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ACME UNITED CORP
Form 10-Q
May 05, 2008

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

FORM 10-Q

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from _____ to _____

Commission file number 001-07698

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

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 April 16, 2008 the registrant had outstanding 3,510,183 shares of its \$2.50 par value Common Stock.

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ACME UNITED CORPORATION

| | Page ---- |
|--|--------------|
| Part I -- FINANCIAL INFORMATION | |
| Item 1. Financial Statements (Unaudited) | |
| Condensed Consolidated Balance Sheets as of March 31, 2008 and December 31, 2007 | 3 |
| Condensed Consolidated Statements of Operations for the three months ended March 31, 2008 and 2007..... | 5 |
| Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2008 and 2007..... | 6 |
| Notes to Condensed Consolidated Financial Statements..... | 7 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations..... | 10 |
| Item 3. Quantitative and Qualitative Disclosure About Market Risk..... | 13 |
| Item 4. Controls and Procedures..... | 13 |
| Part II -- OTHER INFORMATION | |
| Item 1. Legal Proceedings..... | 14 |
| Item 1A. Risk Factors..... | 14 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds... | 14 |
| Item 3. Defaults Upon Senior Securities..... | 14 |
| Item 4. Submission of Matters to a Vote of Security Holders..... | 14 |
| Item 5. Other Information..... | 14 |
| Item 6. Exhibits..... | 14 |
| Signatures..... | 15 |

(2)

ACME UNITED CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS (all amounts in thousands, except share data)

| | March 31, 2008 (unaudited) | December 31, 2007 (Note 1) |
|---|----------------------------------|----------------------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,815 | \$ 4,988 |
| Accounts receivable, less allowance | 12,482 | 12,727 |
| Inventories: | | |
| Finished goods | 19,179 | 18,069 |
| Work in process | 200 | 113 |
| Raw materials and supplies | 697 | 753 |
| | ----- | ----- |
| | 20,076 | 18,935 |
| Prepaid expenses and other current assets | 1,228 | 1,211 |
| | ----- | ----- |
| Total current assets | 38,601 | 37,860 |
| | ----- | ----- |
| Property, plant and equipment: | | |
| Land | 187 | 175 |
| Buildings | 3,117 | 2,971 |
| Machinery and equipment | 8,441 | 8,050 |
| | ----- | ----- |

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| | | |
|-------------------------------|-----------|-----------|
| | 11,745 | 11,196 |
| Less accumulated depreciation | 9,209 | 8,717 |
| | ----- | ----- |
| | 2,536 | 2,479 |
| Other assets | 1,790 | 1,794 |
| Goodwill | 89 | 89 |
| | ----- | ----- |
| Total assets | \$ 43,016 | \$ 42,222 |
| | ===== | ===== |

See notes to condensed consolidated financial statements.

(3)

ACME UNITED CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS (continued) (all amounts in thousands, except share data)

| | March 31, 2008 (unaudited) | December 31, 2007 (Note 1) |
|--|----------------------------------|----------------------------------|
| | ----- | ----- |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,912 | \$ 4,575 |
| Other accrued liabilities | 2,900 | 3,904 |
| Current portion of long-term debt | 3 | 3 |
| | ----- | ----- |
| Total current liabilities | 6,815 | 8,482 |
| Long-term debt, less current portion | 12,711 | 10,187 |
| Other | 536 | 507 |
| | ----- | ----- |
| Total liabilities | 20,062 | 19,176 |
| STOCKHOLDERS' EQUITY | | |
| Common stock, par value \$2.50: | | |
| authorized 8,000,000 shares; | | |
| issued - 4,281,774 shares in 2008 | | |
| and 4,267,274 shares in 2007, | | |
| including treasury stock | 10,704 | 10,668 |
| Additional paid-in capital | 3,660 | 3,550 |
| Retained earnings | 15,085 | 14,473 |
| Treasury stock, at cost - 771,591 shares | | |
| in 2008 and 714,391 shares in 2007 | (6,717) | (5,930) |
| Accumulated other comprehensive income: | | |
| Translation adjustment | 857 | 921 |
| Minimum pension liability | (635) | (635) |
| | ----- | ----- |
| | 222 | 286 |
| | ----- | ----- |
| Total stockholders' equity | 22,954 | 23,047 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 43,016 | \$ 42,222 |
| | ===== | ===== |

See notes to condensed consolidated financial statements.

