

Edgar Filing: ACME UNITED CORP - Form 10-K

ACME UNITED CORP  
Form 10-K  
March 12, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Commission file number 01-07698

ACME UNITED CORPORATION

Exact name of registrant as specified in its charter

Connecticut  
(State or other jurisdiction of  
incorporation or organization)

06-0236700  
(I.R.S. Employer  
Identification No.)

60 Round Hill Road  
Fairfield, Connecticut  
(Address of principal executive offices)

06824  
(Zip Code)

Registrant's telephone number, including area code (203) 254-6060

Securities registered pursuant to Section 12(b) of the Act:

Title of each class -----	Name of each exchange on which registered -----
\$2.50 par value Common Stock	American Stock Exchange

Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer,  
as defined in Rule 405 of the Securities Act. YES |\_| NO |X|

Indicate by check mark if the registrant is not required to file reports  
pursuant to Section 13 or Section 15(d) of the Act. YES |\_| NO |X|

Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934  
during the preceding 12 months (or for such shorter period that the registrant  
was required to file such reports) and (2) has been subject to such filing  
requirements for the past 90 days.  
YES |X| NO |\_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405  
of Regulation S-K is not contained herein, and will not be contained, to the  
best of registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-K or any amendment to this  
Form 10-K.  
YES |X| NO |\_|

# Edgar Filing: ACME UNITED CORP - Form 10-K

(1)

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. YES  NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer  Accelerated filer  Non-accelerated filer

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was \$42,102,810. Registrant had 3,503,183 shares outstanding as of February 22, 2008 of its \$2.50 par value Common Stock.

## Documents Incorporated By Reference

(1) Proxy Statement for the annual meeting scheduled for April 21, 2008 is incorporated into the Company's 2007 Annual Report on Form 10-K, Part III.

(2)

	Page
	----
Part I	
Item 1. Business	4
Item 1A. Risk Factors	5
Item 1B. Unresolved Staff Comments	8
Item 2. Properties	8
Item 3. Legal Proceedings	8
Item 4. Submission of Matters to a Vote of Security Holders	8
Part II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	9
Item 6. Selected Financial Data	11
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	16
Item 8. Financial Statements and Supplementary Data	17
Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	37
Item 9A(T). Controls and Procedures	37
Item 9B. Other Information	37

## Edgar Filing: ACME UNITED CORP - Form 10-K

### Part III

Item 10.	Directors, Executive Officers and Corporate Governance	38
Item 11.	Executive Compensation	39
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	39
Item 13.	Certain Relationships and Related Transactions, and Director Independence	39
Item 14.	Principal Accountant Fees and Services	39

### Part IV

Item 15.	Exhibits and Financial Statement Schedules	40
	Schedule II - Valuation and Qualifying Accounts	
	Signatures	43

(3)

### PART I

#### ITEM 1. BUSINESS

##### GENERAL

Acme United Corporation (together with its subsidiaries, the "Company") was organized as a partnership in 1867 and incorporated in 1882 under the laws of the State of Connecticut. The Company is a leading worldwide supplier of innovative cutting, measuring and safety products to the school, home, office and industrial markets. The Company's operations are 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. Net sales in 2007 were: United States (including Asia) - \$48.7 million, Canada - \$8.1 million, and Europe - \$6.3 million.

The Company has grouped its operations into three reportable segments based on the Company's geographical organization and structure: (1) United States (which includes its Asian operations); (2) Canada and (3) Europe. The Company competes with many companies in each market and geographic area. The major competitor in the cutting category is Fiskars Corporation. The major competitor in the measuring category is Helix International Ltd. The major competitor in the safety category is Johnson and Johnson. Refer to Note 10 of the Notes to Consolidated Financial Statements for additional segment information.

##### Business Strategy

The Company's business strategy includes the following key elements:

- o a commitment to technological innovation achieved through consumer insight, creativity and speed to market;
- o a broad selection of products in both brand and private label;
- o prompt response and same-day shipping;
- o superior customer service; and
- o value pricing.

## Edgar Filing: ACME UNITED CORP - Form 10-K

The Company markets and sells under three main brands - Westcott(TM), Clauss(TM) and PhysiciansCare(TM).

### Principal Products

Principal products within the cutting device category are scissors, shears, guillotine paper trimmers, rotary paper trimmers, rotary cutters, hobby knives and blades, utility knives, manicure products, medical cutting instruments and pencil sharpeners. Products introduced in 2006 and 2007 included proprietary titanium-bonded scissors and trimmers, mechanical-assisted scissors, a new line of Clauss(TM) hot forged scissors and high performance titanium shears, and electric and manual iPoint pencil sharpeners. Other new Clauss(TM) products sold in 2006 and 2007 included True Professional(TM) sewing shears, utility knives, chef shears, hobby knives and craft implements and the titanium-bonded spring-assisted pruner. Principal products within the measuring instrument category are rulers, math tools and tape measures. Products introduced in 2007 included Westcott(TM) branded erasers, compasses and protractors. Products introduced in 2006 included the iZone family of school tools - Twist-it(TM) rulers, erasers, tape measures, staple removers and math tools. Principal products within the safety product category are first aid kits, personal protection products and over-the-counter medication refills. In 2007, the Company, under its PhysiciansCare(TM) brand, introduced an updated EasyCare(TM) first aid kit and ReadyCare(TM) line. New PhysiciansCare(TM) products introduced in 2006 included a one-stop relief station featuring pre-packaged two-packs of analgesics, stomach remedies, cough and cold, and allergy/sinus medications. Also introduced were an innovative hand sanitizer and the soft-sided E-Z Care(TM) First Aid Kit.

### Product Distribution

Independent manufacturer representatives and direct sales are primarily used to sell the Company's line of consumer products to wholesale, contract and retail stationery distributors, office supply super stores, school supply distributors, industrial distributors, wholesale florists and mass market retailers. The Company had two customers whose purchases constituted 10% or more of total sales in 2007 and 2006 and three customers whose purchases constituted 10% or more of total sales in 2005. Sales to those major customers represented approximately 27% of total net sales in 2007, 29% of total net sales in 2006, and 41% of total net sales in 2005.

(4)

Traditionally, the Company's sales are stronger in the second and third quarters of the fiscal year due to the seasonal nature of the back-to-school business.

### OTHER

Environmental Rules and Regulations - The Company believes that it is in compliance with applicable environmental laws. The Company believes that there are no environmental matters that could have a significant financial impact. The Company believes that no major adverse financial impact is expected to result from compliance with current environmental rules and regulations.

Employment - As of December 31, 2007, the Company employed 126 people, all of whom are full time and none of whom are covered by union contracts. Employee relations are considered good and no foreseeable problems with the work force are evident.

### AVAILABLE INFORMATION

The Company files its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 with the SEC electronically. The public may read

## Edgar Filing: ACME UNITED CORP - Form 10-K

or copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is <http://www.sec.gov>.

You may obtain a free copy of the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports on the Company's website at <http://www.acmeunited.com> or by contacting the Investor Relations Department at the Company's corporate offices by calling (203) 254-6060. Such reports and other information are made available as soon as reasonably practicable after such material is filed with or furnished to the SEC.

### ITEM 1A. RISK FACTORS

THE COMPANY IS SUBJECT TO A NUMBER OF SIGNIFICANT RISKS THAT MIGHT CAUSE THE COMPANY'S ACTUAL RESULTS TO VARY MATERIALLY FROM ITS FORECASTS, TARGETS OR PROJECTIONS, INCLUDING:

- o achieving planned revenue and profit growth in each of the Company's business segments;
- o changes in customer requirements and in the volume of sales to principal customers;
- o the timing of orders and shipments;
- o emergence of new competitors or consolidation of existing competitors; and
- o industry demand fluctuations.

The Company's expectations for both short- and long-term future net revenues are based on the Company's estimates of future demand. Orders from the Company's principal customers are ultimately based on demand from end-users and end-user demand can be difficult to predict. Low end-user demand would negatively affect orders the Company receives from distributors and other principal customers which could, in turn adversely affect the Company's revenues in any fiscal period. If the Company's estimates of sales are not accurate and the Company experiences unforeseen variability in its revenues and operating results, the Company may be unable to adjust its expense levels accordingly and its profit margins could be adversely affected.

A number of the Company's products are sold through distributors and large retailers. No assurances can be given that any or all of such distributors or retailers will continue their relationships with the Company. Distributors and other significant retail customers cannot easily be replaced and the loss of revenues and the Company's inability to reduce expenses to compensate for the loss of revenues could adversely affect the Company's net revenues and profit margins.

(5)

LOSS OF A MAJOR CUSTOMER COULD RESULT IN A DECREASE IN THE COMPANY'S FUTURE SALES AND EARNINGS.

Net sales to the Company's customers exceeding 10% of consolidated net sales amounted to approximately 27%, 29% and 41% of total net revenues for the years ended December 31, 2007, 2006 and 2005, respectively. The Company anticipates

## Edgar Filing: ACME UNITED CORP - Form 10-K

that a limited number of customers may account for a substantial portion of its total net revenues for the foreseeable future. The loss of a major customer or a disruption in sales to such a customer could result in a decrease of the Company's future sales and earnings.

### RELIANCE ON FOREIGN SUPPLIERS COULD ADVERSELY AFFECT THE COMPANY'S BUSINESS.

The Company purchases the majority of its products from foreign manufacturing partners and, as a result, its business is exposed to increased risks due to:

- o Increases in transportation costs;
- o New or increased import duties;
- o Transportation delays;
- o Work stoppages;
- o Capacity constraints;
- o Poor quality; and
- o Inflation and exchange rate fluctuations that could increase the cost of foreign manufactured goods.

### THE LOSS OF KEY MANAGEMENT COULD ADVERSELY AFFECT THE COMPANY'S ABILITY TO RUN ITS BUSINESS.

The Company's success depends, to a large extent, on the continued service of its executive management team, operating officers and other key personnel. The Company must therefore continue to recruit, retain and motivate management and operating personnel sufficient to maintain its current business and support its projected growth.

The Company's inability to meet its staffing requirements in the future could adversely affect its results of operations.

### FAILURE TO PROTECT THE COMPANY'S PROPRIETARY RIGHTS OR THE COSTS OF PROTECTING THESE RIGHTS COULD ADVERSELY AFFECT ITS BUSINESS.

The Company's success depends in part on its ability to obtain patents and licenses and to preserve other intellectual property rights covering its products and processes. The Company obtained certain domestic and foreign patents, and intends to continue to seek patents on its inventions when appropriate. The process of seeking patent protection can be time consuming and expensive. There can be no assurance that pending patents related to any of the Company's products will be issued, in which case the Company may not be able to legally prevent others from producing similar and/or compatible competing products. If other companies were to sell similar and/or compatible products, the Company's results of operations could be adversely affected. Furthermore, there can be no assurance that the Company's efforts to protect its intellectual property will be successful. Any infringement of the Company's intellectual property or legal defense of such action could have a material adverse effect on the Company.

### THE COMPANY MAY NEED TO RAISE ADDITIONAL CAPITAL TO FUND ITS OPERATIONS.

The Company's management believes that, under current conditions, the Company's current cash and cash equivalents, cash generated by operations, together with the borrowing availability under its revolving loan agreement with Wachovia Bank, will be sufficient to fund planned operations for the next twelve months. However, if the Company is unable to generate sufficient cash from operations, it may be required to find additional funding sources. If adequate financing is unavailable or is unavailable on acceptable terms, the Company may be unable to maintain, develop or enhance its operations, products and services, take advantage of future opportunities or respond to competitive pressures.

