades. And at the 2011 Shot Show, Camillus re-introduced the Yello-Jaket and Lev-R-Lok. These knives were also manufactured by the old Camillus and are still very popular amongst knife

collectors and enthusiasts (just do a search on Google or ebay).

The Camillus knives are for sale at major DIY chains, large retailers and at a number of leading industrial distributors. The knives will be carried at about 150 additional stores as of this year.

Pac-Kit sells first aid kits, industrial stations and refills, emergency medical travel and recreational kits for the industrial, safety, transportation and marine markets. These products are somewhat similar to PhysiciansCare's.

Also this brand has a long and vivid history dating back to the 19th century. Its early first aid kits were chosen by global explorers like Captain Robert Scott, Admiral Peary and Theodore Roosevelt on their expeditions.

Acme United acquired Pac-Kit in February of 2011 and paid \$3.4 million for its accounts receivable, inventory, equipment, brands, historical records and photographs. Pac-Kit produces its products in a 40,000 square foot FDA facility in Norwalk, CT and employs 33 people. Also see growth drivers on page 5 and 6.

Financials

Second Quarter And Six Months 2011 Results

Net sales for Acme United's second quarter were \$24.0 million, compared to \$20.6 million in the comparable period of 2010, or an increase of 17%. For the first half of 2011, sales were \$38.4 million, compared to \$33.7 million in the same period in 2010, an increase of 14%.

In the U.S., net sales rose by 22% in the second quarter compared to the same period in 2010 mainly as a result of strong iPoint Pencil Sharpener sales and Pac-Kit, which contributed about \$1.8 million. In Canada, sales increased by 15% in the second quarter compared with last year, thanks to growth in office products sales, increased distribution channels and a good reception of the AirShoc garden products. In Europe, sales decreased by about 20% compared with last year because mass market promotional sales that occurred in the second quarter in 2010 are now expected in the third quarter of 2011.

Also in Europe, new business in the manicure and office channel is expected later this year. All of these sales, along with the deep cost reductions announced earlier this year, will make Europe profitable during the remainder of 2011 according to Acme's management.

Net income, for the second quarter ended June 30, 2011, was \$1,743,000, or \$.56 per diluted share compared to \$1,567,000 or \$.48 per diluted share for the comparable period last year, an increase of 11% in net income and 17% in diluted earnings per share. The higher diluted earnings per share can partly be attributed to Acme purchasing 94,622 shares of its common stock for treasury during the past 12 months.

Amounts in \$000's	06/30/11	06/30/10
Net Sales	24,029	20,585
Cost of Goods Sold	15,346	13,034
S, G & A Expenses	6,223	5,605
Income From Operations	2,460	1,946
Pre-Tax Income	2,383	1,884
Income Tax Expense	640	317
Net Income	1,743	1,567
Diluted Shares Outstanding	3,117	3,289
Diluted Earnings Per Share	0.56	0.48
Most important income statement data for the quarters ending June 30, 2011 and June 30, 2010. Source: Company Filings		

Note that the tax rate in 2011 was 27%, compared to 17% in 2010. This is due to approximately \$180,000 tax benefits associated with the Company's donation of land to the City of Bridgeport, CT in the fourth quarter of 2009.

Gross margins slightly decreased to 36.1% in the second quarter of 2011, compared with 36.7% in the comparable period last year. This was mainly caused by the fact that Pac-Kit's margins are lower than most of Acme's other products.

Back to school sales were strong, Pac-Kit, which was recently acquired, is already contributing nicely and new product sales are doing well.

Projections for 2011 remain strong and the Company expects the European segment to be profitable in the second half of this year.

Balance Sheet As Of June 30, 2011

Acme United's balance sheet remained relatively stable compared with June 30, 2010.

Accounts receivable increased by approximately \$3.07 million at June 30, 2011 compared to June 30, 2010 primarily as a result of increased sales in the second quarter of 2011 compared with the same period last year. The average number of days sales outstanding in accounts receivable was 65 days at June 30, 2011 compared to 61 days at December 31, 2010.

Inventory increased by approximately \$6.60 million at June 30, 2011 compared to June 30, 2010. The increase in inventory is partly due to the acquisition of The Pac-Kit Company inventory. Secondly, late last year the Company decided to substantially increase its inventory levels compared with previous years to set off unexpected labour shortages and production constraints in the Asian factories that manufacture its products. The big advantage of doing this, is that Acme will substantially reduce its airfreight expenses (over \$600,000 in fiscal year 2010) as it will have to fly in less goods to fulfil its orders.

