
**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, 2012**

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one).
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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 22, 2012 the registrant had outstanding 3,103,227 shares of its \$2.50 par value Common Stock.

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

	March 31, 2012 (unaudited)	December 31, 2011 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,078	\$ 7,853
Accounts receivable, less allowance	14,689	12,904
Inventories:		
Finished goods	22,571	22,887
Work in process	134	45
Raw materials and supplies	929	1,563
	<u>23,634</u>	<u>24,495</u>
Prepaid expenses and other current assets	1,926	1,270
Total current assets	<u>44,327</u>	<u>46,522</u>
Property, plant and equipment:		
Land	293	288
Buildings	2,302	2,277
Machinery and equipment	7,791	7,657
	<u>10,386</u>	<u>10,222</u>
Less accumulated depreciation	7,986	7,716
	<u>2,400</u>	<u>2,506</u>
Note receivable	1,750	1,766
Intangible assets, less amortization	3,264	3,285
Other assets	1,143	1,143
Total assets	<u>\$ 52,885</u>	<u>\$ 55,222</u>

See notes to condensed consolidated financial statements.

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

	March 31, 2012 (unaudited)	December 31, 2011 (Note 1)
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 3,541	\$ 4,935
Other accrued liabilities	3,437	3,769
Total current liabilities	<u>6,978</u>	<u>8,704</u>
Long-term debt	16,920	17,568
Other	1,207	1,174
Total liabilities	<u>25,105</u>	<u>27,447</u>
STOCKHOLDERS' EQUITY		
Common stock, par value \$2.50:		
authorized 8,000,000 shares;		
issued - 4,459,024 shares in 2012		
and 4,454,024 shares in 2011,		
including treasury stock	11,147	11,134
Additional paid-in capital	5,216	5,120
Retained earnings	24,444	24,403
Treasury stock, at cost - 1,355,797 shares		
in 2012 and 1,319,047 in 2011	(12,214)	(11,844)
Accumulated other comprehensive income:		
Minimum pension liability	(1,089)	(1,089)
Translation adjustment	276	51
	<u>(813)</u>	<u>(1,038)</u>
Total stockholders' equity	<u>27,780</u>	<u>27,775</u>
Total liabilities and stockholders' equity	<u>\$ 52,885</u>	<u>\$ 55,222</u>

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 31	
	2012	2011
Net sales	\$ 16,878	\$ 14,401
Cost of goods sold	10,934	9,093
Gross profit	5,944	5,308
Selling, general and administrative expenses	5,486	5,125
Operating income	458	183
Non-operating items:		
Interest:		
Interest expense	103	97
Interest income	(47)	(50)
Interest expense, net	56	47
Other expense (income), net	42	(25)
Total other expense, net	98	22
Income before income taxes	360	161
Income tax expense	100	41
Net income	\$ 260	\$ 120
Basic earnings per share	\$ 0.08	\$ 0.04
Diluted earnings per share	\$ 0.08	\$ 0.04
Weighted average number of common shares outstanding- denominator used for basic per share computations	3,129	3,075
Weighted average number of dilutive stock options outstanding	2	30
Denominator used for diluted per share computations	3,131	3,105
Dividends declared per share	\$ 0.07	\$ 0.06

See notes to condensed consolidated financial statements.

ACME UNITED CORPORATION
Condensed Consolidated Statements of Comprehensive Income
(all amounts in thousands, except per share amounts)
(Unaudited)

	Three Months Ended	
	March 31	
	<u>2012</u>	<u>2011</u>
Net income	\$ 260	\$ 120
Other comprehensive income -		
Foreign currency translation adjustment	<u>225</u>	<u>344</u>
Comprehensive income	<u>\$ 485</u>	<u>\$ 464</u>

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

	Three Months Ended	
	March 31,	
	2012	2011
Operating Activities:		
Net income	\$ 260	\$ 120
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	209	197
Amortization	49	36
Stock compensation expense	88	84
Changes in operating assets and liabilities:		
Accounts receivable	(1,703)	316
Inventories	998	393
Prepaid expenses and other assets	(575)	(176)
Accounts payable	(1,441)	(2,684)
Other accrued liabilities	(376)	(1,133)
Total adjustments	(2,751)	(2,968)
Net cash used by operating activities	(2,491)	(2,847)
Investing Activities:		
Purchase of property, plant, and equipment	(75)	(178)
Purchase of patents and trademarks	(29)	(24)
Acquisition of Pac-Kit Safety Company	-	(3,127)
Net cash used by investing activities	(104)	(3,329)
Financing Activities:		
(Repayments) borrowing of long-term debt	(649)	4,823
Proceeds from issuance of common stock	21	105
Distributions to stockholders	(219)	(184)
Purchase of treasury stock	(370)	(97)
Net cash (used) provided by financing activities	(1,217)	4,646
Effect of exchange rate changes	37	31
Net change in cash and cash equivalents	(3,775)	(1,499)
Cash and cash equivalents at beginning of period	7,853	6,601
Cash and cash equivalents at end of period	\$ 4,078	\$ 5,102

See notes to condensed consolidated financial statements.

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 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, 2011 for such disclosures. The condensed consolidated balance sheet as of December 31, 2011 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 2011 Annual Report on Form 10-K.

The Company has evaluated events and transactions subsequent to March 31, 2012 and through the date these consolidated financial statements were included in this Form 10-Q and filed with the SEC.

Recent accounting pronouncements

In June 2011, the FASB issued a new accounting standard on the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance was effective for our quarter ended March 31, 2012. The adoption of this guidance was limited to a change in the presentation of our results, which we have elected to include as a separate Condensed Consolidated Statement of Comprehensive Income.

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 its financial position, results of operations or liquidity, as set forth in these financial statements.

In December 2008, the Company sold property it owned in Bridgeport, Connecticut to B&E Juices, Inc. for \$2.5 million, of which \$2.0 million is secured by a mortgage on the property. The property consisted of approximately four acres of land and 48,000 sq. feet of warehouse space. The property was the site of the original Acme United scissor factory which opened in 1887 and was closed in 1996.

Under the terms of the sale agreement, and as required by the Connecticut Transfer Act, the Company is required to remediate any environmental contamination on the property. During 2008, the Company hired an independent environmental consulting firm to conduct environmental studies in order to identify the extent of the environmental contamination on the property and to develop a remediation plan. As a result of those studies and the estimates prepared by the independent environmental consulting firm, the Company recorded an undiscounted liability of approximately \$1.8 million related to the remediation of the property. This accrual includes the costs of required investigation, remedial activities, and post-remediation operating and maintenance.

Remediation work on the project began in the third quarter of 2009. The Company expects the remediation work to be completed during the second half of 2012. At March 31, 2012, the Company had approximately \$224,000 remaining in its accrual for environmental remediation and monitoring, of which approximately \$71,000 is classified as a current liability in the accompanying balance sheet.

In addition to the remediation work, the Company, with the assistance of its independent environmental consulting firm, must continue to monitor contaminant levels on the property to ensure they comply with set governmental standards. The Company expects that the monitoring period could last a minimum of three years from the completion of the remediation work.

