

EQUITY RESEARCH

A.T. Cross Co.
(ATX – ASE)

August 21, 2007

Rating: **OUTPERFORM**



Initiating Coverage

Price and Trading Data		EPS estimates - diluted	
Current Price	\$9.62	2006A	2007E
S&P 500	1447.12	1Q	(\$0.01) \$0.01A
52-Week Price Range	\$12.82-\$6.09	2Q	\$0.03 \$0.06A
Shares Outstanding (mil.-diluted)	15.53	3Q	\$0.02 \$0.04
Market Cap (mil.-diluted)	149.4	4Q	\$0.18 \$0.29
Avg. Daily Trading Volume	19,550		\$0.22 \$0.40
12-month Target Price	\$14.00		
2Q07 Valuation Data			
Debt to Total Equity	4.6%		
Book Value	\$4.93		
Price to Book	1.95		
Dividend	N/A		
Current Yield	N/A		

History

A.T. Cross Co., established in 1846, is America's oldest manufacturer of fine writing instruments and is headquartered in Lincoln RI. Manufacturing in the Providence RI facility was first limited to elegantly tooled gold and silver casings for wooden pencils. With more than 21 registered patents, the A. T. Cross Company soon developed and marketed many important "firsts" in the field of writing instruments. These included the propel-repel mechanical pencil, a forerunner of today's mechanical pencils, and the Stylographic pen, the precursor of the ball-point pen by more than 70 years.

The company was sold in 1916 to Walter R. Boss, who later brought his sons Ellery (in the 1920s) and W. Russell (in the 1930s) into the business. Ellery retired in 1966, and W. Russell, who later retired in 1985, was joined by his sons Bradford in 1958 and Russell in 1961. Cross entered the international marketplace in 1962 and became a public company in 1971.

David G. Whalen became President and Chief Executive Officer in 1999, Russell A. Boss is Chairman of the Board, and Bradford R. Boss is Chairman Emeritus. A. T. Cross has expanded several times to meet international demand for fine writing instruments. Cross's writing instruments are now distributed in more than 140 foreign countries with marketing subsidiaries in the U.K., Spain, France, Germany, Holland, Japan, Hong Kong, Taiwan, and Canada.

For Important Disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to page 3 of this report.

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Business Summary

In April 2003, ATX acquired Costa Del Mar Sunglasses, Inc. (“Costa Del Mar”), a designer, manufacturer, and wholesaler of high quality, high-performance polarized sunglasses. The acquisition provided A.T. Cross entry into the premium eyewear category and furthered the company’s strategy of developing a market-leading portfolio of distinctive branded personal and business accessories. Founded in Florida in 1983, privately-held Costa Del Mar has developed a superior reputation for its advanced polarized lens technology and fashionable, yet functional, frame design. The Costa Del Mar brand is currently sold at specialty sporting goods stores and eyeglass stores throughout the United States at price points in the \$109 to \$299 range. Also, in 2003 ATX announced a major restructuring including re-branding the Cross name and moving all manufacturing to China. As a result, they have significantly improved their gross margins. Earnings have also grown from \$0.03 in ’05 to their targeted \$0.37-0.40 for this year.

Key Growth Drivers

- Continue to build on the strong financial results of the previous quarters in the writing instruments and accessories.
- Further strengthen Costa Del Mar as a leading premium eyewear brand and continue to enhance its awareness to other areas of the U.S.

Management

David G. Whalen, President and Chief Executive Officer, was formerly with Ray-Ban. Chas A. MacDonald was hired as Vice President, Optical Division and President of Costa Del Mar Sunglasses, Inc., a wholly-owned subsidiary of A.T. Cross (“Costa Del Mar”) in April 2003. MacDonald is a 20-year veteran of the optical industry. Mr. MacDonald also held several management and financial positions at various divisions of Bausch & Lomb, Inc. Chad S. Mellen is Senior Vice President, Global Marketing and Sales. Before joining A.T. Cross, he was Vice President of Marketing for Tumi, Inc. Prior to Tumi, Mellen was the Director of Business Development and Director for Men’s Products and Footwear for Coach, Inc.

Our Thoughts

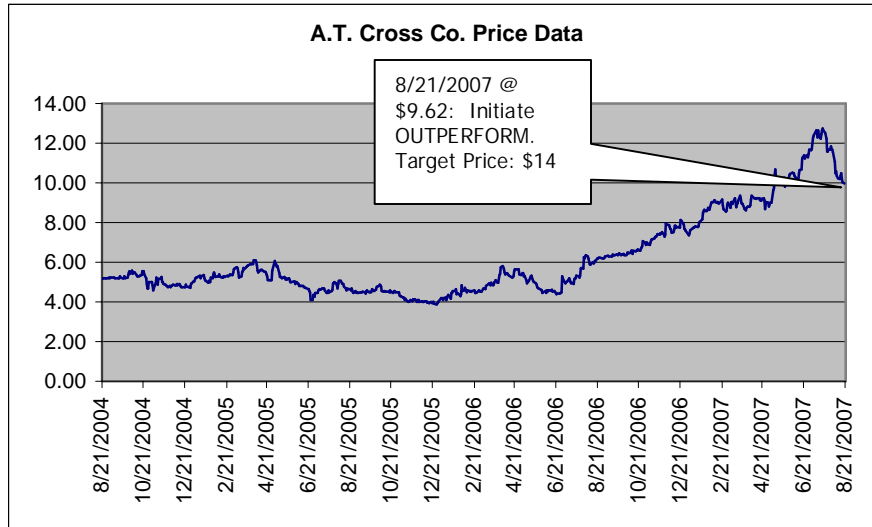
The company recently raised guidance from mid single digit growth to high single digit growth and is targeting earnings to be \$0.37-\$0.40 for the year due to Costa Del Mar’s strength in its peak season and the Cross writing segment poised for a strong Christmas. Given the solid household name, now with a growth driver, we believe that the stock could reach \$14 based on 25X 2008’s EPS estimate of \$0.55. These shares are rated OUTPERFORM.

Risks

There are no guarantees ATX will improve earnings. Risks include currency risk, small-company risk, slowdown in consumer spending, negative equity markets, terrorist attacks, rising interest rates, and corporate governance issues.

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Important Disclosures



Taylor Tompkins certifies, with respect to the companies or securities that he analyzes, that (1) the views expressed in this report accurately reflect his personal views about all of the subject companies and securities and (2) no part of his compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Price Target Methodology: Based on 25x 2008 EPS estimate. Risks include currency risk, small-company risk, slowdown in consumer spending, negative equity markets, terrorist attacks, rising interest rates, and corporate governance issues.

Stock ratings used in this report are defined as follows:

- (1) Outperform – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
- (2) Neutral – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
- (3) Underperform – The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

The distribution of investment ratings for all companies in our coverage universe are as follows: (1) 46%, (2) 53%, (3) 1%

The distribution of investment ratings used for companies whom we have performed banking services in the last 12 months are: (1) 60%, (2) 40%, (3) 0%

For regulatory purposes, our ratings of Outperform, Neutral and Underperform most closely correspond to Buy, Hold and Sell, respectively.

Other Disclosures

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