### THE COMPANY MAY NOT BE ABLE TO MAINTAIN OR TO RAISE PRICES IN RESPONSE TO INFLATION AND INCREASING COSTS.

Future market and competitive pressures may prohibit the Company from raising prices to offset increased product costs, freight costs and other inflationary items. The inability to pass these costs through to the Company's customers could have a negative impact on our results of operations.

THE COMPANY IS SUBJECT TO INTENSE COMPETITION IN THE OFFICE PRODUCTS MARKETPLACE.

The Company's products are sold in highly competitive markets. The Company believes that the principal points of competition in these markets are product innovation, quality, price, merchandising, design and engineering capabilities, product development, timeliness and completeness of delivery, conformity to customer specifications and post-sale support. Competitive conditions may require the Company to match or better competitors' prices to retain business or market shares. The Company believes that its competitive position will depend on continued investment in innovation and product development, manufacturing and sourcing, quality standards, marketing and customer service and support. The Company's success will depend in part on its ability to anticipate and offer products that appeal to the changing needs and preferences of our customers in the various market categories in which it competes. The Company may not have sufficient resources to make the investments that may be necessary to anticipate those changing needs and the Company may not anticipate, identify, develop and market products successfully or otherwise be successful in maintaining its competitive position. There are no significant barriers to entry into the markets for most of the Company's products.

PRODUCT LIABILITY CLAIMS OR REGULATORY ACTIONS COULD ADVERSELY AFFECT THE COMPANY'S FINANCIAL RESULTS AND REPUTATION.

Claims for losses or injuries allegedly caused by some of the Company's products arise in the ordinary course of its business. In addition to the risk of substantial monetary judgments, product liability claims or regulatory actions could result in negative publicity that could harm the Company's reputation in the marketplace or the value of its brands. The Company also could be required to recall possible defective products, which could result in adverse publicity and significant expenses. Although the Company maintains product liability insurance coverage, potential product liability claims are subject to a deductible or could be excluded under the terms of the policy.

THE COMPANY'S BUSINESS IS SUBJECT TO RISKS ASSOCIATED WITH SEASONALITY WHICH COULD ADVERSELY AFFECT ITS CASH FLOW, FINANCIAL CONDITION, OR RESULTS OF OPERATIONS.

The Company's business, historically, has experienced higher sales volume in the second and third quarters of the calendar year, when compared to the first and fourth quarters. Two principal factors have contributed to this seasonality: the office products industry's customers and the Company's product line. The Company is a major supplier of products related to the "back-to-school" season, which occurs principally during the months of June, July, August and September. If this typical seasonal increase in sales of certain portions of the Company's product line does not materialize, the Company could experience a material adverse effect on its business, financial condition and results of operations.

TO COMPETE SUCCESSFULLY, THE COMPANY MUST DEVELOP AND COMMERCIALIZE A CONTINUING STREAM OF INNOVATIVE NEW PRODUCTS THAT CREATE CONSUMER DEMAND.

The Company's long-term success in this competitive environment depends on its ability to develop and commercialize a continuing stream of innovative new products that create and maintain consumer demand. The Company also faces the risk that its competitors will introduce innovative new products that compete with the Company's products. The Company's strategy includes increased investment in new product development and increased focus on innovation. There are, nevertheless, numerous uncertainties inherent in successfully developing and commercializing innovative new products on a continuing basis, and new product launches may not deliver expected growth results.

THE COMPANY IS SUBJECT TO ENVIRONMENTAL REGULATION AND ENVIRONMENTAL RISKS.

## Edgar Filing: ACME UNITED CORP - Form 10-K

The Company is subject to national, state, provincial and/or local environmental laws and regulations that impose limitations and prohibitions on the discharge and emission of, and establish standards for the use, disposal and management of, certain materials and waste. These environmental laws and regulations also impose liability for the costs of investigating and cleaning up sites, and certain damages resulting from present and past spills, disposals, or other releases of hazardous substances or materials. Environmental laws and regulations can be complex and may change often. Capital and operating expenses required to comply with environmental laws and regulations can be significant, and violations may result in substantial fines and penalties. In addition, environmental laws and regulations, such as the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, in the United States impose liability on several grounds for the investigation and cleanup of contaminated soil, ground water and buildings and for damages to natural resources on a wide range of properties. For example, contamination at properties formerly owned or operated by the Company, as well as at properties it will own and operate, and properties to which hazardous substances were sent by the Company, may result in liability for the Company under environmental laws and regulations. The costs of complying with environmental laws and regulations and any claims concerning noncompliance, or liability with respect to contamination in the future could have a material adverse effect on the Company's financial condition or results of operations.

(7)

### ITEM 1B. UNRESOLVED STAFF COMMENTS

The Company had no unresolved Securities and Exchange Commission staff comments as of December 31, 2007.

### ITEM 2. PROPERTIES

The Company is headquartered at 60 Round Hill Road, Fairfield, Connecticut in 7,500 square feet of leased space. The Company also leases 1,825 square feet of office space in Bentonville, Arkansas. The Company owns and leases manufacturing and warehousing facilities in the United States totaling 205,000 square feet, and leases 44,000 square feet of warehousing space in Canada. The Company also leases approximately 2,000 square feet of office space in Canada. Distribution for Europe is presently being conducted at a 35,000 square foot facility owned by the Company in Solingen, Germany. The Company also leases 2,100 square feet of office space in Hong Kong, and 1,500 square feet of office space in Guangzhou, China.

Management believes that the Company's facilities, whether leased or owned, are adequate to meet its current needs and should continue to be adequate for the foreseeable future.

### ITEM 3. LEGAL PROCEEDINGS

The Company is involved, from time to time, in disputes and other litigation in the ordinary course of business and may encounter other contingencies, which may include environmental and other matters. The Company presently believes that none of these matters, individually or in the aggregate, would be likely to have a material adverse impact on its financial position, results of operations or liquidity.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the security holders of the Company through the solicitation of proxies or otherwise during the fourth quarter of the year ended December 31, 2007.

(8)



## Edgar Filing: ACME UNITED CORP - Form 10-K

### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Common Stock is traded on the American Stock Exchange under the symbol "ACU". The following table sets forth the high and low sale prices on the American Stock Exchange for the Common Stock for the periods indicated:

Year Ended December 31, 2007	High	Low	Dividends Declared
Fourth Quarter	\$ 16.84	\$ 13.85	\$ .04
Third Quarter	15.20	13.50	.04
Second Quarter	15.18	13.85	.04
First Quarter	15.69	13.30	.04
Year Ended December 31, 2006			
Fourth Quarter	\$ 15.25	\$ 13.70	\$ .03
Third Quarter	15.97	13.30	.03
Second Quarter	16.10	14.00	.03
First Quarter	14.35	12.14	.03

As of March 10, 2008 there were approximately 1,763 holders of record of the Company's Common Stock.

#### PERFORMANCE GRAPH

The graph compares the yearly cumulative total shareholder return on the Company's Common Stock with the yearly cumulative total return of (a) the AMEX Market Index and (b) a peer group of companies that, like the Company, (i) are currently listed on the American Stock Exchange, and (ii) have a market capitalization of \$45 million to \$55 million.

The Company does not believe that it can reasonably identify a peer group of companies, on an industry or line-of-business basis, for the purpose of developing a comparative performance index. While the Company is aware that some other publicly-traded companies market products in the Company's line-of-business, none of these other companies provide most or all of the products offered by the Company, and many offer other products or services as well. 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. Furthermore, many of these other companies are substantially more highly capitalized than the Company. For these reasons, any such comparison would not, in the opinion of the Company, provide a meaningful index of comparative performance.

The comparisons in the graph below are based on historical data and are not indicative of, or intended to forecast, the possible future performance of the Company's Common Stock.

(Printer: Insert Graph)

COMPARE 5-YEAR CUMULATIVE TOTAL RETURN  
AMONG ACME UNITED CORP.,  
AMEX MARKET NDEX AND PEER GROUP INDEX

	-----FISCAL YEAR ENDING-----					
	2002	2003	2004	2005	2006	2007
ACME UNITED CORP.	100.00	143.62	419.67	375.60	390.89	390.49
PEER GROUP INDEX	100.00	142.07	167.20	172.47	180.27	150.99
AMEX MARKET INDEX	100.00	136.11	155.86	171.89	192.45	216.06

ASSUMES \$100 INVESTED ON JAN. 1, 2002  
ASSUMES DIVIDEND REINVESTED  
FISCAL YEAR ENDING DEC. 31, 2007

## ISSUER PURCHASES OF EQUITY SECURITIES

On October 4, 2005, the Company announced a stock repurchase program of 150,000 shares. This program does not have an expiration date. During 2007, the Company repurchased 35,400 shares of its common stock at an average price of \$13.88. As of December 31, 2007, there were 89,600 shares that may be purchased under this stock repurchase program.

(10)

## ITEM 6. SELECTED FINANCIAL DATA

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA  
(All figures in thousands except per share data)

	2007	2006	2005	2004
Net sales	\$ 63,173	\$ 56,863	\$ 49,947	\$ 43,381
Net income	\$ 4,022	\$ 3,886	\$ 2,937	\$ 3,238
Total assets	\$ 42,222	\$ 35,021	\$ 28,194	\$ 22,967
Long-term debt, less current portion	\$ 10,187	\$ 10,218	\$ 5,577	\$ 1,434
Net income				
Per share (Basic)	\$ 1.14	\$ 1.11	\$ 0.84	\$ 0.96
Per share (Diluted)	\$ 1.09	\$ 1.05	\$ 0.78	\$ 0.85
Dividends per share	\$ 0.16	\$ 0.12	\$ 0.11	\$ 0.06

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS  
OF OPERATIONS

## FORWARD-LOOKING INFORMATION

Forward-looking statements in this report, including without limitation,

## Edgar Filing: ACME UNITED CORP - Form 10-K

statements related to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward-looking statements involve risks and uncertainties, including, without limitation, the following: (i) the Company's plans, strategies, objectives, expectations and intentions are subject to change at any time at the discretion of the Company; (ii) the Company's plans and results of operations will be affected by the Company's ability to manage its growth and inventory; and (iii) other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission.

### CRITICAL ACCOUNTING POLICIES

The following discussion and analysis of financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. The Company's significant accounting policies are more fully described in Note 2 of the Notes to Consolidated Financial Statements. Certain accounting estimates are particularly important to the understanding of the Company's financial position and results of operations and require the application of significant judgment by the Company's management or can be materially affected by changes from period to period in economic factors or conditions that are outside the control of management. The Company's management uses their judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on historical operations, future business plans and projected financial results, the terms of existing contracts, the observance of trends in the industry, information provided by customers and information available from other outside sources, as appropriate. The following discusses the Company's critical accounting policies and estimates.

Estimates. Operating results may be affected by certain accounting estimates. The most sensitive and significant accounting estimates in the financial statements relate to customer rebates, valuation allowances for deferred income tax assets, obsolete and slow moving inventories, potentially uncollectible accounts receivable, and accruals for income taxes. Accruals for customer rebates are based on executed contracts and anticipated sales levels, which are monitored monthly. Management critically evaluates the potential realization of deferred income tax benefits as well as the likely usefulness of inventories and the collectability of accounts receivable. Accruals for income taxes or benefits often require interpretations of complex tax rules and regulations, which may be subsequently challenged. Although the Company's management has used available information to make judgments on the appropriate estimates to account for the above matters, there can be no assurance that future events will not significantly affect the estimated amounts related to these areas where estimates are required.

Revenue Recognition. The Company recognizes revenue from sales of its products when ownership transfers to the customers. When the right of return exists, the Company recognizes revenue in accordance with FASB Statement No. 48, Revenue Recognition When Right of Return Exists.