The change in the accrual for environmental remediation for the three months ended March 31, 2012 follows (in thousands):

Balance at December 31, 2011	Payments	Balance at March 31, 2012
\$ 239	\$ (15)	\$ 224

Also, as part of the sale, the Company has provided the buyer with a mortgage of \$2.0 million at six percent interest per year. The mortgage is payable in monthly installments of principal and interest with the outstanding balance due in full, one year after remediation and monitoring on the property have been completed. It is estimated that the remediation project will be completed within five years from the date of the sale.

Note 3 — Pension

Components of net periodic pension cost are as follows (in thousands):

	Three Months Ended	
	March 31 2012	March 31 2011
Components of net periodic benefit cost:		
Interest cost	\$ 26	\$ 25
Service cost	5	5
Expected return on plan assets	(26)	(24)
Amortization of prior service costs	3	2
Amortization of actuarial loss	38	31
	<u>\$ 45</u>	<u>\$ 39</u>

The Company's funding policy with respect to its qualified plan is to contribute at least the minimum amount required by applicable laws and regulations. In 2012, the Company is required to contribute approximately \$235,000.

Note 4 — Long Term Debt and Shareholders Equity

The Company's revolving loan agreement with Wells Fargo provided for borrowings up to \$20 million, with all principal amounts outstanding thereunder required to be repaid in a single amount on March 31, 2013. As of March 31, 2012 and December 31, 2011, the Company had outstanding borrowings of \$16,919,519 and \$17,568,484, respectively, under the revolving loan agreement. Under the revolving loan agreement, the Company was required to maintain specific amounts of tangible net worth, a specified debt service coverage ratio, and a fixed charge coverage ratio. At March 31, 2012 the Company was in compliance with these covenants.

On April 5, 2012, the Company entered into a new revolving loan agreement with HSBC Bank, N.A. The new five-year credit facility provides for increased borrowings of up to an aggregate of \$30 million at an interest rate of LIBOR plus 1.75%, which is 0.25% lower than the interest rate under our former loan agreement with Wells Fargo. All principal amounts outstanding under the agreement are required to be repaid in a single amount on April 5, 2017, the date the agreement expires; interest is payable monthly. Funds borrowed under the agreement may be used for working capital, general operating expenses, share repurchases and certain other purposes. Under the revolving 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. These financial covenants in the new loan agreement are similar to the covenants in the prior agreement with Wells Fargo.

In conjunction with signing the new agreement, the Company ended its agreement with Wells Fargo and used funds borrowed under the new loan agreement to pay all amounts then outstanding under the revolving loan agreement with Wells Fargo Bank.

During the first three months of 2012, the Company issued 5,000 shares of common stock and received proceeds of \$21,000 upon the exercise of employee stock options.

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. As described below, 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 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 segment" or "U.S. operating segment". Each reportable segment derives its revenue from the sales of cutting devices, measuring instruments and safety products for school, office, home, hardware and industrial use.

Domestic sales orders are filled from the Company's distribution center in North Carolina. The Company is responsible for the costs of shipping, insurance, customs clearance, duties, storage and distribution related to such products. Orders filled from the Company's inventory are generally for less than container-sized lots.

Direct import sales are products sold by the Company's Asian subsidiary, directly to major U.S. retailers, who take ownership of the products in Asia. These sales are completed by delivering product to the customers' common carriers at the shipping points in Asia. Direct import sales are made in larger quantities than domestic sales, typically full containers. Direct import sales represented approximately 10% and 8% of the Company's total net sales for the three months ended March 31, 2012 and 2011, respectively.

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	
	2012	2011
Sales to external customers:		
United States	\$ 12,595	\$ 10,559
Canada	1,659	1,854
Europe	2,625	1,988
Consolidated	<u>\$ 16,878</u>	<u>\$ 14,401</u>
Operating income:		
United States	\$ 166	\$ 120
Canada	50	150
Europe	242	(87)
Consolidated	<u>\$ 458</u>	<u>\$ 183</u>
Interest expense, net	56	47
Other (income) expense, net	42	(25)
Consolidated income before taxes	<u>\$ 360</u>	<u>\$ 161</u>
Assets by segment		
	March 31 2012	December 31 2011
United States	\$ 41,611	\$ 43,174
Canada	5,190	6,033
Europe	6,084	6,015
Consolidated	<u>\$ 52,885</u>	<u>\$ 55,222</u>

Note 6 – Stock Based Compensation

The Company recognizes share-based compensation at fair value of the equity instrument on the grant date. Compensation expense is recognized over the required service period. Share-based compensation expense was \$87,516 and \$83,610 for the quarters ended March 31, 2012 and March 31, 2011, respectively. During the three months ended March 31, 2012 and 2011, the Company granted 64,938 and 60,000 employee stock options, respectively, with a weighted average fair value of \$2.23 and \$2.52, respectively. As of March 31, 2012, there was a total of \$733,146 of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested, share –based payments granted to the Company’s employees.

Note 7 – Fair Value Measurements

The carrying value of the Company’s bank debt and note receivable approximates fair value. Fair value was determined using a discounted cash flow analysis.

Note 8 – Business Combinations

On February 28, 2011, the Company purchased substantially all of the assets of The Pac-Kit Safety Equipment Company, a leading manufacturer of first aid kits for the industrial, safety, transportation and marine markets. The Company purchased the accounts receivable, inventory, equipment and intangible assets of Pac-Kit for approximately \$3.4 million, less liabilities assumed of \$310,000.

Unaudited net sales and net income for the three months ended March 31, 2011 attributable to Pac-Kit were approximately \$600,000 and \$30,000, respectively.

Assuming Pac-Kit was acquired on January 1, 2011, unaudited proforma net sales and net income for the three months ended March 31, 2011, attributable to Pac-Kit were approximately \$1.3 million and \$90,000.

**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, the impact of current uncertainties in global economic conditions and the ongoing financial crisis affecting the domestic and foreign banking system and financial markets, including the impact of the Company's suppliers and customers, 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, 2011. 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 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, 2011.

Results of Operations

On February 28, 2011, the Company purchased substantially all of the assets of The Pac-Kit Safety Equipment Company, a leading manufacturer of first aid kits for the industrial, safety, transportation and marine markets. The Company purchased the accounts receivable, inventory, equipment and intangible assets of Pac-Kit for approximately \$3.4 million using funds borrowed under its revolving loan agreement with Wells Fargo. The Pac-Kit line of products consists of high quality, unitized first aid kits sold to a broad range of customers and distributors.

The Company recorded approximately \$1.9 million for assets acquired, including accounts receivable, inventory and fixed assets, as well as approximately \$1.5 million for intangible assets, consisting of customer relationships and the Pac-Kit trade name.

Net Sales

Consolidated net sales for the three months ended March 31, 2012 were \$16,878,000, compared with \$14,401,000, in the same period in 2011, a 17% increase. Net sales in the U.S increased 19% principally due to increased sales of iPoint pencil sharpeners, Clauss professional cutting tools and first aid products. Net sales in the Canadian operating segment decreased 11% (9% in local currency). The decrease was primarily the result of initial shipments of AirShoc lawn and garden tools during the first quarter of 2011. Initial orders are typically larger than subsequent routine orders. Net sales in Europe increased by 32% in U.S. dollars (39% in local currency). The increase in sales was primarily due to market share gains with mass market customers as a result of increased focus and resources in that channel of the business.