Amounts in \$000's	06/30/11	06/30/10
Cash and Cash Equivalents	4,234	4,250
Accounts Receivable	23,481	20,416
Inventories	23,575	17,970
Total Current Assets	52,588	43,849
Total Assets	61,064	50,269
Accounts Payable	8,210	6,177
Total Current Liabilities	13,355	10,475
Long-Term Debt	18,601	13,125
Total Liabilities	33,539	25,348
Total Stockholder Equity	27,525	24,921
Most important balance sheet data for the periods ending June 30, 2011 and June 30, 2010. Source: Company Filings		

The Company's credit facility increased by \$5.48 million at June 30, 2011 compared with the same date last year. The increase is related to the Pac-Kit acquisition for \$3.4 million and the above mentioned higher inventory levels. As of June 30, 2011, \$18,601,000 was outstanding and \$1,399,000 was

available for borrowing under the Company's credit facility***.

*** Late February 2011, Acme modified its revolving loan agreement with Wells Fargo Bank. The amendments include an increase in the maximum borrowing amount from \$18 million to \$20 million and an extension of the maturity date of the loan from February 1, 2012 to March 31, 2013. The interest rate remains at LIBOR plus 2%, which is about 2.21% today. The funds borrowed under the credit facility may be used for growth, share repurchases, dividends, acquisitions, and other related business activities.

As of June 30, 2011 the Company had a current ratio of 3.94, a return on equity of 9.65 and working capital of \$39.23 million.

Growth Drivers

Pac-Kit

The integration of Pac-Kit Safety Equipment Company, one of the oldest manufacturers of first aid products, is going very well. The acquisition was closed on February 28, 2011 and already the accounting and IT systems and support have been fully integrated.



Pac-Kit was acquired in February of 2011 and immediately set a record second quarter with \$1.8 million in sales.

Pac-Kit's revenues for the final 10 months of 2011 are expected to range between \$4 and \$4.5 million. However, the brand immediately set a record for the second quarter as it reached sales of about \$1.8 million. So it's safe to assume that revenues will come in higher than expected for the year.

Additionally, Acme is working on a number of new opportunities to substantially increase Pac-Kit's revenues. For example a hurricane preparedness kit or emergency kits for earthquakes and tornados. Acme is also actively introducing Pac-Kit's products into other chains where Pac-Kit, before the acquisition, didn't have a chance to be considered.

On the earnings front, Pac-Kit is anticipated to contribute \$100,000 to \$150,000 this year before operational efficiencies. In the short term, Acme's management sees cost savings with the purchase of raw materials and with its direct sourcing capability in China whereas Pac-Kit had to use more intermediaries. In the longer term, Acme may integrate its North Carolina manufacturing facility (assembly of first aid kits) into the bigger Pac-Kit manufacturing facility in Connecticut.

Clauss Garden Tools

The Enviro-Line and AirShoc line are quite unique lawn & garden tools. When I visited Acme's head office in May of this year, I was fascinated by them. When compared with the garden tools from Fiskars, Clauss' strongest competitor in this product category, they honestly are in another league.

Fine Gardening, a leading magazine for gardening enthusiasts, seems to be fond of the tools as well as they wrote in their latest issue: "We haven't been this excited about a pair of pruners in a really long time. The Clauss AirShoc Pruner feels amazing in your hands and cuts like a dream."

The AirShoc garden products are already gaining momentum in Canada as second quarter sales indicated. With a garden tools market of over \$200 million in North America alone, we're confident that these products will become a meaningful part of total Clauss revenues over the next several years.

Asia Pacific Region

Earlier this year, Acme promoted Dennis Liang to Vice President of Sales for Asia Pacific and hired YB Pek as Vice President and General Manager for the same region. Acme took this strategic decision in order to be able to intensify its focus on the Asia Pacific region for both manufacturing and sales.

On the manufacturing side, Mr. Pek, formerly General Manager of Phillips NV consumer products in Zhuhai, China, is now responsible for all operational aspects of Acme's Asian Pacific

business, including product development, manufacturing, quality control, supply chain, and finance. His expertise will help Acme to get products developed faster with higher quality and to the market faster with better prices.

On the sales side, Mr. Liang, who was previously General Manager for Acme United, will now take care of direct import sales to all Acme United's global customers. He will also direct resources and his full time attention to increasing Acme's revenues in Asia.

Thanks to the sustained economic growth in countries like Thailand, the Philippines, Indonesia and China a real middle class is created there. For the first time those people can spend money on non-vital goods and services. For example, in China car sales surged by 32 percent in 2010. That's happening across many product lines and also causes increased demand for Acme's products.

It's a smart move from Acme to increase its sales efforts in Asia at this moment because it makes perfect sense to expand your distribution at a time when your potential customer base is expanding.

Recent Developments

Quarterly Cash Dividend Increase

In August of 2011, Acme's Board of Directors increased the Company's quarterly dividend with 1 cent to 7 cents per share. At today's share price, that's an annual yield of almost 3%, which is substantially higher than the interest rate you earn on a regular savings account or a 10-year bond.