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(4)

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

| | Three Months Ended March 31 | |
|--|--------------------------------|-----------|
| | 2008 | 2007 |
| Net sales | \$ 14,269 | \$ 12,241 |
| Cost of goods sold | 8,283 | 6,907 |
| Gross Profit | 5,986 | 5,334 |
| Selling, general and administrative expenses | 4,918 | 4,158 |
| Operating income | 1,068 | 1,176 |
| Non-operating items: | | |
| Interest expense | 96 | 154 |
| Other income, net | 186 | 27 |
| Total other income (expense) | 90 | (127) |
| Income before income taxes | 1,158 | 1,049 |
| Income tax expense | 405 | 399 |
| Net income | \$ 753 | \$ 650 |
| Basic earnings per share | \$ 0.21 | \$ 0.18 |
| Diluted earnings per share | \$ 0.21 | \$ 0.17 |
| Weighted average number of common shares outstanding- denominator used for basic per share computations | 3,517 | 3,525 |
| Weighted average number of dilutive stock options outstanding | 149 | 200 |
| Denominator used for diluted per share computations | 3,666 | 3,725 |
| Dividends declared per share | \$ 0.04 | \$ 0.04 |

See notes to condensed consolidated financial statements

(5)

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

Three Months Ended

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| | March 31, | |
|---|-----------|----------|
| | 2008 | 2007 |
| Operating Activities: | | |
| Net income | \$ 753 | \$ 650 |
| Adjustments to reconcile net income to net cash used by operating activities: | | |
| Depreciation | 219 | 198 |
| Amortization | 26 | 13 |
| Stock compensation expense | 72 | 53 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 140 | 1,188 |
| Inventories | (965) | (500) |
| Prepaid expenses and other current assets | (35) | (643) |
| Other assets | | |
| Accounts payable | (706) | 225 |
| Other accrued liabilities | (995) | (1,501) |
| Total adjustments | (2,244) | (969) |
| Net cash used by operating activities | (1,491) | (319) |
| Investing Activities: | | |
| Purchase of property, plant, and equipment | (237) | (85) |
| Purchase of patents and trademarks | (24) | (3) |
| Net cash used by investing activities | (261) | (88) |
| Financing Activities: | | |
| Net borrowing of long-term debt | 2,520 | 236 |
| Proceeds from issuance of common stock | 74 | 153 |
| Distributions to stockholders | (141) | (105) |
| Purchase of treasury stock | (787) | (347) |
| Net cash provided (used) by financing activities | 1,666 | (64) |
| Effect of exchange rate changes | (87) | 19 |
| Net change in cash and cash equivalents | (173) | (452) |
| Cash and cash equivalents at beginning of period | 4,988 | 3,838 |
| Cash and cash equivalents at end of period | \$ 4,815 | \$ 3,386 |

See notes to condensed consolidated financial statements.

(6)

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

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position, results of operations and cash flows of Acme United Corporation (the "Company"). These adjustments are of a normal, recurring nature. However, the 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, 2007 for such disclosures. The condensed consolidated balance sheet as of December 31, 2007 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 2007 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 | |
|--|--------------------|------------------|
| | March 31 2008 | March 31 2007 |
| Components of net periodic benefit cost: | | |
| Interest cost | \$ 45,000 | \$ 47,500 |
| Service cost | 7,500 | 7,500 |
| Expected return on plan assets | (56,250) | (57,500) |
| Amortization of prior service costs | 2,250 | 2,250 |
| Amortization of actuarial gain | 18,750 | 22,000 |
| | <u>\$ 17,250</u> | <u>\$ 21,750</u> |

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. As of March 31, 2008 and December 31, 2007, the Company had outstanding borrowings of \$12,670,415 and \$10,150,175, 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 as of March 31, 2008 as long-term liabilities.

