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ACME UNITED CORP  
Form 10-Q  
November 09, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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Commission file number 001-07698

ACME UNITED CORPORATION  
(Exact name of registrant as specified in its charter)

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|  |   |
|--|---|
| CONNECTICUT<br>(State or other jurisdiction<br>of incorporation or organization)       | 06-0236700<br>(I.R.S. Employer<br>Identification No.) |
| 60 ROUND HILL ROAD, FAIRFIELD, CONNECTICUT<br>(Address of principal executive offices) | 06824<br>(Zip Code)                                   |

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

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  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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 15, 2007 the registrant had outstanding 3,553,283 shares of its \$2.50 par value Common Stock.

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ACME UNITED CORPORATION

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ACME UNITED CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(all dollar amounts in thousands)

|   | September 30,<br>2007<br>(unaudited) | December 31,<br>2006<br>(Note 1) |
|---|--------------------------------------|----------------------------------|
|   |                                      |                                  |
| ASSETS                                    |                                      |                                  |
| -----                                     |                                      |                                  |
| Current assets:                           |                                      |                                  |
| Cash and cash equivalents                 | \$ 3,651                             | \$ 3,838                         |
| Accounts receivable, less allowance       | 16,223                               | 10,852                           |
| Inventories:                              |                                      |                                  |
| Finished goods                            | 16,534                               | 14,709                           |
| Work in process                           | 211                                  | 63                               |
| Raw materials and supplies                | 776                                  | 905                              |
|   | 17,521                               | 15,677                           |
| Prepaid expenses and other current assets | 1,028                                | 846                              |
| Deferred income taxes                     | 274                                  | 274                              |
|   | 38,697                               | 31,487                           |
| Property, plant and equipment:            |                                      |                                  |
| Land                                      | 171                                  | 159                              |
| Buildings                                 | 2,946                                | 2,778                            |
| Machinery and equipment                   | 7,817                                | 7,006                            |

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|                               |           |           |
|-------------------------------|-----------|-----------|
|                               | 10,934    | 9,943     |
| Less accumulated depreciation | 8,443     | 7,403     |
|                               | 2,491     | 2,540     |
| Other assets                  | 1,573     | 905       |
| Goodwill                      | 89        | 89        |
|                               | \$ 42,850 | \$ 35,021 |
| Total assets                  | \$ 42,850 | \$ 35,021 |

See notes to condensed consolidated financial statements.

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ACME UNITED CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)  
(all dollar amounts in thousands)

|   | September 30,<br>2007<br>(unaudited) | December 31,<br>2006<br>(Note 1) |
|---|--------------------------------------|----------------------------------|
| <b>LIABILITIES</b>  |                                      |                                  |
| -----   |                                      |                                  |
| Current liabilities:  |                                      |                                  |
| Accounts payable  | \$ 3,687                             | \$ 2,358                         |
| Other accrued liabilities   | 3,830                                | 3,660                            |
| Current portion of long-term debt   | 10                                   | 9                                |
|   | 7,527                                | 6,027                            |
| Total current liabilities   | 7,527                                | 6,027                            |
| Long-term debt, less current portion  | 12,302                               | 10,218                           |
| Other   | 696                                  | 645                              |
|   | 20,525                               | 16,890                           |
| Total liabilities   | 20,525                               | 16,890                           |
| <b>STOCKHOLDERS' EQUITY</b>   |                                      |                                  |
| Common stock, par value \$2.50:<br>authorized 8,000,000 shares;<br>issued 4,247,274 shares in 2007<br>and 4,192,824 in 2006, including treasury stock |                                      |                                  |
| Treasury stock, at cost - 713,991 shares in 2007<br>and 678,991 in 2006   | 10,617                               | 10,482                           |
| Additional paid-in capital  | (5,924)                              | (5,439)                          |
| Retained earnings   | 3,438                                | 3,014                            |
| Accumulated other comprehensive loss:   | 14,068                               | 11,015                           |
| Translation adjustment  | 938                                  | (129)                            |
| Minimum pension liability   | (812)                                | (812)                            |
|   | 126                                  | (941)                            |
| Total stockholders' equity  | 22,325                               | 18,131                           |
| Total liabilities and stockholders' equity  | \$ 42,850                            | \$ 35,021                        |

See notes to condensed consolidated financial statements.