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, 2012 was \$5,944,000 (35.2% of net sales), compared to \$5,308,000 (36.9% of net sales) for the same period in 2011. The decrease in gross profit as a percentage of sales for the first quarter was principally due to the mix of products sold in the quarter. We expect gross margins to improve in the second quarter with an improved product mix over the first quarter.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the three months ended March 31, 2012 were \$5,486,000 (32.5% of net sales), compared with \$5,125,000 (35.6% of net sales) for the same period of 2011, an increase of \$361,000. The increase in SG&A expenses for the three months ended March 31, 2012, compared to the same period in 2011, was primarily due to higher commission and delivery costs associated with the higher sales.

Operating Income

Operating income for the three months ended March 31, 2012 was \$458,000, compared with \$183,000 in the same period of 2011, an increase of \$275,000. Operating income in the U.S. increased by \$46,000 compared to the same period of 2011. The increase is principally due to higher sales, as described above. Operating income in the Canada decreased by \$100,000 primarily due to the decrease in sales. The European segment had operating income of approximately \$242,000 in the first quarter of 2012, compared to a loss of \$87,000 in the same period of 2011, primarily as a result of higher sales.

Interest Expense, net

Interest expense, net for the three months ended March 31, 2012, was \$56,000, compared with \$47,000 for the same period of 2011.

Other expense (income), net

Net other expense (income), consisting primarily of foreign currency transaction losses, was \$42,000 in the first quarter of 2012, compared to income of \$25,000 in the first quarter of 2011.

Income Taxes

The effective tax rate in the first quarter of 2012 was 28%, compared to 26% in the first quarter of 2011. The increase in the effective tax rate is primarily related to the Company having a higher proportion of earnings in the United States which has a higher tax rate than the countries in which our subsidiaries operate.

Financial Condition

Liquidity and Capital Resources

During the first three months of 2012, working capital declined approximately \$469,000 compared to December 31, 2011. Inventory declined by approximately \$861,000 at March 31, 2012 compared to December 31, 2011. Inventory turnover, calculated using a twelve month average inventory balance, was 2.0 at March 31, 2012 and December 31, 2011. Receivables increased by approximately \$1.7 million at March 31, 2012 compared to December 31, 2011. The increase in accounts receivables occurred primarily due to the higher sales in the first quarter of 2012 compared to the previous quarter. The average number of days sales outstanding in accounts receivable was 65 days at March 31, 2012 and December 31, 2011.

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

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Working capital	\$ 37,348,713	\$ 37,818,344
Current ratio	6.35	5.34
Long term debt to equity ratio	60.9%	63.3%

During the first three months of 2012, total debt outstanding under the Company's former credit facility, decreased by approximately \$649,000 compared to total debt thereunder at December 31, 2011. As of March 31, 2012, \$16,919,519 was outstanding and \$3,080,481 was available for borrowing under the Company's former credit facility.

On April 5, 2012, the Company entered into a new revolving loan agreement with HSBC Bank, N.A. The new five-year credit facility provides for increased borrowings of up to an aggregate of \$30 million at an interest rate of LIBOR plus 1.75%, which is 0.25% lower than the interest rate under our former loan agreement. All principal amounts outstanding under the agreement are required to be repaid in a single amount on April 5, 2017, the date the agreement expires; interest is payable monthly. Funds borrowed under the agreement may be used for working capital, general operating expenses, share repurchases and certain other purposes. Under the revolving 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. These financial covenants in the new loan agreement are similar to the covenants in the prior agreement with Wells Fargo.

In conjunction with signing the new agreement, the Company ended its agreement with Wells Fargo and used funds borrowed under the new loan agreement to pay all amounts then outstanding under the revolving loan agreement with Wells Fargo Bank.

As discussed in Note 2, at March 31, 2012 the Company had approximately \$224,000 remaining in its accrual for environmental remediation and monitoring, with approximately \$71,000 classified as a current liability. The Company intends to use cash flow from operations or borrowings under its revolving credit facility to pay for these costs. In addition, the Company has provided the buyer with a \$2.0 million mortgage at 6 percent interest. Payments on the mortgage are due monthly and will also help fund the remediation and monitoring.

The Company believes that cash expected to be generated from operating activities, together with funds available under its new revolving credit facility are expected, under current conditions, to be sufficient to finance the Company's planned operations over the next twelve months.

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Not applicable for smaller reporting companies.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of March 31, 2012. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

(b) Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 2012, there were no changes in the Company's internal control over financial reporting that materially affected, or was reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1 — Legal Proceedings

There are no pending material legal proceedings to which the registrant is a party or, to the actual knowledge of the Company, contemplated by any governmental authority.

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, 2011.

Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds

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 may yet be Purchased Under the Programs
January	-	-	-	186,190
February	-	-	-	-
March	36,750	\$ 10.07	36,750	149,440

Item 3. — Defaults Upon Senior Securities

None.

Item 4 — Mine Safety Disclosures

Not Applicable.

Item 5 — Other Information

None.

Item 6 — Exhibits

Documents filed as part of this report.

[Exhibit 10.12](#) Loan and Security Agreement and Secured Revolving Note

[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

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 14, 2012

By /s/ Paul G. Driscoll
 Paul G. Driscoll
 Vice President and
 Chief Financial Officer

Dated: May 14, 2012

LOAN AND SECURITY AGREEMENT

LOAN AND SECURITY AGREEMENT (this “**Agreement**”) dated as of April 5, 2012 (the “**Effective Date**”) by and between **HSBC BANK, USA, NATIONAL ASSOCIATION**, a national banking association (“**HSBC**”), and **ACME UNITED CORPORATION**, a Connecticut corporation (“**Borrower**”). The parties agree as follows:

1 ACCOUNTING AND OTHER TERMS; DEFINITIONS

1.1 Accounting and Other Terms. As used in this Agreement, the Revolving Note, any other Loan Document, or any certificate, report or other document made or delivered pursuant to this Agreement, accounting terms not defined in Section 1.2 or elsewhere in this Agreement and accounting terms partly defined in Section 1.2 to the extent not defined, shall have the respective meanings given to them under GAAP; *provided, however*, whenever such accounting terms are used for the purposes of determining compliance with financial covenants in this Agreement, such accounting terms shall be defined in accordance with GAAP as applied in preparation of the audited financial statements of Borrower for the fiscal year ended December 31, 2010. If at any time any change in GAAP would affect the computation of any financial ratio set forth in any Loan Document, and Borrower or HSBC shall so request, HSBC and Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to approval by HSBC and Borrower); *provided that*, until so amended, such ratio shall continue to be computed in accordance with GAAP prior to such change therein, and Borrowers shall provide to HSBC within five days after delivery of each certificate or financial report required hereunder that is affected thereby a written statement of a Responsible Officer of Borrowers setting forth in reasonable detail the differences (including any differences that would affect any calculations relating to the financial covenants) that would have resulted if such financial statements had been prepared without giving effect to such change. Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth in Section 1.2. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided by the Code to the extent such terms are defined therein.