During the first three months of 2008, the Company issued 14,500 shares of common stock and received proceeds there from of \$74,062 upon the exercise of outstanding stock options. During the same period, the Company also repurchased 57,200 shares of common stock for its treasury. These shares were purchased at

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fair market value, with a total cost to the Company of \$786,866.

(7)

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 operations are closely linked to those of the U.S. operations; accordingly, management reviews the financial results of both segments on a consolidated basis, and the results of the Asian operations have been aggregated with the results of the United States operations 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 Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"),. 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 March 31 | |
|------------------------------|--------------------------------|---------------------|
| Sales to external customers: | 2008 | 2007 |
| United States | \$ 10,917 | \$ 9,273 |
| Canada | 1,698 | 1,571 |
| Europe | 1,654 | 1,396 |
| Consolidated | \$ 14,269 | \$ 12,241 |
| Operating income: | | |
| United States | \$ 1,088 | \$ 1,301 |
| Canada | 110 | 57 |
| Europe | (130) | (182) |
| Consolidated | \$ 1,068 | \$ 1,176 |
| Assets by segment | March 31 2008 | December 31 2007 |
| United States | \$ 29,860 | \$ 28,350 |
| Canada | 7,389 | 7,886 |
| Europe | 5,767 | 5,986 |
| Consolidated | \$ 43,016 | \$ 42,222 |

(8)

Note 6 - Stock Based Compensation

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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 \$72,000 and \$53,000 for the quarters ended March 31, 2008 and March 31, 2007, respectively. The Company did not issue options during the three months ended March 31, 2008. As of March 31, 2008, there was \$444,000 of unrecognized compensation cost, adjusted for estimated forfeitures related to non-vested share-based payments granted to the Company's employees.

Note 7 - Comprehensive Income

Comprehensive income for the three months ended March 31, 2008 and 2007 consisted of the following (in thousands):

| | Three Months Ended March 31 | |
|---|--------------------------------|--------|
| | 2008 | 2007 |
| Net income | \$ 753 | \$ 650 |
| Other comprehensive (loss) / income - Foreign currency translation | (64) | 64 |
| Comprehensive income | \$ 689 | \$ 714 |

(9)

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

Item 2. - Management's Discussion and Analysis of Financial Condition and 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, 2007. 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

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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 the Company's 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 the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Results of Operations

Net Sales

Consolidated net sales for the three months ended March 31, 2008 were \$14,269,000, compared with \$12,241,000 in the same period in 2007, a 17% increase (13% at constant currency). Net sales in the U.S. operating segment increased 17% for the three months ended March 31, 2008, principally due to higher sales of pencil sharpeners, over-the-counter medications and paper trimmers. Net sales in Canada decreased by 7% in local currency due to soft demand in the overall office products market. Net sales in Europe decreased by 4% in local currency.

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 March 31, 2008 was \$5,986,000 (41.9% of net sales), compared to \$5,334,000 (43.6% of net sales) for the same period in 2007, a decrease of 1.7%. The gross margin decrease for the first quarter was principally due to a higher proportion of sales of medications in the U.S. segment, which carry a lower gross margin than the Company's other product lines. This decrease was partially offset by gross margin percentage increases in both the Canadian and European operating segments. These increases were principally related to a favorable customer/product mix.

(10)

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the three months ended March 31, 2008 were \$4,918,000 (34.5% of net sales), compared with \$4,158,000 (34.0% of net sales) for the same period of 2007, an increase of \$760,000. The increase in SG&A expenses for the three months ended March 31, 2008, compared to the same period in 2007, was primarily the result of the addition of sales, marketing and quality control personnel as well as incrementally higher sales commissions and freight costs associated with higher sales.