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ACME UNITED CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (UNAUDITED)  
 (all amounts in thousands, except per share amounts)

|  | Three Months Ended<br>September 30, |           |
|--|-------------------------------------|-----------|
|  | 2007                                | 2006      |
| Net sales  | \$ 17,081                           | \$ 15,532 |
| Costs and expenses:  |                                     |           |
| Cost of goods sold   | 9,700                               | 8,908     |
| Selling, general and administrative expenses   | 5,229                               | 4,506     |
|  | 14,929                              | 13,414    |
| Income before non-operating items  | 2,152                               | 2,118     |
| Non-operating items:   |                                     |           |
| Interest expense   | 208                                 | 207       |
| Other income, net  | 91                                  | 35        |
|  | 117                                 | 172       |
| Income before income taxes   | 2,035                               | 1,946     |
| Income tax expense   | 730                                 | 721       |
| Net income   | \$ 1,305                            | \$ 1,225  |
| Basic earnings per share   | \$ 0.37                             | \$ 0.35   |
| Diluted earnings per share   | \$ 0.35                             | \$ 0.33   |
| Weighted average number of common shares outstanding-<br>denominator used for basic per share computations | 3,538                               | 3,496     |
| Weighted average number of dilutive stock options<br>outstanding   | 172                                 | 241       |
| Denominator used for diluted earnings per share computations   | 3,710                               | 3,737     |
| Dividends declared per share   | \$ 0.04                             | \$ 0.03   |

See notes to condensed consolidated financial statements.

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ACME UNITED CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)  
 (all amounts in thousands)

Nine Months Ended

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|  | September 30, |          |
|--|---------------|----------|
|  | 2007          | 2006     |
| Operating Activities:  |               |          |
| Net income   | \$ 3,476      | \$ 3,490 |
| Adjustments to reconcile net income<br>to net cash used by operating activities: |               |          |
| Depreciation   | 604           | 598      |
| Amortization   | 34            | 25       |
| Stock compensation expense   | 257           | 222      |
| Changes in operating assets and liabilities:                                     |               |          |
| Accounts receivable  | (5,077)       | (5,508)  |
| Inventories  | (1,336)       | (2,908)  |
| Prepaid expenses and other current assets  | (151)         | (217)    |
| Accounts payable   | 1,249         | 1,453    |
| Other accrued liabilities  | -             | (1,156)  |
| Total adjustments  | (4,420)       | (7,491)  |
| Net cash used by operating activities  | (944)         | (4,001)  |
| Investing Activities:  |               |          |
| Purchase of property, plant, and equipment                                       | (487)         | (357)    |
| Purchase of patents and trademarks   | (701)         | (116)    |
| Net cash used by investing activities  | (1,188)       | (473)    |
| Financing Activities:  |               |          |
| Net borrowings of long-term debt   | 2,083         | 6,539    |
| Proceeds from issuance of common stock   | 305           | 57       |
| Dividends to stockholders  | (388)         | (324)    |
| Purchase of treasury stock   | (486)         | -        |
| Net cash provided by financing activities  | 1,514         | 6,272    |
| Effect of exchange rate changes  | 430           | (20)     |
| Net change in cash and cash equivalents  | (188)         | 1,778    |
| Cash and cash equivalents at beginning of period                                 | 3,838         | 1,076    |
| Cash and cash equivalents at end of period                                       | \$ 3,651      | \$ 2,854 |

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 -- Basis of Presentation

In the opinion of management, the accompanying condensed consolidated financial statements include all adjustments necessary to present fairly the financial position, results of operations and cash flows of Acme United Corporation (the "Company"). These adjustments are of a normal, recurring nature. However, the

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financial statements do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the Company's Annual Report on Form 10-K. Please refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 for such disclosures. The condensed consolidated balance sheet as of December 31, 2006 was derived from the audited consolidated balance sheet as of that date. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto, included in the Company's 2006 Annual Report on Form 10-K.