The terms “herein”, “hereof” and “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. Each reference to a Section, an Exhibit or a Schedule shall be deemed to refer to a Section, an Exhibit or a Schedule, as applicable, of this Agreement, as modified or supplemented pursuant to the terms hereof. Any pronoun used shall be deemed to cover all genders. Wherever appropriate in the context, terms used herein in the singular also include the plural and *vice versa*. All references to statutes (including the Code) and related regulations shall include any amendments of same and any successor statutes and regulations. Unless otherwise provided, all references to any instruments or agreements to which HSBC is a party, including, without limitation, references to any of the other Loan Documents, shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof. All references herein to the time of day shall mean the time in New York. A Default or Event of Default shall be deemed to exist at all times during the period commencing on the date that such Default or Event of Default occurs to the date on which such Default or Event of Default is waived in writing pursuant to this Agreement or, in the case of a Default that is capable of being cured, is cured within any period of cure expressly provided for in this Agreement; and an Event of Default shall “continue” or be “continuing” until such Event of Default has been waived in writing by HSBC. Wherever the phrase “to the best of Borrower’s knowledge” or words of similar import relating to the knowledge or the awareness of Borrower are used in this Agreement or other Loan Documents, such phrase shall mean and refer to (i) the actual knowledge of a senior officer of Borrower or (ii) the knowledge that a senior officer would have obtained if he had engaged in good faith and diligent performance of his duties, including the making of such reasonably specific inquiries as may be necessary of the employees or agents of Borrower and a good faith attempt to ascertain the existence or accuracy of the matter to which such phrase relates.

1.2 Definitions. As used in the Loan Documents, the word “shall” is mandatory, the word “may” is permissive, the word “or” is not exclusive, the words “includes” and “including” are not limiting, the singular includes the plural, and numbers denoting amounts that are set off in brackets are negative. As used in this Agreement, the following capitalized terms have the following meanings:

“**Account**” is any “account” as defined in the Code with such additions to such term as may hereafter be made, and includes, without limitation, all accounts receivable and other sums owing to any Borrower.

“**Account Debtor**” is any “account debtor” as defined in the Code with such additions to such term as may hereafter be made.

“**Adjusted LIBO Rate**” shall mean, with respect to any LIBOR Rate Loan for any Interest Period, a rate of interest equal to:

(a) the offered rate for deposits in U.S. dollars in the London interbank market for an Interest Period of one month which is shown on the Reuters “LIBOR01” screen (or any successor thereto) that displays the average British Bankers Association Interest Settlement Rate for deposits in Dollars (for delivery on the first day of such Interest Period) as of 11:00 a.m. (London time) on the day which is two (2) Business Days prior to the first day of such Interest Period for a term of one month; provided, however, that if, for any reason, such a rate is not published by the British Bankers’ Association or available on the Reuters Screen LIBO Page, Adjusted LIBO Rate shall be equal to a rate per annum equal to the average rate (rounded upwards, if necessary, to the next 1/100 of 1%) at which HSBC determines that U.S. dollars in an amount comparable to the amount of the applicable Advances are being offered to prime banks at approximately 11:00 a.m. (London time) on the day which is two (2) Business Days prior to the first day of such Interest Period for a term one month for settlement in immediately available funds by leading banks in the London interbank market selected by HSBC; divided by

(b) a number equal to 1.0 minus the aggregate (but without duplication) of the rates (expressed as a decimal fraction) of reserve requirements in effect on the day which is two (2) Business Days prior to the beginning of such Interest Period (including, without limitation, basic, supplemental, marginal and emergency reserves under any regulations of the Board of Governors of the Federal Reserve System or other governmental authority having jurisdiction with respect thereto, as now and from time to time in effect) for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of such Board) which are required to be maintained by a member bank of the Federal Reserve System (the “LIBOR-Rate Reserve Percentage”); such rate (if greater than zero) to be rounded upward to the next whole multiple of one- sixteenth of one percent (0.0625%).

“**Advance**” or “**Advances**” means an advance (or advances) under the Revolving Line.

“**Affiliate**” is, with respect to any Person, each other Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person.

“**Agreement**” is defined in the preamble hereof.

“**Annual Financial Statements**” is defined in Section 5.2(b).

“**Anti-Terrorism Laws**” means any applicable laws relating to terrorism or money laundering, including Executive Order No. 13224, the PATRIOT Act, the applicable laws comprising or implementing the Bank Secrecy Act, and the applicable laws administered by the United States Treasury Department’s Office of Foreign Asset Control (as any of the foregoing applicable laws may from time to time be amended, renewed, extended, or replaced).

“**Availability Amount**” is (a) the Revolving Line, minus (b) the outstanding principal balance of any Advances.

“**Bank Products**” means the following services or facilities extended to Borrower by Administrative HSBC or its Affiliates: (a) credit cards, (b) credit card processing services, (c) debit cards, (d) purchase cards, (e) ACH transactions, or (f) cash management, including controlled disbursement accounts or services.

“**Bank Secrecy Act**” means 31 U.S.C. Sections 5311-5330, as the same has been, or shall hereafter be, extended, amended or replaced.

“**Base Rate**” shall mean a variable rate of interest per annum equal to the highest of the “prime rate,” “reference rate,” “base rate” or other similar rate as announced from time to time by HSBC (with the understanding that any such rate may merely be a reference rate and may not necessarily represent the lowest or best rate actually charged to any customer by HSBC), such rate to be adjusted automatically, without notice, on the effective date of any change in such rate.

“**Base Rate Advance**” means an Advance that bears interest based at the Base Rate.

“**Base Rate Margin**” means one and one quarter of one percent (1.25%).

“**Borrower**” and “**Borrowers**” are defined in the preamble hereof.

“**Borrower’s Books**” are all Borrower’s books and records including ledgers, federal and state tax returns, records regarding Borrower’s assets, liabilities, the Collateral, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

“**Borrowing Resolutions**” are, with respect to any Person, those resolutions adopted by such Person’s Board of Directors and delivered by such Person to HSBC approving the Loan Documents to which such Person is a party and the transactions contemplated thereby, together with a certificate executed by its Secretary on behalf of such Person certifying that (a) such Person has the authority to execute, deliver, and perform its obligations under each of the Loan Documents to which it is a party, (b) that attached as Exhibit A to such certificate is a true, correct, and complete copy of the resolutions then in full force and effect authorizing and ratifying the execution, delivery, and performance by such Person of the Loan Documents to which it is a party, (c) the name(s) of the Person(s) authorized to execute the Loan Documents on behalf of such Person, together with a sample of the true signature(s) of such Person(s), and (d) that HSBC may conclusively rely on such certificate unless and until such Person shall have delivered to HSBC a further certificate canceling or amending such prior certificate.

“**Business Day**” is any day that is not a Saturday, Sunday or other day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close, except that if any determination of a “Business Day” shall relate to a LIBOR Rate Loan, the term “Business Day” shall also mean a day on which dealings are carried on in the London interbank market.