Operating Income

Operating income for the three months ended March 31, 2008 was \$1,068,000, compared with \$1,176,000 in the same period of 2007, a decrease of \$108,000. Operating income in the U.S. segment decreased by \$213,000 or 16% in the first quarter of 2008, compared to the same period of 2007 principally due to product

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mix and increased SG&A expenses. Operating income in Canada and Europe increased by approximately \$53,000 and \$50,000, respectively, in the first quarter of 2008 compared to the same period in 2007.

Interest Expense, Net

Interest expense for the three months ended March 31, 2008 was \$96,000, compared with \$154,000 for the same period of 2007, a decrease of \$58,000. The decrease in interest expense during the first three months of 2008 over the comparable period in 2007 was primarily the result of lower interest rates on the Company's debt outstanding under its revolving loan agreement.

Other Income, Net

Net other income was \$186,000 in the first quarter of 2008, compared to net other income of \$27,000 in the first quarter of 2007, an increase of \$159,000. The change from 2007 is primarily due to gains from foreign currency transactions.

Income Taxes

The effective tax rate in the first quarter of 2008 was 35%, compared to 38% in the first quarter of 2007.

(11)

Financial Condition

Liquidity and Capital Resources

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

| | March 31, 2008 | December 31, 2007 |
|--------------------------------|----------------|-------------------|
| Working capital | \$ 31,785,762 | \$ 29,377,846 |
| Current ratio | 5.66 | 4.46 |
| Long term debt to equity ratio | 55.4% | 44.2% |

During the first three months of 2008, total debt increased by \$2,524,000, compared to total debt at December 31, 2007 principally as a result of additional borrowings under the revolving loan agreement related to the buildup of inventory in anticipation of future business, and the repurchase of common stock under a previously announced repurchase program, partially offset by cash generated from operations.

Under the Company's revolving loan agreement with Wachovia, the maximum borrowing amount is \$15 million, the interest rate is LIBOR plus 1% and the maturity date is June 30, 2009. Funds borrowed under the revolving loan agreement will be used for working capital, general operating expenses and certain other purposes. As of March 31, 2008, \$12,670,000 was outstanding and \$2,330,000 was available for borrowing under the revolving loan agreement.

Cash expected to be generated from operating activities, together with funds available under the revolving 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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Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. SFAS No. 157 also expands financial statement disclosures about fair value measurements. On February 12, 2008, the FASB issued FASB Staff Position (FSP) 157-2 which delays the effective date of SFAS No. 157 for one year, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 and FSP 157-2 are effective for financial statements issued for fiscal years beginning after November 15, 2007. We will elect a partial deferral of SFAS No. 157 under the provisions of FSP 157-2 related to the measurement of fair value used when evaluating long-lived assets for impairment and valuing asset retirement obligations. The impact of partially adopting SFAS No. 157 effective January 1, 2008 will not be material to our financial statements.

(12)

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, 2007.

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 March 31, 2008, 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 March 31, 2008, there were no significant changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

(13)

PART II. OTHER INFORMATION

Item 1 -- Legal Proceedings

The Company is involved from time to time in disputes and other litigation

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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, 2007.

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. In addition, on January 23, 2008, the Company announced a new stock repurchase program of up to 150,000 shares. These programs do not have an expiration date. The following table discloses the total shares repurchased under these programs for the quarter ended March 31, 2008:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of shares Purchased as Part of Publicly Announced Programs | Maximum Number of Shares that ma yet be Purchased Under the Program |
|----------|-------------------------------------|---------------------------------|---|--|
| January | 57,200 | \$ 13.76 | 117,600 | 182,400 |
| February | - | - | - | |
| March | - | - | - | |
| Total | 57,200 | \$ 13.76 | 117,600 | 182,400 |

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

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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

(14)

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

 Walter C. Johnsen
 Chairman of the Board and
 Chief Executive Officer

Dated: May 5, 2008

By /s/ PAUL G. DRISCOLL

 Paul G. Driscoll
 Vice President and
 Chief Financial Officer

Dated: May 5, 2008

(15)