Acme United has been paying quarterly dividends for many years and has increased the amount by 1 cent every 6 to 8 quarters. This is an excellent way to show confidence in the business and the market. Additionally, it builds long term shareholder value.

Outlook & Valuation

The second quarter and first six months results show that Acme is off to a good start in 2011 with both higher revenues and earnings.

For fiscal year 2011 the Company aims to reach revenues between \$72 and \$74.5 million. Up 14% and 18% respectively compared with the \$63.15 million in sales for 2010. Organic growth (\$5 to \$7 million) and the Pac-Kit acquisition (\$4 to \$4.5

million) are expected to be strong contributors to this expansion.

The organic growth is anticipated to come from:

- Continued strong iPoint pencil sharpener and non-stick products sales;
- The Clauss brand, which saw its sales increase by 40% in 2010. The same growth rate is expected this year;
- Camillus knives that sees its sales rise month by month; and
- The recently launched garden tools that received enthusiastic first reactions from customers.

This growth should find its way to the bottom line. Taken into account that overall margins decrease to the high 20s, due to Pac-Kit, and that the tax rate increases to about 28%, we have an earnings forecast of \$3.10 million, or 1.00 dollar per share, for fiscal year 2011. This is up more than 20% compared with fiscal year 2010.

Amounts in \$000's	2009	2010	2011E
Total Revenue	59,149	63,149	72,000
Net Income	4,467	2,573	3,100
Annual sales and earnings FY 2009 – 2011E. Source: Company Filings and Smallcaps.us estimates			

Peer Comparison

Acme United competes with many other companies in each market and geographic area. For example, the major competitor in the cutting and gardening category is Fiskars Corporation, the major competitor in the measuring category is Helix International Ltd and the major competitor in the safety and first aid 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 12.98x, down from 14.53x in our previous report because of the recent market decline.

Valuation

The past few years, Acme invested a lot in new product development (e.g. the Clauss garden tools took 2.5 years to develop). Although these products are now on the market, it takes some time to grow them big enough to have an impact on total numbers. Camillus, for instance, entered the market in 2009 and is now growing every month and Clauss product sales are now growing 40% annually.

Pac-Kit has been integrated smoothly. The focus is now on growing its revenues by introducing the first aid products into Acme's existing distribution channels and into new markets. Also, in the following quarters Pac-Kit's profit margins should start to reap the benefits of the Acme/Pac-Kit combined purchase of raw materials and of Acme's direct sourcing capability in China.

Garden tools, scissors and most other products will be available in more stores. And the European activities will finally start to contribute to the bottom line thanks to increased sales and lowered costs.

Overall guidance for fiscal year 2011 remains at \$70 to \$75 million in sales and \$1.00 to \$1.05 earnings per share with potential upward revision in the following report thanks to increased business and possible higher gross margins than first anticipated.

Using the \$1.00 EPS projection for FY 2011 and applying the 12.98x P/E multiple from the peer group, we reach the following calculation: \$1.00 estimated EPS multiplied by 12.98 = \$12.98.

Based on our calculations, we reiterate our buy recommendation for Acme United Corp. with a price target of \$12.98, which is about 30% above today's stock price.

Ownership

The principal owners of the Company's common stock are Walter Johnsen (12.96%), First Wilshire Securities Management (8.74%), North Star Investment Management Corporation (6.16%), Bard Associates Inc. (5.01%) Dimensional Fund Advisors (3.23%) and Brian Olschan (1.98%).

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 2008 – 6M 2011

All numbers in thousands

PERIOD ENDING	FY 2008	FY 2009	FY 2010	6M 2011
Total Revenue	68,719	59,149	63,149	38,430
Cost of Revenue	41,062	37,075	39,784	24,439
Gross Profit	27,657	22,073	23,365	13,991
Operating Expenses				
Research Development	-	-	-	-
Selling General and Administrative	20,778	19,047	20,385	11,348
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	20,778	19,047	20,385	11,348
Operating Income or Loss	6,879	3,027	2,980	2,643
Income from Continuing Operations				
Total Other Income/Expenses Net	193	581	232	112
Earnings Before Interest And Taxes	7,072	3,608	3,212	2,755
Interest Expense	396	155	301	211
Income Before Tax	6,676	3,453	2,911	2,544
Income Tax Expense	2,209	611	338	681
Minority Interest	-	-	-	-
Net Income From Continuing Ops	4,467	2,842	2,573	1,863
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	4,467	2,842	2,573	1,863
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	\$4,467	\$2,842	\$2,573	\$1,863

Annual Income Statement FY 2008 – 6M 2011. Source: Company Filings



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