“**Cash**” means unrestricted cash and Cash Equivalents.

“**Cash Equivalents**” means (a) marketable securities issued, or directly, unconditionally and fully guaranteed or insured, by the United States or any agency or instrumentality thereof (provided that the full faith and credit of the United States is pledged in support thereof) having maturities of not more than one (1) year from the date of acquisition by such person, (b) time deposits and certificates of deposit of HSBC or any commercial bank having, or which is the principal banking subsidiary of a bank holding company organized under the laws of the United States, any state thereof or the District of Columbia having, capital and surplus aggregating in excess of \$500,000,000 and a rating of "A" (or such other similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) with maturities of not more than one year from the date of acquisition by such person, (c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (a) above entered into with any person meeting the qualifications specified in clause (b) above, (d) commercial paper issued by any person incorporated in the United States having one of the two highest ratings obtainable from S&P or Moody's, in each case maturing not more than one year after the date of acquisition by such person, (e) investments in money market funds at least 95% of whose assets are comprised of securities of the types described in clauses (a) through (d) above, and (f) demand deposit accounts maintained in the ordinary course of business with any bank meeting the qualifications specified in clause (b) above.

“**Change in Control**” means any event, transaction, or occurrence as a result of which (a) any “person” (as such term is defined in Sections 3(a)(9) and 13(d)(3) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of Borrower, is or becomes a beneficial owner (within the meaning Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of Borrower, representing more than 50% of the combined voting power of Borrower’s then outstanding securities; or (b) during any period of twelve consecutive calendar months, individuals who at the beginning of such period constituted the Board of Directors of Borrower (together with any new directors whose election by the Board of Directors of Borrower was approved by a vote of not less than two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason other than death or disability to constitute a majority of the directors then in office.

“**Change in Law**” means (a) the adoption of any treaty, law, rule or regulation after the date of this Agreement, (b) any change in any treaty, law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by HSBC with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement; *provided, however*, that notwithstanding anything herein to the contrary, the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith as well as Basel III and all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States regulatory authorities shall each be deemed to be a “Change in Law,” regardless of the date enacted, adopted or issued. For purposes of this definition references to HSBC also shall include any corporation or bank controlling HSBC.

“**Code**” is the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the State of New York; *provided*, that, to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article 9 shall govern; *provided further*, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, or priority of, or remedies with respect to, HSBC’s Lien on any Collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the State of New York, the term “**Code**” shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies and for purposes of definitions relating to such provisions.

“**Collateral**” is any and all properties, rights and assets of Borrower described on Exhibit B.

“**Collateral Account**” is any Deposit Account, Securities Account, or Commodity Account.

“**Committed Availability**” means, as the date of determination, an amount equal to the Availability Amount.

“**Commodity Account**” is any “commodity account” as defined in the Code with such additions to such terms as may hereafter be made.

“**Compliance Certificate**” is that certain certificate in the form attached hereto as Exhibit C.

“**Contingent Obligation**” is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, declared dividend, letter of credit or other obligation of another such as an obligation, in each case, directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but “Contingent Obligation” does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

“**Control Agreements**” is any control agreement entered into among the depository institution at which Borrower maintains a Deposit Account or the securities intermediary or commodity intermediary at which Borrower maintains a Securities Account or a Commodity Account, Borrower, and HSBC pursuant to which HSBC obtains control (within the meaning of the Code) over such Deposit Account, Securities Account, or Commodity Account.

“**Copyrights**” are any and all copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret.

“**Credit Extension**” is any Advance or any other extension of credit by HSBC for Borrower’s benefit.

“**Credit Party**” means Borrower and each Guarantor.

“**Default**” shall mean an event which, with the giving of notice or passage of time or both, would constitute an Event of Default.

“**Default Rate**” is defined in Section 2.3(c).

“**Deposit Account**” has the meaning given to such term in the Security Agreement.

“**Designated Deposit Account**” is Borrower’s deposit account, account number 812011996, maintained with HSBC.

“**Dollars**,” “**dollars**” or use of the sign “**\$**” means only lawful money of the United States and not any other currency, regardless of whether that currency uses the “**\$**” sign to denote its currency or may be readily converted into lawful money of the United States.

“**Domestic Subsidiary**” means a Subsidiary organized under the laws of the United States or any state or territory thereof or the District of Columbia.

“**Effective Date**” is defined in the preamble hereof.

“**Environmental Laws**” means any present or future federal, state or local law, rule, regulation or order relating to pollution, waste, disposal or the protection of human health or safety, plant life or animal life, natural resources or the environment.

“**Equipment**” is all “equipment” as defined in the Code with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

“**ERISA**” is the Employee Retirement Income Security Act of 1974, and its regulations.

“**Event of Default**” is defined in Section 8.

“**Exchange Act**” is the Securities Exchange Act of 1934, as amended.

“**Executive Order No. 13224**” means the Executive Order No. 13224 on Terrorist Financing effective September 24, 2001, as the same has been, or shall hereafter be renewed, extended, amended or replaced from time to time.

“**Foreign Subsidiary**” means any Subsidiary which is not a Domestic Subsidiary.

“**Funding Date**” is any date on which a Loan is made to or for the account of the Borrower, which shall be a Business Day.

“**GAAP**” shall mean generally accepted accounting principles in the United States of America in effect from time to time.

“**Governmental Approval**” is any consent, authorization, approval, order, license, franchise, permit, certificate, accreditation, registration, filing or notice, of, issued by, from or to, or other act by or in respect of, any Governmental Authority.

“**Governmental Authority**” is any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

“**Guarantor**” is any present or future guarantor of the Obligations. As of the Effective Date there are no Guarantors.

“**Guaranty**” means a Guaranty in a form reasonably acceptable to HSBC.

“**Hazardous Material**” means all or any of the following: (a) substances that are defined or listed in, or otherwise classified pursuant to, any Environmental Laws or regulations as “hazardous substances”, “hazardous materials”, “hazardous wastes”, “toxic substances” or any other formulation intended to define, list or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, or toxicity; (b) oil, petroleum or petroleum derived substances, natural gas, natural gas liquids or synthetic gas and drilling fluids, produced waters and other wastes associated with the exploration, development or production of crude oil, natural gas or geothermal resources; (c) any flammable substances or explosives or any radioactive materials; and (d) asbestos in any form or electrical equipment which contains any oil or dielectric fluid containing polychlorinated biphenyls.

“**HSBC**” is defined in the preamble hereof.

“**HSBC Expenses**” are all costs, and expenses (including reasonable attorneys’ fees and expenses) for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to any Borrower.

“**Imprest Balance**” is \$0.

“**Indebtedness**” is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations, and (d) Contingent Obligations.

“**Insolvency Proceeding**” is any proceeding by or against any Person under the United States bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking dissolution, liquidation, reorganization, arrangement, or other relief.