(11)

Intangible Assets and Deferred Charges. Intangible assets with a finite useful life are recorded at cost upon acquisition and amortized over the term of the related contract, if any, or useful life, as applicable. Intangible assets held by the Company with a finite useful life include deferred financing costs, patents and trademarks. Deferred financing costs are amortized over the term of the related debt. Patents and trademarks are amortized over their estimated useful life. The weighted average amortization period of intangible assets at

## Edgar Filing: ACME UNITED CORP - Form 10-K

December 31, 2007 was 14 years. The Company periodically reviews the values recorded for intangible assets to assess recoverability from future operations using undiscounted cash flows. Impairments in intangible assets are recognized in operating results to the extent the carrying value exceeds fair value determined based on the net present value of estimated future cash flows. The projection of future cash flows requires the Company to make estimates about the amount of future revenues. The actual future results could differ significantly from these estimates, and resulting changes in the estimates of future cash flows could be significant and could affect the recoverability of intangible assets. During 2007, the net book value of the Company's intangible assets increased to \$1,658,880 as of December 31, 2007, from \$877,796 as of December 31, 2006.

Accounting for Stock-Based Compensation. The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R. Share Based Payments ("SFAS 123R") The Company uses the Black-Scholes option - pricing model, which requires the input of subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them ("expected term"), the estimated volatility of the Company's common stock price over the expected term ("volatility") and the number of options that will ultimately not complete their vesting requirements ("forfeitures"). Changes in the subjective assumptions can materially affect estimates of fair value stock-based compensation, and the related amount recognized on the consolidated statements of operations. Refer to Note 11 "Stock Option Plans" in the Notes to Consolidated Financial Statements in this report for a more detailed discussion of the effects of SFAS 123R on the Company's results of operations and financial condition.

### RESULTS OF OPERATIONS 2007 COMPARED WITH 2006

#### NET SALES

Net sales increased by \$6,310,013 or 11% (10% in constant currency) in 2007 to \$63,173,005, compared to \$56,862,992 in 2006. The U.S. segment sales increased by \$4,419,000 or 10% in 2007 as compared to 2006. Sales increased in Canada by \$784,000 or 11% (5% in local currency). European sales increased by \$1,107,000 or 21% (11% in local currency) in 2007 as compared to 2006.

The increase in sales in the U.S. segment is principally the result of sales of new products, including the iPoint electric pencil sharpener and market share gains. Additionally, the Company expanded its product line, including rotary paper trimmers with a major office superstore. Sales of other new products included the UltraSmooth(TM) spring-assisted scissors and the new Clauss(TM) high performance ExtemeEdge(TM) titanium shears. The sales increase in Canada was mainly due to sales of the new iPoint electric pencil sharpeners, other new office products and further penetration into the Canadian retail segment. The 21% 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.

#### GROSS PROFIT

Gross profit was 42% of net sales in 2007, as compared to 43% of net sales in 2006. The gross margin decline in 2007 was due to greater sales of lower margin products, increased raw material and labor costs in China and higher costs as the result of the appreciation of the Chinese currency against the U.S. dollar. Costs also increased due to the reduction of an export tax credit in China.

#### SELLING, GENERAL AND ADMINISTRATIVE

## Edgar Filing: ACME UNITED CORP - Form 10-K

Selling, general and administrative expenses were \$19,741,166 in 2007, compared with \$17,869,753 in 2006, an increase of \$1,871,413. SG&A expenses were 31% of net sales in both 2007 and 2006. Higher sales commission and freight costs associated with higher sales amounted to \$420,000. Other major contributors to the increase in SG&A expenses were the costs associated with the addition of sales, marketing and logistic personnel and consulting costs associated with the Company's compliance with Section 404 of the Sarbanes Oxley Act. Additionally, in 2006, there was a one-time benefit related to settlement of a lawsuit.

(12)

### OPERATING INCOME

Operating income was \$6,751,764 in 2007, compared with \$6,713,020 in 2006, an increase of \$38,744. Operating income in the U.S. segment declined by approximately \$500,000 due to higher personnel related costs, increased consulting costs associated with the Company's compliance with Section 404 of the Sarbanes Oxley Act (approximately \$200,000) and the one time benefit related to settlement of a lawsuit in 2006 (approximately \$200,000). Operating income increased in Canada by \$147,000 or 25%. The European operating loss decreased by approximately \$400,000 mainly due to sales growth and improved gross margins as a result lower packaging and airfreight expenses.

### INTEREST EXPENSE, NET

Interest expense for 2007 was \$655,466, compared with \$615,500 for 2006, a \$39,966 increase. The increase in interest expense was primarily the result of higher borrowings under the Company's bank revolving loan agreement.

### OTHER INCOME (EXPENSE), NET

Net other income was \$206,357 in 2007 compared to \$251,557 in 2006.

### INCOME TAX

The effective tax rate in 2007 was 36%, compared to 39% in 2006. The effective tax rate improved mainly due to the lower losses in Europe in 2007, as compared to 2006 for which there is no recorded tax benefit because losses in Europe cannot be utilized to offset earnings in other countries.

## RESULTS OF OPERATIONS 2006 COMPARED WITH 2005

### NET SALES

Net sales increased \$6,916,618 or 14% (13% in constant currency) in 2006 to \$56,862,992 compared to \$49,946,374 in 2005. The U.S. segment sales increased by \$5,223,000 or 13%. Sales increased in Canada by \$501,235 or 7% and constant in local currency. European sales increased by \$1,183,024 or 29% and 28% in local currency.

The increase in sales in the U.S. segment was principally the result of sales initiatives with several major retailers and superstores, entry into the pencil sharpener market and market share gains. The major driver in new product sales was the expansion of the Company's patented titanium bonded products including scissors, trimmers and knives and the introduction of the Clauss brand titanium Chef Shears. The other major new product introduction was the iPoint electronic pencil sharpeners. Other new product sales included mechanical-assisted scissors, new Clauss(TM) True Professional(TM) sewing shears and the iZone family of school tools - Twist-it(TM) rulers, erasers, tape measures, staple removers and math tools.

## Edgar Filing: ACME UNITED CORP - Form 10-K

The 29% sales increase in Europe was due to new sales to a large pan-European superstore and an expanded product line with a major European retailer.

### GROSS PROFIT

Gross profit was 43% of net sales in 2006 as compared to 45% in 2005. The lower gross margin was principally due to higher sales of private label programs which typically provide commodity items at very competitive prices, particularly in Europe. There were also a number of promotional and initial set up expenses for new business in Europe that reduced margins.

### SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses were \$17,869,753 in 2006 compared with \$15,512,488 in 2005, an increase of \$2,357,265. SG&A expenses were 31% of net sales in both 2006 and 2005. Higher sales commission and freight costs associated with higher sales amounted to \$370,000. Other major contributors to the increase in SG&A expenses were market research, new product development and the addition of sales, marketing and logistic personnel. SG&A expenses include stock compensation of \$275,540 in 2006, resulting from the grant of stock options to employees and directors.

(13)

### NON -RECURRING CHARGE

In the quarter ended September 30, 2005, the Company accrued a charge of \$1.5 million related to the estimated costs to demolish the Company's former manufacturing facility located in Bridgeport, CT, and to remove certain environmentally hazardous material contained in the buildings to be demolished. The estimated costs were based on a third party contractor's estimate. Actual expenses were not materially different from original estimates. During the third quarter 2006, demolition of the buildings was completed and all costs previously accrued were paid by December 31, 2006. The Company is currently exploring its options to sell the property.

### OPERATING INCOME

Operating income was \$6,713,020 in 2006 compared with \$5,342,201 in 2005, an increase of \$1,370,819. The increase is primarily attributable to the \$1,500,000 charge on the Bridgeport property in 2005 with no comparable charge in 2006. Operating income increased in Canada by \$104,000 or 21%. The European operating loss increased by approximately \$858,000. The results of the European operations were negatively impacted by expedited freight costs and other costs associated with the launch of new customer programs.

### INTEREST EXPENSE, NET

Interest expense for 2006 was \$615,500 compared with \$234,868 for 2005, a \$380,632 increase. The increase in interest expense was primarily the result of higher borrowings under the Company's bank revolving loan agreement.

### OTHER INCOME (EXPENSE), NET

Net other income was \$251,557 in 2006 compared to net other expense of (\$341,267) in 2005. The change from 2005 is primarily due to higher foreign exchange transaction gains and income from a license agreement in 2006.

## Edgar Filing: ACME UNITED CORP - Form 10-K

### INCOME TAX

The effective tax rate in 2006 was 39% compared to 38% in 2005. The effective tax rate was impacted by higher losses in Europe in 2006 compared to 2005 for which there is no recorded tax benefit because the losses in Europe cannot be utilized to offset earnings in other countries. This was partially offset by lower tax rates in a tax jurisdiction outside of the U.S.

### OFF-BALANCE SHEET TRANSACTIONS

The Company did not engage in any off-balance sheet transactions during 2007.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital, current ratio and long-term debt to equity ratio follow:

	2007	2006
Working Capital	\$29,377,847	\$25,460,578
Current Ratio	4.46	5.22
Long-Term Debt to Equity Ratio	44.2%	56.4%

The increase in working capital in 2007 as compared to 2006 is attributable to a 21% increase in inventory and a 17% increase in receivables. Inventory turnover decreased from 2.2 in 2006 to 2.1 in 2007, calculated using a twelve month average inventory balance. The inventory buildup was mainly in response to anticipated product demand and increased customer specific inventory. Additionally, given the lengthy lead times associated with product availability and our customers requirements for complete and on-time deliveries, the Company's management decided to increase inventory levels.

The average number of days sales outstanding in accounts receivable was 66 days in 2007 and 64 days in 2006. The increase is due to higher sales to customers receiving more favorable payment terms.

(14)

Total debt in 2007 decreased by \$27,801, compared to total debt at December 31, 2006.

On March 6, 2006, the Company modified its revolving loan agreement with Wachovia Bank (the "Modified Loan Agreement"). The amendments included an increase in the maximum borrowing amount from \$10 million to \$15 million; an extension of the maturity date from September 30, 2007 to June 30, 2009; a decrease in the interest rate to LIBOR plus 1% from LIBOR plus 1.5%, as well as the modification of certain covenant restrictions. Funds borrowed under the Modified Loan Agreement will be used for working capital, general operating expenses and other purposes. As of December 31, 2007, \$10,098,000 was outstanding and \$4,902,000 was available for borrowing under the Modified Loan Agreement.

Under the provisions of the Modified Loan Agreement, the Company, among other things, is restricted with respect to additional borrowings, investments, mergers and property and equipment purchases. Further, the Modified Loan Agreement requires the Company to maintain specific amounts of tangible net worth, a specified debt service coverage ratio and a fixed charge coverage ratio. The Company was in compliance with all covenants under the Modified Loan Agreement as of and through December 31, 2007, and believes these financial covenants will continue to be met for the remainder of the term of the credit

## Edgar Filing: ACME UNITED CORP - Form 10-K

facility.

Capital expenditures during 2007 and 2006 were \$672,913 and \$564,887, respectively, which were, in part, financed with debt. Capital expenditures in 2008 are not expected to differ materially from recent years.

The Company believes that cash generated from operating activities, together with funds available under the Modified Loan Agreement, are expected, under current conditions, to be sufficient to finance the Company's planned operations for the next twelve months.

### RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements." This statement, which becomes effective January 1, 2008, defines fair value, establishes a framework for measuring fair value and expands disclosure requirements regarding fair value measurements. The FASB has provided a one-year deferral for the implementation of FASB 157 for other non-financial assets and liabilities. An exposure draft will be issued for comment in the near future on the partial deferral. The Company is currently evaluating the impact of this statement on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities; Including an Amendment of FASB Statement No. 115." ("SFAS 159") gives entities the option to measure eligible items at fair value at specified dates. Unrealized gains and losses on the eligible items for which the fair value option has been elected should be reported in earnings. SFAS 159 is effective for the Company's 2008 fiscal year beginning January 1, 2008. The Company expects that the adoption of SFAS 159 will not have a material effect on its financial statements.

In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations ("SFAS 141(R)"), and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements ("SFAS160"). SFAS 141 (R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being measured and recorded at the excess value over the net identifiable assets acquired. SFAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS 141 (R) and SFAS 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company expects that the adoption of SFAS 141 (R) and SFAS 160 will not have a material effect on its financial statements.

(15)

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### INTEREST RATE RISK:

The Company's interest expense on debt is most sensitive to changes in the level of United States interest rates. To mitigate the impact of these fluctuations, the Company periodically evaluates alternative interest rate arrangements.

#### FOREIGN CURRENCY RISK:

The Company's foreign currency exposures vary, but are concentrated in the Canadian dollar, British pound, and the Euro. Purchases of inventory by the Hong Kong office are made in U.S. dollars.



## Edgar Filing: ACME UNITED CORP - Form 10-K

At times, the Company utilizes forward foreign exchange contracts to hedge specific transactions with third parties denominated in foreign currencies. The terms of these forward foreign exchange contracts are typically 90 days to a year. Because these contracts are acquired for specific transactions, they are an effective hedge against fluctuations in the value of the foreign currency underlying such transaction. The Company's Canadian subsidiary previously entered into a forward foreign exchange contract to reduce the risk of inventory purchases in a currency other than its functional currency, the Canadian dollar. The Company hedged the risk of foreign currency fluctuations for approximately \$1.5 million of inventory purchases in 2005 by its Canadian subsidiary. This foreign exchange contract expired at December 31, 2005. There are no such contracts in 2006 and 2007. Adjustments to the fair value of currencies were reported as a component of accumulated other comprehensive loss in the statement of changes in stockholders' equity.

The Company does not enter into financial instruments for speculation or trading purposes.

The Company and its foreign subsidiaries utilize bank loans to finance their operations. To mitigate foreign currency risk, foreign loans are denominated in the local currency of the foreign subsidiary wherever possible.

### INFLATION

Inflation had a negligible effect on the Company's operations during 2007 and 2006. The Company estimates that any inflationary effects, in the aggregate, were generally recovered or offset through increased pricing or cost reductions in both years.

(16)

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

#### Acme United Corporation and Subsidiaries CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended December 31,		
	2007	2006	2005
Net sales	\$ 63,173,005	\$ 56,862,992	\$ 49,946,
Costs and expenses:			
Cost of goods sold	36,680,075	32,280,219	27,591,
Selling, general and administrative expenses	19,741,166	17,869,753	15,512,
Provision for loss on property demolition	-	-	1,500,
Operating income	6,751,764	6,713,020	5,342,
Non operating items:			
Interest expense, net	655,446	615,500	234,
Other income (expense), net	206,357	251,557	(341,
Income before income taxes	6,302,675	6,349,077	4,766,
Income tax expense	2,280,417	2,463,415	1,828,
Net income	\$ 4,022,258	\$ 3,885,662	\$ 2,937,

Edgar Filing: ACME UNITED CORP - Form 10-K

Earnings per share:

Basic	\$	1.14	\$	1.11	\$	0
Diluted	\$	1.09	\$	1.05	\$	0

See accompanying Notes to Consolidated Financial Statements.

(17)

Acme United Corporation and Subsidiaries  
CONSOLIDATED BALANCE SHEETS

	December 31, 2007	December 31, 2006
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,987,991	\$ 3,838,172
Accounts receivable, less allowance	12,726,647	10,852,037
Inventories	18,934,977	15,677,294
Deferred income taxes	61,127	273,919
Prepaid expenses and other current assets	1,149,417	845,640
	-----	-----
Total current assets	37,860,159	31,487,062
Property, plant and equipment:		
Land	174,840	158,902
Buildings	2,971,451	2,777,599
Machinery and equipment	8,050,383	7,006,219
	-----	-----
Total property, plant and equipment	11,196,674	9,942,720
Less: accumulated depreciation	8,717,316	7,402,675
	-----	-----
Net plant, property and equipment	2,479,358	2,540,045
Goodwill	88,828	88,828
Intangible assets, less accumulated amortization	1,658,880	877,796
Deferred income taxes	135,168	27,235
	-----	-----
Total assets	\$ 42,222,393	\$ 35,020,966
	=====	=====
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 4,575,118	\$ 2,357,715
Other accrued liabilities	3,903,784	3,660,252
Current portion of long-term debt	3,410	8,517
	-----	-----
Total current liabilities	8,482,312	6,026,484
Long-term debt, less current portion	10,186,721	10,217,931
Other	506,617	645,192
	-----	-----
Total liabilities	19,175,650	16,889,607
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$2.50: authorized 8,000,000		
shares; issued - 4,267,274 shares in 2007 and 4,192,824		
shares in 2006, including treasury stock	10,668,185	10,482,060
Treasury stock, at cost, 714,391 shares in 2007		
and 678,991 shares in 2006	(5,929,999)	(5,438,776)
Additional paid-in capital	3,550,053	3,013,667

Edgar Filing: ACME UNITED CORP - Form 10-K

Accumulated other comprehensive loss	285,842	(941,042)
Retained earnings	14,472,662	11,015,450
	-----	-----
Total stockholders' equity	23,046,743	18,131,359
	-----	-----
Total liabilities and stockholders' equity	\$ 42,222,393	\$ 35,020,966
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

(18)

Acme United Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Outstanding Shares of Common Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulate Other Comprehensi Income (Los
-----					
Balances, December 31, 2004	3,413,421	\$ 9,623,780	\$ (1,874,611)	\$ 2,231,003	\$ (1,031,58
Net Income					
Translation adjustment					170,43
Change in fair value of derivative financial instruments					82,26
Change in minimum pension liability					(471,53
Income taxes relating to minimum pension liability					179,18
Comprehensive income					
Tax benefit from exercise of employee stock options				326,713	
Distribution to shareholders					
Issuance of common stock	312,312	780,780		66,171	
Purchase of treasury stock	(242,900)		(3,564,165)		
-----					
Balances, December 31, 2005	3,482,833	\$ 10,404,560	\$ (5,438,776)	\$ 2,623,887	\$ (1,071,23
Net Income					
Translation adjustment					52,43
Change in minimum pension liability and the effect of the adoption of SFAS No. 158					125,41
Income taxes relating to minimum pension liability					(47,65
Comprehensive income					
Stock compensation expense				275,539	
Tax benefit from exercise of employee stock options				82,986	
Distribution to shareholders					
Issuance of common stock	31,000	77,500		31,255	

Edgar Filing: ACME UNITED CORP - Form 10-K

Balances, December 31, 2006	3,513,833	\$ 10,482,060	\$(5,438,776)	\$ 3,013,667	\$ (941,048)
Net Income					
Translation adjustment					1,049,444
Change in					
net prior service credit and					
actuarial losses					177,444
Comprehensive income					
Stock compensation expense				330,859	
Tax benefit from exercise of					
employee stock options				22,825	
Distribution to shareholders					
Issuance of common stock	74,450	186,125		182,701	
Purchase of treasury stock	(35,400)		(491,223)		
Balances, December 31, 2007	3,552,883	\$ 10,668,185	\$(5,929,999)	\$ 3,550,053	\$ 285,844

See accompanying Notes to Consolidated Financial Statements.

(19)

Acme United Corporation and Subsidiaries  
CONSOLIDATED STATEMENTS OF CASH FLOW

	For the years ended	
	2007	2006
Operating activities:		
Net income	\$ 4,022,258	\$ 3,888,258
Adjustments to reconcile net income to net		
cash provided (used) by operating activities		
Depreciation	811,570	800,000
Amortization	59,678	30,000
Stock compensation expense	330,859	270,000
Deferred income taxes	104,859	44,000
Loss on disposal of property, plant and equipment	-	-
Tax benefit on stock options	22,825	8,000
Changes in operating assets and liabilities		
Accounts receivable	(1,812,504)	(1,540,000)
Inventories	(2,645,310)	(2,940,000)
Prepaid expenses and other current assets	(268,276)	(320,000)
Accounts payable	2,107,704	140,000
Other accrued liabilities	(27,805)	(1,670,000)
Total adjustments	(1,316,400)	(4,700,000)
Net cash provided (used) by operating activities	2,705,858	(811,742)
Investing activities:		
Purchase of property, plant and equipment	(672,913)	(560,000)
Purchase of patents and trademarks	(840,762)	(140,000)
Proceeds from sale of property, plant and equipment	-	100,000
Net cash used by investing activities	(1,513,675)	(600,000)
Financing activities:		
Net (repayments) borrowings of long-term debt	(37,070)	4,630,000

## Edgar Filing: ACME UNITED CORP - Form 10-K

Distributions to shareholders	(529,329)	(42)
Purchase of treasury stock	(491,223)	
Issuance of common stock	368,826	10
<hr style="border-top: 1px dashed black;"/>		
Net cash (used) provided by financing activities	(688,796)	4,31
Effect of exchange rate changes	646,432	(3)
<hr style="border-top: 1px dashed black;"/>		
Net change in cash and cash equivalents	1,149,819	2,76
Cash and cash equivalents at beginning of year	3,838,172	1,07
<hr style="border-top: 1px dashed black;"/>		
Cash and cash equivalents at end of year	\$ 4,987,991	\$ 3,83
<hr style="border-top: 3px double black;"/>		
Supplemental cash flow information		
Cash paid for income taxes	\$ 2,819,016	\$ 2,18
Cash paid for interest	\$ 741,698	\$ 61

See accompanying Notes to Consolidated Financial Statements.

(20)

### Acme United Corporation and Subsidiaries NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. OPERATIONS

The operations of Acme United Corporation (the "Company") consist of three reportable segments. The operations of the Company are structured and evaluated based on geographic location. The three reportable segments operate in the United States (including Asian operations), Canada and Germany. Principal products across all segments are scissors, shears, rulers, pencil sharpeners, first aid kits, and related products which are sold primarily to wholesale, contract and retail stationery distributors, office supply super stores, school supply distributors, drug store retailers and mass market retailers.

#### 2. ACCOUNTING POLICIES

**Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most sensitive and significant accounting estimates relate to customer rebates, valuation allowances for deferred income tax assets, obsolete and slow-moving inventories, potentially uncollectible accounts receivable and accruals for income taxes. Actual results could differ from those estimates.

**Principles of Consolidation** - The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned by the Company. All significant intercompany accounts and transactions are eliminated in consolidation.

**Translation of Foreign Currency** - For foreign operations, assets and liabilities are translated at rates in effect at the end of the year; revenues and expenses are translated at average rates in effect during the year. Resulting translation adjustments are made directly to accumulated other comprehensive loss. Foreign currency transaction gains and losses are recognized in operating results. Foreign currency transaction gains (losses), which are included in other income (expense), net, were \$159,877 in 2007, \$149,791, in 2006 and (\$397,535) in 2005.

**Cash Equivalents** - Investments with an original maturity of three months or less

## Edgar Filing: ACME UNITED CORP - Form 10-K

at the date of purchase are considered cash equivalents.

Accounts Receivable - Accounts receivable are shown less an allowance for doubtful accounts of \$89,856 in 2007 and \$116,811 in 2006.

Inventories - Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

Property, Plant and Equipment and Depreciation - Property, plant and equipment is recorded at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from 3 to 30 years.