### Note 2 -- Contingencies

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 the financial position, results of operations or liquidity of the Company.

### Note 3 -- Pension

Components of net periodic pension cost are as follows:

|  | Three Months Ended<br>September 30, |           | Nine Months E<br>September 3 |
|--|-------------------------------------|-----------|------------------------------|
|  | 2007                                | 2006      | 2007                         |
| Components of net periodic benefit cost: |                                     |           |                              |
| Interest cost                            | \$ 47,500                           | \$ 46,974 | \$ 142,500                   |
| Service cost                             | 7,500                               | 7,500     | 22,500                       |
| Expected return on plan assets           | (57,500)                            | (57,149)  | (172,500)                    |
| Amortization of prior service costs      | 2,250                               | 2,194     | 6,750                        |
| Amortization of actuarial gain           | 22,000                              | 23,204    | 66,000                       |
|  | \$ 21,750                           | \$ 22,723 | \$ 65,250                    |
|  |                                     |           |                              |

### Note 4 -- Long Term Debt and Shareholders Equity

The Company's revolving loan agreement, as amended, provides for borrowings up to \$15 million with all principal amounts outstanding there under required to be repaid in a single amount on June 30, 2009. In addition, the Company's revolving loan agreement requires monthly interest payments. At September 30, 2007 and December 31, 2006, the Company had outstanding borrowings of \$12,269,565 and \$10,187,245, respectively under the revolving loan agreement. Based on the scheduled payment date for the principal, the Company has classified all borrowings under the revolving loan agreement at September 30, 2007 as long-term liabilities.

During the first nine months of 2007, the Company issued 54,450 shares of common stock and received proceeds there from of \$304,576 upon the exercise of outstanding stock options. During the same period, the Company also repurchased

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35,000 shares of common stock for its treasury. These shares were purchased at fair market value, with a total cost to the Company of \$485,623.

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### Note 5 -- 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 consist of (1) United States; (2) Canada and (3) Europe. The activities of the Company's Asian operating segment are closely linked to those of the U.S. operating segment; accordingly, management reviews the financial results of both segments on a consolidated basis, and the results of the Asian operating segment have been aggregated with the results of the United States operating segment to form one reportable segment called the United States "business" or "operating" segment". The determination of reportable segments is based on the guidance set forth in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". Each reportable segment derives its revenue from the sales of 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 amounts are presented after converting to U.S. dollars and consolidating eliminations.

#### Financial data by segment:

(in thousands)

|                                     | Three months ended<br>September 30, |                     | Nine months end<br>September 30, |       |
|-------------------------------------|-------------------------------------|---------------------|----------------------------------|-------|
|                                     | 2007                                | 2006                | 2007                             |       |
| <b>Sales to external customers:</b> |                                     |                     |                                  |       |
| United States                       | \$ 13,221                           | \$ 11,999           | \$ 37,137                        | \$    |
| Canada                              | 1,890                               | 1,964               | 6,386                            |       |
| Europe                              | 1,970                               | 1,569               | 4,798                            |       |
|                                     | \$ 17,081                           | \$ 15,532           | \$ 48,321                        | \$    |
|                                     | =====                               | =====               | =====                            | ===== |
| <b>Operating Income:</b>            |                                     |                     |                                  |       |
| United States                       | \$ 2,112                            | \$ 2,070            | \$ 5,707                         | \$    |
| Canada                              | 103                                 | 193                 | 562                              |       |
| Europe                              | (63)                                | (145)               | (397)                            |       |
|                                     | \$ 2,152                            | \$ 2,118            | \$ 5,872                         | \$    |
|                                     | =====                               | =====               | =====                            | ===== |
| <b>Total assets by segment:</b>     |                                     |                     |                                  |       |
|                                     | September 30<br>2007                | December 31<br>2006 |                                  |       |
| United States                       | \$ 29,684                           | \$ 24,515           |                                  |       |
| Canada                              | 7,605                               | 6,286               |                                  |       |
| Europe                              | 5,561                               | 4,219               |                                  |       |
|                                     | \$ 42,850                           | \$ 35,020           |                                  |       |
|                                     | =====                               | =====               |                                  |       |