“**Intellectual Property**” means all of Borrower’s right, title, and interest in and to the following:

- (a) its Copyrights, Trademarks and Patents;
- (b) any and all trade secrets and trade secret rights, including, without limitation, any rights to unpatented inventions, know-how, operating manuals;
- (c) any and all source code;
- (d) any and all design rights;
- (e) any and all claims for damages by way of past, present and future infringement of any of the foregoing, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Intellectual Property rights identified above;

(f) All licenses or other rights to use any of the Copyrights, Patents or Trademarks, and all license fees and royalties arising from such use to the extent permitted by such license or rights;

(g) All amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents; and

(h) All proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

“**Interest Payment Date**” means, (i) with respect to any LIBOR Rate Advance, the last day of each Interest Period applicable to such LIBOR Rate Loan and, (ii) with respect to Base Rate Advances, the first day of each calendar month (or, if that day of the calendar month does not fall on a Business Day, then on the first Business Day following such date) and each date a Base Rate Advance is converted into a LIBOR Rate Loan to the extent of the amount converted to a LIBOR Rate Advance.

“**Interest Period**” shall mean, with respect to any LIBOR Rate Advance, the period commencing on the date such Advance is made as, renewed as or converted into a LIBOR Rate Advance and ending on the date one month thereafter as selected by Borrower pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending one month thereafter, as selected by Borrower pursuant to the provisions below. The duration of each Interest Period for any LIBOR Rate Advance shall be for one month; provided that:

(i) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall occur on the next succeeding Business Day; provided, that if such extension of time would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the last Business Day immediately preceding the last day of such Interest Period;

(ii) if Borrower renews any LIBOR Rate Advance for an additional Interest Period, the first day of the new Interest Period shall be the last day of the preceding Interest Period; however, interest shall only be charged once for such day at the rate applicable to the LIBOR Rate Advance for the new Interest Period.

“**Inventory**” is all “inventory” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products, including without limitation such inventory as is temporarily out of any Borrower’s custody or possession or in transit and including any returned goods and any documents of title representing any of the above.

“**LIBOR Rate Advance**” means an Advance that bears interest based at the LIBOR Rate.

“**LIBOR Rate**” means for any LIBOR Rate Loan for the then current Interest Period relating thereto the rate per annum (such LIBOR Rate to be adjusted to the next higher 1/100 of 1%) equal to the Adjusted LIBO Rate.

“**LIBOR Rate Margin**” means one and three quarters of one percent (1.75%).

“**LIBOR-Rate Reserve Percentage**” shall have the meaning set forth in the definition of Adjusted LIBO Rate.

“**Lien**” is a claim, mortgage, deed of trust, levy, charge, pledge, security interest or other encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise against any property.

“**Lien Waiver Agreement**” shall mean an agreement which is executed in favor of HSBC by a Person who owns or occupies premises at which any Collateral may be located from time to time and by which such Person shall waive any Lien that such Person may ever have with respect to any of the Collateral and shall authorize HSBC from time to time to enter upon the premises to inspect or remove the Collateral from such premises or to use such premises to store or dispose of such Inventory.

“**Loan Documents**” are, collectively, this Agreement, the Control Agreements, the Perfection Certificate, the Revolving Note, any other note or notes or guaranties executed by Borrower or any Guarantor, and any other present or future agreement between Borrower any Guarantor and/or for the benefit of HSBC in connection with this Agreement, all as amended, restated, or otherwise modified.

“**Material Adverse Change**” is (a) a material impairment in the perfection or priority of HSBC’s Lien in the Collateral or in the value of such Collateral; (b) a material adverse change in the business, operations, or condition (financial or otherwise) of Borrower; or (c) a material impairment of the prospect of repayment of any portion of the Obligations or (d) HSBC determines, based upon information available to it and in its reasonable judgment, that there is a reasonable likelihood that Borrower shall fail to comply with one or more of the financial covenants in Section 6.7 during the next succeeding financial reporting period.

“**Notice of Borrowing**” means a notice given by Borrower to HSBC in accordance with Section 3.5(b), substantially in the form of Exhibit D, with appropriate insertions.

“**Notice of Conversion**” means a notice given by Borrower to HSBC in accordance with Section 3.5(g), substantially in the form of Exhibit E, with appropriate insertions.

“**Obligations**” are Borrower’s obligations to pay when due any debts, principal, interest, HSBC Expenses and other amounts Borrower owes HSBC now or later, whether under this Agreement, the Loan Documents, or otherwise, including, without limitation, all obligations relating to Bank Products and foreign exchange contracts, if any, and including interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to HSBC, and to perform Borrower’s duties under the Loan Documents.

“**Operating Documents**” are, for any Person, such Person’s formation documents, as certified with the Secretary of State of such Person’s state of formation on a date that is no earlier than 30 days prior to the Effective Date, and, (a) if such Person is a corporation, its bylaws in current form, (b) if such Person is a limited liability company, its limited liability company agreement (or similar agreement), and (c) if such Person is a partnership, its partnership agreement (or similar agreement), each of the foregoing with all current amendments or modifications thereto.

“**Patents**” means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

“**PATRIOT Act**” means the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Pub. L. 107-56, signed into law October 26, 2001.

“**Payment Office**” shall mean initially 452 Fifth Avenue, New York, New York 10018; thereafter, such other office of HSBC, if any, which it may designate by notice to Borrower to be the Payment Office.

“**Perfection Certificate**” is defined in Section 5.1.

“**Permitted Indebtedness**” is:

- (a) Borrower’s Indebtedness to HSBC under this Agreement and the other Loan Documents;
- (b) Indebtedness existing on the Effective Date and shown on Schedule 7.4;
- (c) Subordinated Debt;
- (d) unsecured Indebtedness to trade creditors incurred in the ordinary course of business;

(e) Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of business;

(f) Indebtedness secured by Liens permitted under clauses (a)(i) and (c) of the definition of "Permitted Liens" hereunder;

(g) Indebtedness of Borrower to any Subsidiary and Contingent Obligations of any Subsidiary with respect to obligations of Borrower (provided that the primary obligations are not prohibited hereby), and Indebtedness of any Subsidiary to Borrower or any other Subsidiary and Contingent Obligations of any Subsidiary with respect to obligations of any other Subsidiary (provided that the primary obligations are not prohibited hereby);

(h) other Indebtedness not otherwise permitted by Section 7.4 not exceeding One Million Dollars (\$1,000,000) in the aggregate outstanding at any time; and

(i) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (a) through (h) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower or its Subsidiary, as the case may be.