Asset Impairments - The Company evaluates the propriety of the carrying amounts of its long-lived assets, including goodwill, at least annually, or when current events and circumstances indicate a potential impairment. The Company believes that there are no significant impairments of the carrying amounts of such assets and no reduction in their estimated useful lives is warranted.

Intangible Assets - Intangible assets with a finite useful life are recorded at cost upon acquisition, and amortized over the term of the related contract or useful life, as applicable. Intangible assets held by the Company with a finite useful life include deferred financing costs, patents, and trademarks. Deferred financing costs are amortized over the term of the related debt. Patents and trademarks are amortized over their estimated useful life. The weighted average amortization period of intangible assets at December 31, 2007 is 14 years.

Goodwill - As of January 1, 2002, the Company adopted Financial Accounting Standards Board ("FASB") Statement No. 142, Goodwill and Other Intangible Assets and therefore, no longer amortizes goodwill, but rather tests it annually for impairment. There was no impairment of goodwill at December 31, 2007 and December 31, 2006.

(21)

Deferred Income Taxes - Deferred income taxes are provided on the differences between the financial statement and tax bases of assets and liabilities, and on operating loss carryovers, using enacted tax rates in effect in years in which the differences are expected to reverse.

Revenue Recognition - The Company recognizes revenue from sales of its products when ownership transfers to the customers. When the right of return exists, the Company recognizes revenue in accordance with FASB Statement No. 48, Revenue Recognition When Right of Return Exists.

Research and Development - Research and development costs (\$236,064 in 2007, \$306,422 in 2006 and \$244,904 in 2005) are expensed as incurred.

Shipping Costs - Shipping costs (\$2,974,205 in 2007, \$2,496,981 in 2006 and \$2,310,596 in 2005) are included in selling, general and administrative expenses.

Advertising Costs - The Company expenses the production costs of advertising the first time that the related advertising takes place. Advertising costs (\$1,060,523 in 2007, \$1,292,250 in 2006 and \$1,252,366 in 2005) are included in selling, general and administrative expenses.

Concentrations - The Company performs ongoing credit evaluations of its customers and generally does not require collateral. Allowances for credit losses are provided and have been within management's expectations. In 2007 and 2006, the Company had two customers with net sales exceeding 10% of consolidated net sales and three customers in 2005. Net sales to these customers amounted to

## Edgar Filing: ACME UNITED CORP - Form 10-K

approximately 17% and 10% in 2007, 19% and 10% in 2006 and 18%, 12% and 11%, in 2005.

Derivatives - The Company accounts for derivative financial instruments consistent with the requirements of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and its amendments, FASB Statement 137, Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133, and FASB Statement No. 138, Accounting for Derivative Instruments and Certain Hedging Activities. The Company recognizes all derivative financial instruments, such as interest rate swap contracts, forward foreign exchange contracts, and foreign currency option contracts, in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are either recognized periodically in operations or in stockholders' equity as a component of accumulated other comprehensive income (loss), depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in operations along with the portions of the changes in the fair values of the hedged items that relate to the hedged risk(s). Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive (loss) income, net of deferred income taxes. Changes in fair value of derivatives used as hedges of the net investment in foreign operations are reported in other comprehensive income (loss) as part of the cumulative translation adjustment. Changes in fair values of derivatives not qualifying as hedges are reported in operations.

### 3. INVENTORIES

Inventories consist of:	2007	2006
-----		
Finished goods	\$ 18,069,060	\$ 14,709,418
Work in process	112,727	62,675
Materials and supplies	753,190	905,201
-----		
	\$ 18,934,977	\$ 15,677,294
=====		

Inventories are stated net of valuation allowances for obsolescence of \$461,466 as of December 31, 2007 and \$405,963 as of December 31, 2006.

(22)

### 4. INTANGIBLE ASSETS

Intangible assets consist of:	2007	2006
-----		
Patents	1,334,133	569,359
Trademarks	468,224	392,236
-----		
	1,802,357	961,595
Accumulated amortization	143,477	83,799
-----		
	\$1,658,880	\$ 877,796
=====		

Amortization expense for patents and trademarks for the years ended December 31, 2007, 2006 and 2005 was \$59,678, \$34,679 and \$29,605, respectively. The estimated aggregate amortization expense for each of the next five succeeding years is as follows: 2008 - \$103,622; 2009 - \$103,622; 2010 - \$103,622; 2011 - \$102,521; and 2012 - \$101,065. Refer to Note 17 of the accompanying Notes to the

Edgar Filing: ACME UNITED CORP - Form 10-K

Consolidated Financial Statements for further information regarding the acquisition of intangible assets.

5. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of:	2007	2006
Vendor rebates	\$ 2,792,411	\$ 2,410,097
Other	1,617,991	1,895,348
	\$ 4,410,402	\$ 4,305,445

Other accrued liabilities include both current and non-current liabilities.

6. PENSION AND PROFIT SHARING

United States employees, hired prior to July 1, 1993, are covered by a funded, defined benefit pension plan. The benefits of this pension plan are based on years of service and the average compensation of the highest three consecutive years during the last ten years of employment. In December 1995, the Company's Board of Directors approved an amendment to the United States pension plan ceasing all future benefit accruals as of February 1, 1996, without terminating the pension plan. The Company uses a December 31 measurement date for the pension plan.

On December 31, 2006, the Company adopted the recognition and disclosure provisions of FASB Statement 158. Statement 158 required the Company to recognize the funded status of its pension plan in the December 31, 2006 statement of financial position, with a corresponding adjustment to accumulated other comprehensive income, net of tax.

The plan asset weighted average allocation at December 31, 2007 and December 31, 2006, by asset category, is as follows:

Asset Category	2007	2006
Equity Securities	69%	68%
Fixed Income Securities	28%	29%
Other Securities / Investments	3%	3%
Total	100%	100%

The Company's investment policy for the pension plan is to minimize risk by balancing investments between equity securities and fixed income securities, utilizing a weighted average approach of 65% equity securities, 30% fixed income securities, and 5% cash investments. Plan funds are invested in long-term obligations with a history of moderate to low risk.

As of each December 31, 2007 and 2006, equity securities in the pension plan included 10,000 shares of the Company's Common Stock, having a market value of \$142,501 and \$144,100, respectively.

(23)

Other disclosures related to the pension plan follow:

2007

2006



Edgar Filing: ACME UNITED CORP - Form 10-K

Assumptions used to determine benefit obligation:

Discount rate	5.75%	5.75%
Changes in benefit obligation:		
Benefit obligation at beginning of year	\$ (3,327,730)	\$ (3,616,356)
Interest cost	(181,599)	(187,284)
Service cost	(30,000)	(30,000)
Amendment	1,313	
Actuarial loss	85,078	92,624
Benefits and plan expenses paid	533,662	413,286
-----		
Benefit obligation at end of year	(2,919,276)	(3,327,730)
-----		

Changes in plan assets:

Fair value of plan assets at beginning of year	2,910,484	3,070,541
Actual return on plan assets	233,376	253,229
Employer Contribution	21,944	-
Benefits and plan expenses paid	(533,662)	(413,286)
-----		
Fair value of plan assets at end of year	2,632,142	2,910,484
-----		
Funded status	\$ (287,134)	\$ (417,246)
=====		

Amounts recognized in Accumulated Other Comprehensive Income:

Net (gain) / loss	1,063,979	1,231,335
Prior service cost / (credit)	68,895	78,984
-----		
Total	\$ 1,132,874	\$ 1,310,319
=====		

Accrued benefits costs are included in other accrued liabilities (non-current).

	2007	2006
=====		
Assumptions used to determine net periodic benefit cost:		
Discount rate	5.75%	5.50%
Expected return on plan assets	8.25%	8.00%
Components of net benefit expense:		
Interest cost	\$ 181,599	\$ 187,284
Service cost	30,000	30,000
Expected return on plan assets	(225,913)	(230,819)
Amortization of prior service costs	8,776	8,776
Amortization of actuarial gain	74,815	89,363
-----		
Net periodic benefit cost	\$ 69,277	\$ 84,604
=====		

The Company employs a building block approach in determining the long-term rate of return for plan assets. Historical markets are studied and long-term historical relationships between equity securities and fixed income securities are preserved consistent with the widely-accepted capital market principle that assets with higher volatility generate higher returns over the long run. Current market factors, such as inflation and interest rates, are evaluated before long-term capital market assumptions are determined.

## Edgar Filing: ACME UNITED CORP - Form 10-K

The following table discloses the change recorded in other comprehensive income related to benefit costs:

	(24)	
	2007	2006
Change through other comprehensive income prior to application of SFAS 158, excluding income tax effect	N/A	\$ (204,397)
Net (gain) / loss	\$ (92,541)	N/A
Prior service cost / (credit)	(1,313)	N/A
Amortization of net gain / (loss)	(74,815)	N/A
amortization of transition (obligation) / asset	-	N/A
Amortization of prior service (cost) / credit	(8,776)	N/A
Total recognized in other comprehensive income	\$ (177,445)	\$ (204,397)
Increase / (decrease) in Accumulated Other Comprehensive Income to reflect the Adoption of SFAS 158, net of income tax effect	N/A	\$ 78,984

The following benefits are expected to be paid:

2008	\$	356,588
2009		350,357
2010		334,798
2011		318,320
2012		303,434
Years 2013 - 2017		1,280,660

The Company also has a qualified, non-contributory profit sharing plan covering substantially all of its United States employees. Annual Company contributions to this profit sharing plan are determined by the Company's Compensation Committee. For the years ended December 31, 2007, 2006 and 2005, the Company contributed 50% of employee's contributions, up to the first 6% of an employee's contribution. Total contribution expense under this profit sharing plan was \$96,939 in 2007, \$77,673 in 2006 and \$60,000 in 2005.

### 7. INCOME TAXES

The amounts of income taxes reflected in operations follow:

	2007	2006	2005
Current:			
Federal	\$ 1,450,808	\$ 1,341,284	\$ 1,817,861
State	188,847	159,972	236,019
Foreign	543,730	540,103	237,497
	2,183,385	2,041,359	2,291,377
Deferred:			
Federal	93,798	401,738	(393,334)
State	11,109	40,892	(69,287)
Foreign	(7,875)	(20,574)	
	97,032	422,056	(462,621)
	\$ 2,280,417	\$ 2,463,415	\$ 1,828,756

Edgar Filing: ACME UNITED CORP - Form 10-K

The current state tax provision is comprised of taxes on income, the minimum capital tax and other franchise taxes related to the jurisdictions in which the Company's facilities are located.

A summary of United States and foreign income before income taxes follows:

(25)

	2007	2006	2005
United States	\$ 4,593,844	\$ 5,150,322	\$ 4,288,531
Foreign	1,708,828	1,198,756	477,535
	\$ 6,302,672	\$ 6,349,078	\$ 4,766,066

The following schedule reconciles the amounts of income taxes computed at the United States statutory rates to the actual amounts reported in operations.

	2007	2006	2005
Federal income taxes at 34% statutory rate	\$ 2,142,908	\$ 2,158,687	\$ 1,620,462
State and local taxes, net of federal income tax effect	132,132	128,243	155,773
Permanent items, not subject to tax	(2,621)	53,822	65,935
Foreign tax rate difference	(271,403)	(217,158)	(92,908)
Non-recognition of foreign tax loss carryforwards	279,401	339,821	79,494
Provision for income taxes	\$ 2,280,417	\$ 2,463,415	\$ 1,828,756

Income taxes paid, net of refunds received, were \$2,819,016 in 2007, \$2,180,324 in 2006 and \$1,716,028 in 2005.