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Note 6 - Stock Based Compensation

The Company recognizes share-based compensation in accordance with the provisions of Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R"). Share-based compensation expense was \$74,000 and \$48,000 for the quarters ended September 30, 2007 and September 30, 2006, respectively. Share-based compensation expense was \$257,000 and \$222,000 for the nine months ended September 30, 2007 and September 30, 2006, respectively. The Company did not issue options during the three months ended September 30, 2007. During the nine months ended September 30, 2007, the Company issued 98,250 options with a weighted average fair value of \$4.96. During the three and nine months ended September 30, 2006, the Company issued 63,000 and 113,500 options with a fair values of \$4.35 and \$4.81, respectively. The assumptions used to value option grants for the three and nine months ended September 30, 2007 and September 30, 2006 are as follows:

|                        | Three months ended<br>September 30, |       | Nine months ended<br>September 30, |              |
|------------------------|-------------------------------------|-------|------------------------------------|--------------|
|                        | 2007                                | 2006  | 2007                               | 2006         |
| Expected life in years | 5                                   | 5     | 5                                  | 4-5          |
| Interest rate          | 4.51 - 5.18%                        | 4.91% | 4.51 - 5.18%                       | 4.32 - 4.91% |
| Volatility             | 0.32                                | 0.33  | .32                                | .33 - .34    |
| Dividend yield         | 1.1%                                | 0.80% | 1.1%                               | 0.80 - 0.90  |

As of September 30, 2007, there was \$591,486 of unrecognized compensation cost adjusted for estimated forfeitures, related to non-vested share -based payments granted to the Company's employees. The remaining unamortized expense is expected to be recognized over a weighted average period of approximately 3 years.

Note 7 - Comprehensive Income

Comprehensive income for the three and nine months ended September 30, 2007 and September 30, 2006 consisted of the following:

|                                       | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|---------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                       | 2007                                | 2006     | 2007                               | 2006     |
| (in thousands)                        |                                     |          |                                    |          |
| Net Income                            | \$ 1,305                            | \$ 1,225 | \$ 3,476                           | \$ 3,476 |
| Other comprehensive income / (loss) - |                                     |          |                                    |          |
| Foreign currency translation          | 660                                 | (31)     | 1,192                              | 1,192    |
| Comprehensive income                  | \$ 1,965                            | \$ 1,194 | \$ 4,668                           | \$ 4,668 |



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Note 8 - Income Taxes

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.

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. There was no effect on the Company's financial statements as a result of the adoption of FIN 48. The Company's evaluation of FIN 48 was performed for the tax years ended December 31, 2003, 2004, 2005 and 2006, the tax years which remain subject to examination by major tax jurisdictions as of September 30, 2007. The Internal Revenue Service (IRS) completed its examination of the Company's U.S. federal income tax return for 2004 with no changes.

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In accordance with the Company's accounting policies, any interest and penalties related to uncertain tax positions are recognized in income tax expense.

Note 9 - Business Combinations

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 U.S. 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 Acme United 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 the transactions on a proforma basis.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2. - Management's Discussion and Analysis of Financial Condition and

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### Results of Operations

#### Forward-Looking Information

The Company may from time to time make written or oral "forward-looking statements" including statements contained in this report and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements of the Company's plans, objectives, expectations, estimates and intentions, which are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, in addition to others not listed, could cause the Company's actual results to differ materially from those expressed in forward looking statements: the strength of the domestic and local economies in which the Company conducts operations, changes in client needs and consumer spending habits, the impact of competition and technological change on the Company, the Company's ability to manage its growth effectively, including its ability to successfully integrate any business which it might acquire, and currency fluctuations. A more detailed discussion of risk factors is set forth in Item 1A, "Risk Factors", included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006. All forward-looking statements in this report are based upon information available to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise, except as required by law.

#### Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

#### Results of Operations

##### Net Sales

Consolidated net sales for the three months ended September 30, 2007 were \$17,081,000 compared with \$15,532,000 in the same period in 2006, a 10% increase (8% at constant currency). Consolidated net sales for the nine months ended September 30, 2007 were \$48,321,000, compared with \$44,774,000 for the same period in 2006, an 8% increase (7% at constant currency). Net sales for the first nine months ended September 30, 2007 in the U.S. operating segment increased 6% primarily as the result of sales of new products, including the new iPoint electric pencil sharpener and market share gains. Sales for the nine month period in Canada increased by 9% (6% in local currency) due to sales of the new iPoint electric pencil sharpeners and other new office products. Sales for the nine month period in Europe increased by 20% (12% in local currency) mainly due to higher sales of manicure items and expansion in the office trade channel.

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

##### Gross Profit

Gross profit for the three months ended September 30, 2007 was \$7,381,000

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(43.2% of net sales) compared to \$6,624,000 (42.6% of net sales) for the same period in 2006. The gross margin increase for the third quarter was principally due to improved margins in Europe and the success of new products. Gross profit for the nine months ended September 30, 2007 was \$20,694,000 (42.8% of net sales) compared to \$19,604,000 (43.8% of net sales) in the same period in 2006. The lower margin percentage in the first nine months of 2007, as compared to the same period in 2006, was primarily the result of greater sales of lower margin products, increased raw material costs and the appreciation of the Chinese currency.

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### Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the three months ended September 30, 2007 were \$5,229,000 (30.6% of net sales) compared with \$4,506,000 (29.0% of net sales) for the same period of 2006, an increase of \$723,000. SG&A expenses for the nine months ended September 30, 2007 were \$14,822,000 (30.7% of net sales) compared with \$13,760,000 (30.7% of net sales) in the comparable period of 2006, an increase of \$1,062,000. The increases in SG&A expenses for the three and nine months ended September 30, 2007, compared to the same periods in 2006, were primarily the result of the addition of sales, marketing and quality control personnel and incrementally higher sales commissions and freight costs associated with higher sales.

### Operating Income

Operating income for the three months ended September 30, 2007 was \$2,152,000, compared with \$2,118,000 in the same period of 2006, an increase of \$34,000. Operating income in Canada decreased by \$90,000 in the third quarter 2007, compared to the third quarter 2006. Canada's decrease in operating income was principally due to earlier shipments of back to school items this year for which the related revenues were recognized in earlier periods. Operating profit in Canada in the second quarter of 2007 was \$80,000 higher than in the comparable period last year. The European operating loss for the three months ended September 30, 2007 improved from \$145,000 to \$63,000. Total company operating income for the nine months ended September 30, 2007 was \$5,872,000, as compared to \$5,844,000 in the same period of 2006. The European operating loss for the nine months ended September 30, 2007 improved from \$536,000 to \$397,000. The decrease in the European operating loss was mainly due to sales growth and improved gross margins as a result lower packaging and airfreight expenses.

### Interest Expense

Interest expense for the three months ended September 30, 2007 was \$208,000, compared with \$207,000 for the same period of 2006. Interest expense for the nine months ended September 30, 2007 was \$519,000 as compared to \$462,000 for the same period in 2006, a \$57,000 increase. The increase in interest expense during the first nine months of 2007 over the comparable period in 2006 was primarily the result of higher borrowings under the Company's bank revolving credit facility used to finance the company's increase in sales during the same period.

### Other Income, Net

Net other income was \$91,000 in the three months ended September 30, 2007, compared to \$35,000 in the same period of 2006, an increase of \$56,000. Net other income was \$77,000 in the first nine months of 2007 compared to \$149,000

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in the first nine months of 2006, a decrease of \$72,000. The decrease in other income during the first nine months of 2007 was primarily due to lower gains from foreign currency transactions.

### Income Taxes

The effective tax rate in the first nine months of 2007 was 36% compared to 37% in the first nine months of 2006. The 1% decrease in the Company's effective tax rate was primarily due to the Company's lower losses in Europe for which there is no recorded tax benefit because the losses in Europe cannot be utilized to offset earnings in other countries.