"Permitted Liens" are:

(a) (i) Liens existing on the Effective Date and shown on Schedule 7.5 or (ii) Liens arising under this Agreement and the other Loan Documents;

(b) Liens for taxes, fees, assessments or other government charges or levies, either (i) not due and payable or (ii) being contested in good faith and for which Borrower maintains adequate reserves on its Books, provided that no notice of any such Lien has been filed or recorded under the Internal Revenue Code of 1986, as amended, and the Treasury Regulations adopted thereunder;

(c) purchase money Liens (i) on Equipment acquired or held by Borrower incurred for financing the acquisition of the Equipment securing no more than One Million Dollars (\$1,000,000) in the aggregate amount outstanding, or (ii) existing on Equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the Equipment;

(d) Liens of carriers, warehousemen, suppliers, or other Persons that are possessory in nature arising in the ordinary course of business so long as such Liens attach only to Inventory, securing liabilities which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

(e) Liens to secure payment of workers' compensation, employment insurance, old-age pensions, social security and other like obligations incurred in the ordinary course of business (other than Liens imposed by ERISA);

(f) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (c), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase;

(g) leases or subleases of real property granted in the ordinary course of Borrower's business (or, if referring to another Person, in the ordinary course of such Person's business), and leases, subleases, non-exclusive licenses or sublicenses of personal property (other than Intellectual Property) granted in the ordinary course of Borrower's business (or, if referring to another Person, in the ordinary course of such Person's business), if the leases, subleases, licenses and sublicenses do not prohibit granting HSBC a security interest therein;

- (h) licenses of Intellectual Property granted to third parties in the ordinary course of business; and
- (i) Liens arising from attachments or judgments, orders, or decrees in circumstances not constituting an Event of Default under Sections 8.4 and 8.7.

“**Person**” is any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

“**Registered Organization**” is any “registered organization” as defined in the Code with such additions to such term as may hereafter be made.

“**Regulatory Change**” means, with respect to HSBC, any change on or after the date of this Agreement in United States federal, state, or foreign laws or regulations, including Regulation D, or the adoption or making on or after such date of any interpretations, directives, or requests applying to a class of lenders including HSBC, of or under any United States federal or state, or any foreign laws or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

“**Requirement of Law**” is as to any Person, the organizational or governing documents of such Person, and any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“**Reserve Requirement**” means, for any Interest Period, the average maximum rate at which reserves (including any marginal, supplemental, or emergency reserves) are required to be maintained during such Interest Period under Regulation D against “Eurocurrency liabilities” (as such term is used in Regulation D) by member banks of the Federal Reserve System. Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by HSBC by reason of any Regulatory Change against (a) any category of liabilities which includes deposits by reference to which the LIBOR Rate is to be determined as provided in the definition of LIBOR or (b) any category of extensions of credit or other assets which include Advances.

“**Responsible Officer**” is any of the Chief Executive Officer, President, Chief Financial Officer and Controller of Borrower.

“**Restricted License**” is any material license or other agreement with respect to which Borrower is the licensee (a) that prohibits or otherwise restricts Borrower from granting a security interest in Borrower’s interest in such license or agreement or any other property, or (b) for which a default under or termination of could interfere with the HSBC’s right to sell any Collateral.

“**Revolving Line**” is an Advance or Advances in an aggregate principal amount up to Thirty Million Dollars (\$30,000,000.00).

“**Revolving Line Maturity Date**” is April 5, 2017.

“**Revolving Note**” means a Promissory Note in substantially the form of Exhibit A.

“**SEC**” shall mean the Securities and Exchange Commission, any successor thereto, and any analogous Governmental Authority.

“**Securities Account**” is any “securities account” as defined in the Code with such additions to such term as may hereafter be made.

“**Subordinated Debt**” is indebtedness incurred by Borrower subordinated to all of Borrower’s now or hereafter indebtedness to HSBC (pursuant to a subordination, intercreditor, or other similar agreement in form and substance satisfactory to HSBC entered into between HSBC and the other creditor), on terms acceptable to HSBC.

“**Subsidiary**” is, as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless the context otherwise requires, each reference to a Subsidiary herein shall be a reference to a Subsidiary of Borrower.

“**Trademarks**” means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

“**Trading with the Enemy Act**” means the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any enabling legislation or executive order relating thereto.

“**Transfer**” is defined in Section 7.1.

“**USA PATRIOT Act**” shall mean the Uniting and Strengthening America by Providing Appropriate Tools Required To Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, as the same has been, or shall hereafter be renewed, extended, amended or replaced from time to time.

2 LOAN AND TERMS OF PAYMENT

2.1 Promise to Pay. Borrower hereby unconditionally promises to pay HSBC the outstanding principal amount of all Credit Extensions and accrued and unpaid interest thereon as and when due in accordance with this Agreement.

2.1.1 Revolving Advances.

(a) Availability. Subject to the terms and conditions of this Agreement, HSBC shall make Advances not exceeding the Availability Amount. Amounts borrowed hereunder may be repaid and, prior to the Revolving Line Maturity Date, reborrowed, subject to the applicable terms and conditions precedent herein.

(b) Termination; Repayment. The Revolving Line terminates on the Revolving Line Maturity Date, when the principal amount of all Advances, the accrued and unpaid interest thereon, and all other Obligations relating to the Revolving Line shall be immediately due and payable.

2.1.2 [Intentionally Omitted].

2.1.3 General Provisions Relating to the Advances. Each Advance shall, at Borrower’s option in accordance with the terms of this Agreement, be either in the form of a Base Rate Advance or a LIBOR Rate Advance; *provided*, that in no event shall there be outstanding more than three LIBOR Rate Advances at any time. Borrower shall pay interest accrued on the Advances at the rates and in the manner set forth in Section 2.3.

2.2 Overadvances. If, at any time, the outstanding principal amount of all Advances exceeds the Revolving Line, Borrower shall immediately pay to HSBC in cash such excess.

2.3 Payment of Interest on the Credit Extensions.

(a) **Computation of Interest.** Interest on the Credit Extensions and all fees payable hereunder shall be computed on the basis of a 360-day year and the actual number of days elapsed in the period during which such interest accrues. In computing interest on any Credit Extension, the date of the making of such Credit Extension shall be included and the date of payment shall be excluded; *provided, however*, that if any Credit Extension is repaid on the same day on which it is made, such day shall be included in computing interest on such Credit Extension.

(b) **Interest; Payment.** Each Advance shall bear interest on the outstanding principal amount thereof from the date when made, continued or converted until paid in full at a rate *per annum* equal to (i) for Base Rate Advances, the Base Rate minus the applicable Base Rate Margin and (ii) for LIBOR Rate Advances, the LIBOR Rate plus the applicable LIBOR Rate Margin. Pursuant to the terms hereof, interest on each Advance shall be paid in arrears on each Interest Payment Date. Interest shall also be paid on the date of any prepayment of any Advance pursuant to this Agreement for the portion of any Advance so prepaid and upon payment (including prepayment) in full thereof. All accrued and unpaid interest on the Advances shall be due and payable on the Revolving Line Maturity Date.

(c) **Default Rate.** Upon the occurrence and during the continuance of an Event of Default, Obligations shall bear interest at a rate 2% above the rate that would otherwise be applicable thereto (the “**Default Rate**”). Payment or acceptance of the increased interest provided in this Section 2.3(c) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of HSBC.

(d) **Debit of Accounts.** HSBC may debit any of Borrower’s deposit accounts, including the Designated Deposit Account, for principal and interest payments or any other amounts Borrower owes HSBC when due. These debits shall not constitute a set-off.

2.4 Fees. Borrower shall pay to HSBC:

(a) **Commitment Fee.** A fully earned, non-refundable commitment fee equal to 0.175% of the Revolving Line, on the Effective Date; and

(b) **HSBC Expenses.** All HSBC Expenses (including reasonable attorneys’ fees and expenses for documentation and negotiation of this Agreement) incurred through and after the Effective Date, when due.