	2007	2006
Deferred income tax liabilities:		
Plant, property and equipment	\$ 133,177	\$ 119,806
	133,177	119,806
Deferred income tax assets:		
Asset valuations	61,127	273,919
Operating loss carryforwards and credits	2,034,623	1,755,222
Pension	158,735	133,086
Other	109,610	13,981
	2,364,095	2,176,208
Net deferred income tax asset before		

Edgar Filing: ACME UNITED CORP - Form 10-K

valuation allowance	2,230,918	2,056,402
Valuation allowance	(2,034,623)	(1,755,222)
-----		
Net deferred income tax asset	\$ 196,295	\$ 301,180
=====		

(26)

The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109, "Accounting for Income Taxes", and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

In 2007, the Company evaluated its tax positions, for years which remain subject to examination by major tax jurisdictions, in accordance with the requirements of FIN 48 and as a result, there was no effect on the Company's financial statements. The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The Company's evaluation of FIN 48 was performed for the tax years ended December 31, 2004, 2005, 2006 and 2007, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2007. The Internal Revenue Service (IRS) completed its examination of the Company's U.S. federal income tax return for 2004 with no changes.

In accordance with the Company's accounting policies, interest and penalties related to uncertain tax positions are recognized as a component of income tax expense.

The Company provides deferred income taxes on foreign subsidiary earnings, which are not considered permanently reinvested. Earnings permanently reinvested would become taxable upon the sale or liquidation of a foreign subsidiary or upon the remittance of dividends. Foreign subsidiary earnings of \$6,025,762 and \$4,097,768 are considered permanently reinvested as of December 31, 2007 and 2006, respectively, and no deferred income taxes have been provided on these foreign earnings.

Due to the uncertain nature of the realization of the Company's deferred income tax assets based on past performance and carry forward expiration dates, the Company has recorded a valuation allowance for the amount of deferred income tax assets which are not expected to be realized. This valuation allowance is subject to periodic review, and if the allowance is reduced, the tax benefit will be recorded in future operations as a reduction of the Company's tax expense.

At December 31, 2007, the Company has tax operating loss carry forwards aggregating \$6,754,614, all of which are applicable to Germany, and can be carried forward indefinitely.

8. DEBT

Long term debt consists of:

2007

2006

## Edgar Filing: ACME UNITED CORP - Form 10-K

Notes payable:		
North American arrangements	\$ 10,150,175	\$ 10,187,245
Other	39,955	39,203
<hr/>		
	10,190,130	10,226,448
Less current portion	3,410	8,517
<hr/>		
	\$ 10,186,720	\$ 10,217,931
<hr/>		

On March 6, 2006, the Company modified its revolving loan agreement with Wachovia Bank (the "Modified Loan Agreement"). The amendments included an increase in the maximum borrowing amount from \$10 million to \$15 million, an extension of the maturity date from September 30, 2007 to June 30, 2009, a decrease in the interest rate to LIBOR plus 1% from LIBOR plus 1.5%, as well as the modification of certain covenant restrictions. Funds borrowed under the Modified Loan Agreement are used for working capital, general operating expenses and other purposes. As of December 31, 2007, \$10,098,000 was outstanding and \$4,902,000 was available for borrowing under the Modified Loan Agreement.

Under the Modified Loan Agreement, the Company is required to maintain specific amounts of tangible net worth, a specified debt service coverage ratio, and a fixed charge coverage ratio. The Company was in compliance with these financial covenants at December 31, 2007.

(27)

Maturities of long-term debt for the next five years follow: 2008- \$3,410; 2009 - \$10,156,000; 2010 - \$5,839; 2011 - \$5,839; and 2012 - \$5,839.

Interest paid was \$741,698 in 2007, \$617,645 in 2006 and \$234,523 in 2005.

### 9. COMMITMENTS AND CONTINGENCIES

The Company leases certain office, manufacturing and warehouse facilities and various equipment under non-cancelable operating leases. Total rent expense was \$573,190 in 2007, \$527,208 in 2006 and \$332,644 in 2005. Minimum annual rental commitments under non-cancelable leases with remaining terms of one year or more as of December 31, 2007: 2008 - \$528,707; 2009 - \$451,118; 2010 - \$297,362; 2011 - \$13,418; and 2012 - \$7,065.

The Company is involved, from time to time, in disputes and other litigation in the ordinary course of business, including certain environmental and other matters. The Company presently believes that none of these matters, individually or in the aggregate, would be likely to have a material adverse effect on financial position, results of operations, or liquidity of the Company.

### 10. SEGMENT INFORMATION

The Company reports financial information based on the organizational structure used by management for making operating and investment decisions and for assessing performance. The Company's reportable business segments include (1) United States; (2) Canada and (3) Europe. The financial results of the Company's Asian operations have been aggregated with the results of its United States operations to form one reportable segment called the "United States segment". The determination of reportable segments is based on the guidance set forth in FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information. Each reportable segment derives its revenue from the sales of

## Edgar Filing: ACME UNITED CORP - Form 10-K

cutting devices, measuring instruments and safety products for school, office, home and industrial use.

The Chief Operating Decision Maker evaluates the performance of each operating segment based on segment revenues and operating income. Segment revenues are defined as total revenues, including both external customer revenue and intersegment revenue. Segment operating earnings are defined as segment revenues, less cost of goods sold and operating expenses. Identifiable assets by segment are those assets used in the respective reportable segment's operations. Intersegment amounts are eliminated to arrive at consolidated financial results.

In 2007 and 2006 the Company had two customers that individually exceeded 10% of consolidated net sales and three customers in 2005. Net sales to these customers amounted to approximately 17% and 10% of consolidated net sales in 2007, 19% and 10% of consolidated net sales in 2006 and 18%, 12% and 11% of consolidated net sales in 2005. Sales to no other customer exceeded 10% of consolidated net sales in 2007, 2006 and 2005.

(28)

### FINANCIAL DATA BY SEGMENT:

(000's omitted)	United States	Canada	Europe	Consolidated
-----				
2007				
----				
Sales to unaffiliated customers	\$ 48,702	\$ 8,128	\$ 6,343	\$ 63,173
Operating income	6,748	735	(731)	6,752
Assets	28,350	7,886	5,986	42,222
Additions to property, plant and equipment	575	31	67	673
Depreciation and amortization	724	59	88	871
2006				
----				
Sales to unaffiliated customers	\$ 44,283	\$ 7,344	\$ 5,236	\$ 56,863
Operating income	7,262	588	(1,137)	6,713
Assets	24,516	6,286	4,219	35,021
Additions to property, plant and equipment	474	28	63	565
Depreciation and amortization	704	51	80	835
2005				
----				
Sales to unaffiliated customers	\$ 39,060	\$ 6,838	\$ 4,049	\$ 49,946
Operating income	5,010	484	(152)	5,342
Assets	21,167	4,275	2,752	28,194
Additions to property, plant and equipment	1,299	80	52	1,431
Depreciation and amortization	511	51	91	653

### 11. STOCK OPTION PLANS

The Company has two stock option plans: (1) the 2002 Employee Stock Option Plan, as amended (the "Employee Plan") and (2) the 2005 Non-Salaried Director Stock

## Edgar Filing: ACME UNITED CORP - Form 10-K

Option Plan (the "Director Plan").

The Employee Plan provides for the issuance of incentive and nonqualified stock options at an exercise price equal to the fair market value of the common stock on the date the option is granted. The terms of the options granted are subject to the provisions of the Employee Plan. As of December 31, 2007, the number of shares available for grant under the Employee Plan was 106,438.

The Director Plan, approved by shareholders at the Company's Annual Meeting of Shareholders on April 25, 2005, provides for the issuance of stock options for up to 50,000 shares of the Company's common stock to non-salaried directors. Under the Director Plan, Directors elected on April 25, 2005 and at subsequent Annual Meetings who have not received any prior grant under this or previous plans receive an initial grant of an option to purchase 5,000 shares of Common Stock (the "Initial Option"). Each year, each elected Director not receiving an Initial Option will receive a 2,500 share option (the "Annual Option"). The Initial Option vests 25% on the date of grant and 25% on the anniversary of the grant date in each of the following 3 years. Each Annual Option becomes fully exercisable one day after the date of grant. The exercise price of all options granted equals the fair market value of the common stock on the date the option is granted and expires ten (10) years from the date of grant. As of December 31, 2007, the number of shares available for grant under the Director Plan was 45,000.

(29)

A summary of changes in options issued under the Company's stock option plans follows:

	2007	2006	2005
-----			
Options outstanding at the beginning of the year	543,950	471,450	673,200
Options granted	98,250	113,500	111,500
Options forfeited	(2,000)	(10,000)	(938)
Options exercised	(74,450)	(31,000)	(312,312)
-----			
Options outstanding at the end of the year	565,750	543,950	471,450
=====			
Options exercisable at the end of the year	396,125	407,888	368,700
=====			
Common stock available for future grants at the end of the year	151,438	47,688	151,188
=====			
Weighted average price of options:			
Granted	\$ 14.86	\$ 14.42	\$ 15.64
Forfeited	15.15	14.24	4.00
Exercised	4.95	3.51	2.71
Outstanding	9.82	8.27	6.56
Exercisable	7.63	6.04	4.62

A summary of options outstanding at December 31, 2007 follows:

Options Outstanding

Edgar Filing: ACME UNITED CORP - Form 10-K

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price
\$1.25 to \$2.49	40,300	2	\$ 2.04
\$2.50 to \$3.65	125,200	4	3.10
\$3.66 to \$5.00	60,750	4	4.10
\$5.01 to \$7.25	26,750	3	5.27
\$7.26 to \$17.02	312,750	8	15.01
	565,750		

The weighted average remaining contractual life of all outstanding stock options is 6 years.

STOCK BASED COMPENSATION

Effective January 1, 2006, the Company adopted the provisions of, and accounted for stock-based compensation in accordance with, FASB Statement of Financial Accounting Standards No. 123(R), Share-Based Payments ("SFAS 123R"), which replaced FASB Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS 123") and superseded APB Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"). Under the fair value recognition provisions of SFAS 123R, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is generally the vesting period. The Company adopted SFAS 123R using the modified-prospective method, under which prior periods are not restated for comparative purposes. The valuation provisions of SFAS 123R apply to new grants and awards granted prior to, but not vested as of December 31, 2005. Estimated compensation for awards granted prior to, but not vested as of December 31, 2005 will be recognized over the remaining service period using the compensation cost estimated for pro forma disclosures under SFAS 123.

(30)

The Company uses the Black-Scholes option pricing model to determine the fair value of employee and non-employee director stock options. The determination of the fair value of stock-based payment awards on the date of grant, using an option-pricing model, is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them ("expected term"), the estimated volatility of the Company's common stock price over the expected term ("volatility") and the number of options that will not fully vest in accordance with applicable vesting requirements ("forfeitures").

The Company estimates the expected term of options granted by evaluating various factors, including the vesting period, historical employee information, as well as current and historical stock prices and market conditions. The Company estimates the volatility of its common stock by calculating historical volatility based on the closing stock price on the last day of each of the 48 months leading up to the month the option was granted. The risk-free interest rate that the Company uses in the option valuation model is the interest rate on



## Edgar Filing: ACME UNITED CORP - Form 10-K

U.S. Treasury zero-coupon bond issues with remaining terms similar to the expected term of the options granted. Historical information was the basis for calculating the dividend yield. The Company is required to estimate forfeitures at the time of grant and to revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company used a mix of historical data and future assumptions to estimate pre-vesting option forfeitures and to record stock-based compensation expense only for those awards that are expected to vest. All stock-based payment awards are amortized over the requisite service periods of the awards, which are generally the vesting periods. In the third quarter of 2006, the Company modified its vesting schedule for new grants. Grants issued after June 30, 2006 vest 25% one day after the first anniversary of the grant date and 25% one day after each of the next three anniversaries. Options granted prior to July 1, 2006 vest 25% one day after the date of grant, and 25% on the day after the anniversary of the grant date in each of the next three years.