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### Financial Condition

#### Liquidity and Capital Resources

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

|                                | September 30, 2007 | December 31, 2006 |
|--------------------------------|--------------------|-------------------|
|                                | -----              | -----             |
| Working capital                | \$ 31,170,370      | \$ 25,460,078     |
| Current ratio                  | 5.14               | 5.22              |
| Long term debt to equity ratio | 55.2%              | 56.3%             |

On March 6, 2006, the Company modified its Revolving Loan Agreement (the "Modified Loan Agreement") with Wachovia Bank. The Modified Loan Agreement amended certain provisions of the original Revolving Loan Agreement. The amendments include an increase in the maximum borrowing amount from \$10 million to \$15 million; an extension of the maturity date of the loan from June 30, 2007 to June 30, 2009; a decrease in the interest rate to LIBOR plus 1% (from LIBOR plus 1.5%), as well as modifications to certain covenant restrictions. Funds borrowed under the Modified Loan Agreement are used for working capital, general operating expenses and certain other purposes.

During the first nine months of 2007, total debt outstanding under the Company's Modified Loan Agreement increased by \$2,082,320 compared to December 31, 2006, principally due to an increase in borrowings for inventory needed for anticipated sales growth, and accounts receivables resulting from the back to school season, partially offset by earnings. The increase in the company's working capital of \$5,709,292, from December 31, 2006 to September 30, 2007, was primarily due to increase in inventory and accounts receivables financed by long-term debt. Such increases in inventory and accounts receivables were principally due to anticipated sales growth and increased sales from the back to school season, respectively.

Additionally, the Company spent a total of approximately \$601,000 on two acquisitions (see Note 9 to the Company's condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q) and repurchased company stock for \$486,000 during the first nine months of 2007 in accordance with the Company's previously announced stock repurchase program. As of September 30, 2007, \$12,270,000 was outstanding and \$2,730,000 was available for borrowing under the Modified Loan Agreement.

Cash expected to be 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 over the next twelve months.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS-Continued

#### Item 3. Quantitative and Qualitative Disclosure About Market Risk

There are no material changes in market risks as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

#### Item 4. Controls and Procedures

##### (a) Evaluation of Internal Controls and Procedures

Our 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 our employees. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have each concluded that, as of September 30, 2007, our disclosure controls and procedures were effective and sufficient to ensure that we record, process, summarize and report information required to be disclosed by us in our periodic reports filed under the Securities and Exchange Commission's rules and forms.

##### (b) Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2007, there were no changes in our internal control over financial reporting that materially affected, or was reasonably likely to materially affect, this control.

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## PART II. OTHER INFORMATION

#### Item 1 -- Legal Proceedings

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 impact on its financial position, results of operations, or liquidity.

#### Item 1A - Risk Factors

See Risk Factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

#### Item 2 -- Unregistered Sales of Equity Securities and Use of Proceeds

(c) On October 4, 2005, the Company announced a stock repurchase program of up to 150,000 shares. The program does not have an expiration date. The following table discloses the total shares repurchased under these programs for the quarter ended September 30, 2007:

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| Period    | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of shares Purchased as Part of Publicly Announced Program | Maximum Number of Shares that could be Purchased Under the Program |
|-----------|----------------------------------|------------------------------|--|--|
| September | 10,000                           | \$ 13.86                     | 10,000   |  |
|           | 10,000                           | \$ 13.86                     | 10,000   | 90,000   |

Item 3 -- Defaults Upon Senior Securities

None

Item 4 -- Submission of Matters to a Vote of Security Holders

None

Item 5 -- Other Information

None.

Item 6 -- Exhibits

Documents filed as part of this report.

Exhibit 31.1 Certification of Walter C. Johnsen pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification of Paul G. Driscoll pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ACME UNITED CORPORATION

By /s/ WALTER C. JOHNSEN

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Walter C. Johnsen

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Chairman of the Board and  
Chief Executive Officer

Dated: November 9, 2007

By /s/ PAUL G. DRISCOLL

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Paul G. Driscoll  
Vice President and  
Chief Financial Officer

Dated: November 9, 2007

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