The assumptions used to value option grants for the twelve months ended December 31, 2007 and December 31, 2006 are as follows:

	----- 2007 -----	----- 2006 -----
Expected life in years	5	4-5
Interest rate	4.51 - 5.18%	4.32 - 4.91%
Volatility	.32	.33 - .34
Dividend yield	1.08 - 1.10%	0.80 - 0.90%

Total stock-based compensation recognized in the Company's consolidated statement of operations for the year ended December 31, 2007 is \$330,859. As of December 31, 2007, there was approximately \$516,090 of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based payments granted to the Company's employees. As of December 31, 2007, the remaining unamortized expense is expected to be recognized over a weighted average period of 3 years.

Prior to January 1, 2006, the Company applied APB 25, and related interpretations to recognize compensation expense under its stock option plans. As such, no expense was recognized if, at the date of grant, the exercise price of the option was at least equal to the fair market value of the Company's common stock. No compensation expense related to the Company's stock option plans was required to be recognized for its plans in 2005.

The pro forma effects of recognizing the estimated fair value of stock-based compensation for the year ended December 31, 2005 have been disclosed previously in the Company's financial statements under the provisions of SFAS 123. The previously-disclosed pro forma information, as adjusted to reflect a 36 month, instead of a 48 month option vesting schedule, is presented below.

(31)

	2005
Net income, as reported	\$ 2,937,310
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(272,904)
Pro forma net income	\$ 2,664,406

Edgar Filing: ACME UNITED CORP - Form 10-K

Basic-as reported	\$	0.84
Basic-pro forma	\$	0.76
Diluted-as reported	\$	0.78
Diluted-pro forma	\$	0.70

The weighted average fair value at the date of grant for options granted during 2007, 2006 and 2005 was \$4.95, \$4.86 and \$7.42 per option, respectively.

12. EARNINGS PER SHARE

The calculation of earnings per share follows:

	2007	2006	2005
-----			
Numerator:			
Net income	\$ 4,022,258	\$ 3,885,662	\$ 2,937,31
-----			
Denominator:			
Denominator for basic earnings per share			
Weighted average shares outstanding	3,535,687	3,494,833	3,509,03
Effect of dilutive employee stock options	161,155	217,217	279,91
-----			
Denominator for dilutive earnings per share	3,696,842	3,712,050	3,788,94
-----			
Basic earnings per share	\$ 1.14	\$ 1.11	\$ 0.8
-----			
Dilutive earnings per share	\$ 1.09	\$ 1.05	\$ 0.7
-----			

For 2007, 2006 and 2005, respectively, 284,250, 190,000 and 9,500 stock options were excluded from diluted earnings per share calculations because they would have been anti-dilutive.

(32)

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of the accumulated other comprehensive income follow:

	Translation Adjustment	Change in net prior service credit and actuarial losses	Total
-----			
Balances, December 31, 2005	(181,084)	(890,152)	(1,071,236)
Change in minimum pension liability		125,413	125,413
Income taxes relating to minimum pension liability		(47,657)	(47,657)
Translation adjustment	52,438		52,438
-----			
Balances, December 31, 2006	\$ (128,646)	\$ (812,396)	\$ (941,042)
Change in net prior service credit and actuarial losses		177,441	177,441
Translation adjustment	1,049,444		1,049,444
-----			

**Edgar Filing: ACME UNITED CORP - Form 10-K**

Balances, December 31, 2007                                 \$   920,798                                 \$ (634,955)     \$   285,842  
 =====

14. FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates fair value.

Accounts receivable and accounts payable: The carrying amounts reported in the balance sheet for accounts receivable and accounts payable approximate fair value.

Long-and short-term debt: The carrying amounts of the Company's borrowings under its short-term notes payable and revolving credit arrangements approximate their fair value. The fair values of the Company's long-term debt are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of the Company's financial instruments follow (000's omitted):

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalent	\$ 4,988	\$ 4,988	\$ 3,838	\$ 3,838
Accounts receivable	12,727	12,727	10,852	10,852
Accounts payable	(4,575)	(4,575)	(2,358)	(2,358)
Long-term debt	(10,190)	(10,190)	(10,226)	(10,226)
			(33)	

15. QUARTERLY DATA (UNAUDITED)

2007	Quarters (000's omitted, except		
	First	Second	Third
Net sales	\$ 12,241	\$ 18,999	\$ 17,081
Cost of goods sold	6,907	11,020	9,700
Net income	650	1,522	1,305
Basic earnings per share	\$ 0.18	\$ 0.43	\$ 0.37
Diluted earnings per share	\$ 0.17	\$ 0.41	\$ 0.35
2006	First	Second	Third
Net sales	\$ 12,257	\$ 16,984	\$ 15,532

## Edgar Filing: ACME UNITED CORP - Form 10-K

Cost of goods sold	6,705	9,556	8,908
<hr style="border-top: 1px dashed black;"/>			
Net income	759	1,506	1,225
<hr style="border-top: 1px dashed black;"/>			
Basic earnings per share	\$ 0.22	\$ 0.43	\$ 0.35
Diluted earnings per share	\$ 0.20	\$ 0.40	\$ 0.33

Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not necessarily equal the total for the year.

### 16. CAPITAL STRUCTURE

In 2007, the Company issued 74,450 shares of common stock with proceeds of \$368,826 upon the exercise of outstanding stock options.

### 17. BUSINESS COMBINATION

On September 18, 2007, the Company purchased certain assets of the Camillus Cutlery Company ("Camillus Cutlery") for \$246,000, consisting primarily of trademarks, brand names and patents. Camillus Cutlery, founded in 1873, is one of the oldest knife companies in the United States. Camillus Cutlery's products include many types of folding knives, as well as those for hunting and fishing.

On September 25, 2007, the Company purchased certain assets of Tiger Sharp Technologies Inc. ("Tiger Sharp") for \$355,000, consisting primarily of trademarks, brand names and patents. The purchase agreement also included a royalty arrangement whereby the Company will, for a period of three years, pay Tiger Sharp a 5% royalty on the Company's sales of Tiger Sharp patented products and a 1% royalty on the Company's sales of a certain product which is currently in development. Tiger Sharp was founded in 2002 in Dallas, Texas to commercialize its unique replaceable blade technology. The Company has pioneered many extremely sharp replaceable blade folding knives.

Proforma operating information for the periods prior to these acquisitions is not provided because of the immateriality of these transactions on a proforma basis.

### 18. NON-RECURRING CHARGE

The Company is the owner of certain commercial property located in Bridgeport, Connecticut. Buildings, totaling approximately 150,000 square feet, are located on this property. The Company ceased using the Bridgeport property as a manufacturing facility in September 1996 and its operations were thereafter consolidated into the Company's North Carolina facility. For approximately the next two years, the Company continued to pay property taxes, insurance, maintenance and other operating costs on the property which totaled approximately \$107,000 annually, and the Company leased a small part of the property for \$32,000 resulting in a net cost of \$75,000 annually. In October 1998, the Company leased the entire property to an unrelated commercial real estate company for a term of 24 years. The lease had provided for the payment of one dollar (\$1.00) per year as base rent and required that the tenant pay all taxes, insurance and other expenses in connection with the property. At the time, the Company considered the cost savings from leasing the property, for which Acme had no specific use, an appropriate basis for the arrangement.

The Company wrote off the book value of the property by the end of 1998.

(34)

Since October 1998, the tenant leased portions of the buildings on the property to subtenants, primarily for use as commercial warehouses. Approximately 30% of the total square footage in the buildings is subject to subleases. The remainder

## Edgar Filing: ACME UNITED CORP - Form 10-K

has been empty since 1996.

On July 28, 2005, the Building Department of Bridgeport informed the Company that pursuant to a call from the Bridgeport Fire Department, an inspection of the premises was made on July 21, 2005. The roof of a portion of a building had collapsed that day. The Company received notice that it must either repair certain portions of the damaged building and two others or demolish them because of unsafe conditions. The Company was ordered to begin the necessary work to make the buildings safe within 30 days from receipt of the letter.

The lessee filed an insurance claim on August 24, 2005. The insurance company investigated the facts and circumstances surrounding the claim and determined that the roof had collapsed due to wear, tear, deterioration, wet rot, dry rot and lack of maintenance of the premises. The insurance company stated in a letter dated October 18, 2005 that the causes of the loss were not insured perils under the tenant's policy and denied coverage.

On July 29, 2005, the Company notified the tenant of the action by the building inspector and that, under the terms of the lease, the tenant was responsible for compliance with the order. The lessee subsequently refused to assume responsibility for the repair or demolition. The Company considered legal action under the terms of the lease to force the lessee to pay for the repair or demolition. However, the Company believed that the City of Bridgeport would require action over a time period shorter than the time required to file a lawsuit and to bring the action to a conclusion.

As a result of discussions between the Company and the tenant regarding the required repair or demolition, the Company and the tenant agreed to terminate the lease. Pursuant to a Termination of Lease Agreement entered into by the Company and the tenant on September 16, 2005, the parties terminated this lease, effective September 1, 2005. As part of the lease termination, the Company paid \$400,000 to the tenant in exchange for rights to the rental income from the leases with current sub-tenants. This cost has been deferred and is being amortized over the term of the subleases.

The Company also decided to demolish all unoccupied structures on the property. The unoccupied structures are abandoned manufacturing buildings that had been constructed over one hundred years ago.

Several subtenants continue to occupy portions of the property and are paying rent to the Company presently, totaling approximately \$190,000 per year. In addition, the principal subtenant pays a portion of the taxes and insurance expenses related to the property it leases.

In the quarter ended September 30, 2005, the Company accrued a charge of approximately \$1.5 million related to the estimated cost to demolish the structures and remove certain environmentally hazardous material included in the buildings to be demolished. The estimated costs were based on a third party contractor's estimate. Actual expenses were not materially different from original estimates. During the third quarter 2006, demolition of the buildings was completed and all costs incurred were paid by December 31, 2006. The Company is currently exploring its options to sell the property.

(35)

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Acme United Corporation

We have audited the accompanying consolidated balance sheets of Acme United Corporation and subsidiaries as of December 31, 2007 and 2006, and the related

## Edgar Filing: ACME UNITED CORP - Form 10-K

consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Acme United Corporation and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 11 to the consolidated financial statements effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment.

/s/ Ernst & Young LLP

Hartford, Connecticut  
March 6, 2008

(36)

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements with accountants related to accounting and financial disclosures in 2007.

### ITEM 9A(T). CONTROLS AND PROCEDURES

#### EVALUATION OF INTERNAL CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures, which included inquiries made to certain other of the Company's employees. Based on their evaluation, the Company's Chief Executive Officer and Chief Financial Officer have each concluded that, as of December 31, 2007, the Company's disclosure controls and procedures were effective and sufficient to ensure that we record, process, summarize and report information required to be disclosed by the Company in its periodic reports filed under the Securities and Exchange

## Edgar Filing: ACME UNITED CORP - Form 10-K

Commission's rules and forms.

### MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected in a timely manner. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework." Based on management's assessment using the COSO criteria, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2007.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this Annual Report.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the quarter ended December 31, 2007, there were no changes in the Company's internal control over financial reporting that materially affected, or was reasonably likely to materially affect, this control.

### ITEM 9B. OTHER INFORMATION

None.

(37)

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

## Edgar Filing: ACME UNITED CORP - Form 10-K

The following table sets forth certain information with respect to the directors and executive officers of the Company. All directors of the Company hold office until the next annual meeting of the shareholders or until their successors have been elected and qualified. Executive officers are elected by the Board of Directors to hold office until their successors are elected and qualified.

Name	Age	Position Held with Company
Walter C. Johnsen	57	Chairman of the Board and Chief Executive Officer
Gary D. Penisten	76	Chairman Emeritus of the Board
Brian S. Olschan	51	President, Chief Operating Officer and Director
Paul G. Driscoll	47	Vice President, Chief Financial Officer, Secretary and Treasurer
Rex L. Davidson	57	Director
Richmond Y. Holden, Jr.	54	Director
Susan H. Murphy	56	Director
Stephen Spinelli, Jr.	53	Director
Stevenson E. Ward III	62	Director

Walter C. Johnsen has served as Chairman of the Board and Chief Executive Officer of the Company since January 1, 2007; President and Chief Executive Officer of the Company from November 30, 1995 to December 31, 2006. Formerly served as Vice Chairman and a principal of Marshall Products, Inc., a medical supply distributor.

Gary D. Penisten has served as Chairman Emeritus of the Board of the Company since January 1, 2007; Chairman of the Board of the Company from February 27, 1996 to December 31, 2006. From 1977 to 1988, he was Senior Vice President of Finance, Chief Financial Officer and a Director of Sterling Drug Inc. From 1974 to 1977 he served as Assistant Secretary (Financial Management) of the United States Navy. Prior to that, he was employed by General Electric Company.

Brian S. Olschan has served as President and Chief Operating Officer of the Company since January 1, 2007; Executive Vice President and Chief Operating Officer of the Company from January 25, 1999 to December 31, 2006; Senior Vice President - Sales and Marketing of the Company from September 12, 1996 to January 24, 1999; formerly served as Vice President and General Manager of the Cordset and Assembly Business of General Cable Corporation, an electrical wire and cable manufacturer.

Paul G. 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 Director of Finance and Operations in Japan. Prior to Gallo he served in several increasingly responsible positions in Sterling Winthrop Inc. in New York City and Sanofi S.A. in France.

Rex L. Davidson has served as director since April, 2006. He is currently President and Chief Executive Officer of Goodwill Industries of Greater New York and Northern New Jersey, Inc. and President of Goodwill Industries Housing Corporation since 1982. He was appointed by Mayor Bloomberg to the New York City Workforce Investment Board in 2002. He serves on the Board of the Better Business Bureau Education and Research Foundation.

Richmond Y. Holden, Jr. has served as director since 1998. Since 2007, President of Educators Publishing Service, a supplementary publisher of education materials and a subsidiary of School Specialty Inc. Previously, President and Chief Executive Officer of J.L. Hammett Co. from 1992 to 2006, a reseller, of educational products.



## Edgar Filing: ACME UNITED CORP - Form 10-K

Susan H. Murphy has served as director since 2003. She is presently Vice President for Student and Academic Services at Cornell University since 1994. From 1985 through 1994, Ms. Murphy served as Dean of Admissions and Financial Aid. Ms. Murphy has been employed at Cornell since 1978.

Stephen Spinelli, Jr. has served as director since April, 2006. He is currently President, Philadelphia University. Formerly, Vice Provost for Entrepreneurship and Global Management and a member of the Babson College faculty from 1993 to 2007. Founder and former Chairman of American Oil Change Corporation (DBA Jiffy Lube). He consults with a wide array of businesses globally.

(38)

Stevenson E. Ward III has served as director since 2001. He is presently Vice President and Chief Financial Officer of Triton Thalassic Technologies, Inc. From 1999 through 2000, Mr. Ward served as Senior Vice President - Administration of Sanofi-Synthelabo, Inc. He also served as Executive Vice President (1996 - 1999) and Chief Financial Officer (1994 - 1995) of Sanofi, Inc. and Vice President, Pharmaceutical Group, Sterling Winthrop, Inc. (1992 - 1994). Prior to joining Sterling he was employed by General Electric.

The Company has adopted a Code of Conduct that is applicable to its employees, including the Chief Executive Officer, Chief Financial Officer and Controller. The Code of Conduct is available in the investor relations section on the Company's website at [www.acmeunited.com](http://www.acmeunited.com)

If the Company makes any substantive amendments to the Code of Conduct which apply to its Chief Executive Officer, Chief Financial Officer or Controller, or grants any waiver, including any implicit waiver, from a provision of the Code of Conduct to the Company's executive officers, the Company will disclose the nature of the amendment or waiver on its website or in a report on Form 8-K.

### ITEM 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation is incorporated herein by reference to the section entitled "Executive Compensation" contained in the Company's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Company's 2008 Annual Meeting of Shareholders.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners, directors and executive officers is incorporated herein by reference to the information in the section entitled "Security Ownership of Directors and Officers" contained in the Company's Proxy Statement to be filed with the Securities and Exchange Commission in connection with its 2008 Annual Meeting of Shareholders.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

None.

### Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

## Edgar Filing: ACME UNITED CORP - Form 10-K

Information regarding principal accountant fees and services is incorporated herein by reference to the section entitled "Fees to Auditors" contained in the Company's Proxy Statement to be filed with the Securities and Exchange Commission in connection with its 2008 Annual Meeting of Shareholders.

(39)

### PART IV

#### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

##### (a) (1) Financial Statements.

- o Consolidated Balance Sheets
- o Consolidated Statements of Operations
- o Consolidated Statements of Changes in Stockholders' Equity
- o Consolidated Statements of Cash Flows
- o Notes to Consolidated Financial Statements
- o Report of Independent Registered Public Accounting Firm

##### (a) (2) Financial Statement Schedules

- o Schedule 2--Valuation and Qualifying Accounts
- o Schedules other than those listed above have been omitted because of the absence of conditions under which they are required or because the required information is presented in the Financial Statements or Notes thereto.

(a) (3) The exhibits listed under Item 15(b) are filed or incorporated by reference herein.

##### (b) Exhibits.

The exhibits listed below are filed as part of this Annual Report on Form 10-K. Certain of the exhibits, as indicated, have been previously filed and are incorporated herein by reference.

Exhibit No.	Identification of Exhibit
3(i)	Certificate of Organization of the Company (1)
	Amendment to Certificate of Organization of Registrant dated September 24, 1968 (1)
	Amendment to Certificate of Incorporation of the Company dated April 27, 1971 (2)
	Amendment to Certificate of Incorporation of the Company dated June 29, 1971 (2)
3(ii)	Amendment to the Company's Bylaws (10)
4	Specimen of Common Stock certificate (2)

Edgar Filing: ACME UNITED CORP - Form 10-K

10.1	Non-Salaried Director Stock Option Plan dated April 22, 1996* (3)
10.1(a)	Amendment No. 1 to the Non-Salaried Director Stock Option Plan* (4)
	(40)
10.1(b)	Amendment No. 2 to the Non-Salaried Director Stock Option Plan* (5)
10.2	1992 Amended and Restated Stock Option Plan* (6)
10.2(a)	Amendment No. 1 to the Amended and Restated Stock Option Plan* (7)
10.2(b)	Amendment No. 2 to the Amended and Restated Stock Option Plan* (8)
10.2(c)	Amendment No. 3 to the Amended and Restated Stock Option Plan* (9)
10.2(d)	Amendment No. 4 to the Amended and Restated Stock Option Plan* (9)
10.3	Acme United Employee Stock Option Plan dated February 26, 2002* as amended (11)
10.4	Severance Pay Plan dated September 28, 2004*
10.5	Salary Continuation Plan dated September 28, 2004*
10.6	2005 Non-Salaried Director Stock Option Plan (12)
10.8	Deferred Compensation Plan dated October 2, 2007
21	Subsidiaries of the Registrant
23	Consent of Ernst & Young, Independent Auditors
31.1	Certification of Walter Johnsen pursuant to Rule 13a-14(a) and 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Paul Driscoll pursuant to Rule 13a-14(a) and 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Walter Johnsen pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Paul Driscoll pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Indicates a management contract or a compensatory plan or arrangement

- (1) Previously filed in S-1 Registration Statement No. 230682 filed with the Commission on November 7, 1968 and amended by Amendment No. 1 on December 31, 1968 and by Amendment No. 2 on January 31, 1969.
- (2) Previously filed as an exhibit to the Company's Form 10-K filed in 1971.
- (3) Previously filed in the Company's Form S-8 Registration Statement No. 333-26739 filed with the Commission on May 9, 1997.

## Edgar Filing: ACME UNITED CORP - Form 10-K

- (4) Previously filed in the Company's Form S-8 Registration Statement No. 333-84505 filed with the Commission on August 4, 1999.
- (5) Previously filed in the Company's Form S-8 Registration Statement No. 333-70348 filed with the Commission on September 21, 2000.
- (6) Previously filed as an exhibit to the Company's Proxy Statement filed on March 29, 1996.
- (41)
- (7) Previously filed in the Company's Form S-8 Registration Statement No. 333-26737 filed with the Commission on May 9, 1997.
- (8) Previously filed in the Company's Form S-8 Registration Statement No. 333-84499 filed with the Commission on August 4, 1999.
- (9) Previously filed in the Company's Form S-8 Registration Statement No. 333-70346 filed with the Commission on September 27, 2001.
- (10) Previously filed in the Company's form 8-K filed on February 28, 2006.
- (11) Previously filed in the Company's Proxy statement for the 2005 Annual Meeting of Shareholders.
- (12) Previously filed in the Company's Form S-8 Registration Statement No. 333-126478 filed with the Commission on July 8, 2005.

### SCHEDULE II

Acme United Corporation and Subsidiaries

VALUATION AND QUALIFYING ACCOUNTS

For the years ended December 31, 2007, 2006 and 2005

	Balance at Beginning of Period	Charged to Costs and Expenses	Deduction and Oth Adjustme
<hr/>			
2007			
Allowance for doubtful accounts	\$ 116,811	\$ 54,182	\$ 81,13
Allowance for inventory obsolescence	405,963	106,938	51,43
Deferred income tax asset valuation allowance	1,755,222	279,401	
<hr/>			
2006			
Allowance for doubtful accounts	\$ 136,050	\$ 51,256	\$ 70,49
Allowance for inventory obsolescence	453,369	99,234	146,64
Deferred income tax asset valuation allowance	1,415,401	339,821	
<hr/>			
2005			
Allowance for doubtful accounts	\$ 210,914	\$ (60,971)	\$ 13,89
Allowance for inventory obsolescence	620,538	218,269	385,43
Deferred income tax asset valuation allowance	1,335,907	79,494	
<hr/>			

(42)

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange

## Edgar Filing: ACME UNITED CORP - Form 10-K

Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 12, 2008.

ACME UNITED CORPORATION  
(Registrant)

Signatures	Titles
/s/ Walter C. Johnsen ----- Walter C. Johnsen	Chairman and Chief Executive Officer
/s/ Gary D. Penisten ----- Gary D. Penisten	Chairman Emeritus of the Board
/s/ Brian S. Olschan ----- Brian S. Olschan	President, Chief Operating Officer and Director
/s/ Paul G. Driscoll ----- Paul G. Driscoll	Vice President, Chief Financial Officer, Secretary and Treasurer
/s/ Rex L. Davidson ----- Rex Davidson	Director
/s/ Richmond Y. Holden, Jr. ----- Richmond Y. Holden, Jr	Director
/s/ Susan H. Murphy ----- Susan H. Murphy	Director
/s/ Stephen Spinelli ----- Stephen Spinelli	Director
/s/ Stevenson E. Ward III ----- Stevenson E. Ward III	Director

(43)