(c) **Sweep Fees.** Borrower agrees to pay HSBC’s fees for the sweep service described in Sections 2.5(b) and 3.5(b) in an amount equal to \$150 per month and authorizes the Bank to deduct the fees from the Designated Deposit Account or any other account of Borrower maintained at HSBC.

2.5 Payments; Application of Payments.

(a) All payments (including prepayments) to be made by Borrower under any Loan Document shall be made in immediately available funds in Dollars, without setoff or counterclaim, before 1:00 PM (New York time) on the date when due to HSBC at the Payment Office. Payments of principal and/or interest received after 1:00 PM (New York time) are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment shall be due the next Business Day, and additional fees or interest, as applicable, shall continue to accrue until paid; provided, that with respect to LIBOR Rate Advances, if extending such payment would cause the last day of the applicable Interest Period to be extended into the next calendar month, then the due date for such payment shall be the immediately preceding Business Day.

(b) If on any Business Day, there are excess funds in the Designated Deposit Account after covering the presentment amounts made against the Disbursement Account and maintaining the Imprest Balance, HSBC is authorized, at its discretion, to repay any outstanding balance of the Advances. Amounts to be applied pursuant to this Section 2.5(b) to the prepayment of Advances shall be applied, as applicable, first to reduce outstanding Base Rate Advances. If the amount of any prepayment of Advances under this Section 2.5(b) shall be in excess of the amount of the Base Rate Advances at the time outstanding (an “Excess Amount”), only the portion of the amount of such prepayment as is equal to the amount of such outstanding Base Rate Advances shall be immediately prepaid and, at the election of the Borrower, the Excess Amount shall be either (A) deposited in the Designated Deposit Account and applied to the prepayment of LIBOR Rate Advances on the last day of the then next-expiring Interest Period for the applicable LIBOR Rate Advances, as the case may be or (B) applied to the immediate repayment of LIBOR Rate Advances (first to the LIBOR Rate Advances with the next expiring Interest Periods), together with any amounts owing to HSBC under Section 3.5(j).

(c) HSBC shall apply the whole or any part of collected funds against the Revolving Line and other Obligations or credit such collected funds to a depository account of Borrower with HSBC (or an account maintained by an Affiliate of HSBC), the order and method of such application to be in the sole discretion of HSBC. Borrower shall have no right to specify the order or the accounts to which HSBC shall allocate or apply any payments required to be made by Borrower to HSBC or otherwise received by HSBC under this Agreement when any such allocation or application is not specified elsewhere in this Agreement.

3 CONDITIONS OF LOANS

3.1 Conditions Precedent to Initial Credit Extension. HSBC's obligation to make the initial Credit Extension is subject to the condition precedent that HSBC shall have received, in form and substance satisfactory to HSBC in its sole discretion, such documents, and completion of such other matters, as HSBC may reasonably deem necessary or appropriate, including, without limitation:

- (a) duly executed original signatures to the Loan Documents;
- (b) Borrower's Operating Documents and a good standing certificate of Borrower certified by the Secretary of State of the State of Connecticut as of a date no earlier than thirty (30) days prior to the Effective Date;
- (c) duly executed original signatures to the completed Borrowing Resolutions for Borrower;
- (d) duly executed original signature to a payoff letter from Wells Fargo Bank, N.A.;
- (e) evidence that (i) the Liens securing Indebtedness owed by Borrower to Wells Fargo Bank, N.A. will be terminated prior to or concurrent with the initial Credit Extension and (ii) the documents and/or filings evidencing the perfection of such Liens, including without limitation any financing statements and/or control agreements, have or will, concurrently with the initial Credit Extension, be terminated;
- (f) certified copies, dated as of a recent date, of bankruptcy, judgment and lien searches, as HSBC shall request, accompanied by written evidence (including any UCC termination statements) that the Liens and judgments indicated in any such search results either constitute Permitted Liens or have been or, in connection with the initial Credit Extension, will be terminated or released;
- (g) the Perfection Certificate(s) of Borrower, together with the duly executed original signature thereto;
- (h) a legal opinion of Borrower's counsel dated as of the Effective Date together with the duly executed original signature thereto;
- (i) the duly executed original signatures to the Pledge Agreement, together with stock certificates and related stock powers;
- (j) evidence satisfactory to HSBC that the insurance policies required by Section 6.5 hereof are in full force and effect, together with appropriate evidence showing lender loss payable and/or additional insured clauses or endorsements in favor of HSBC;

(k) payment of the fees and HSBC Expenses then due as specified in Section 2.4 hereof; and

(l) receipt all documentation and other information required by bank regulatory authorities under applicable “know-your-customer” and anti-money laundering rules and regulations, including the PATRIOT Act.

3.2 Conditions Precedent to all Credit Extensions. HSBC’s obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following conditions precedent:

(a) except as otherwise provided in Section 3.5(b), timely receipt of an executed Notice of Borrowing;

(b) the representations and warranties in this Agreement shall be true, accurate, and complete in all material respects on the date of the Notice of Borrowing and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, and no Event of Default shall have occurred and be continuing or result from the Credit Extension. Each Credit Extension is Borrower’s representation and warranty on that date that the representations and warranties in this Agreement remain true, accurate, and complete in all material respects; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; and

(c) in HSBC’s sole discretion, there has not been a Material Adverse Change.

3.3 Post-Closing Conditions. Within 90 days after the Effective Date, HSBC shall have received, in form and substance satisfactory to HSBC:

(a) Stock certificates and related stock powers evidencing 65% of the shares owned by the Borrower in Acme United Limited and Acme United (Asia Pacific) Limited.

(b) (x) A loss payable endorsement to the Borrower’s property insurance policy (or policies), naming Agent as a lender loss payee under such policy or policies and (y) an additional insured endorsement to the Borrower’s liability insurance policy or policies (or evidence of inapplicability of same).

3.4 Covenant to Deliver. Except as otherwise provided in Section 3.3, Borrower agrees to deliver to HSBC each item required to be delivered to HSBC under this Agreement as a condition precedent to any Credit Extension. Borrower expressly agrees that a Credit Extension made prior to the receipt by HSBC of any such item shall not constitute a waiver by HSBC of Borrower’s obligation to deliver such item, and the making of any Credit Extension in the absence of a required item shall be in HSBC’s sole discretion.

3.5 Procedures for Borrowing.

(a) Subject to Section 3.5(b) and to the prior satisfaction of all other applicable conditions to the making of an Advance set forth in this Agreement, each Advance shall be made upon Borrower’s irrevocable written notice delivered to HSBC in the form of a Notice of Borrowing, each executed by a Responsible Officer of Borrower or his or her designee or without instructions if the Advances are necessary to meet Obligations which have become due. HSBC may rely on any telephone notice given by a person whom HSBC believes is a Responsible Officer or designee. Borrower will indemnify HSBC for any loss HSBC suffers due to such reliance.

(b) Notwithstanding the foregoing, HSBC shall monitor daily balances in the Designated Deposit Account and presentment amounts for disbursement account number 797046844 maintained at HSBC (the “Disbursement Account”). If HSBC determines that funds in the Designated Deposit Account are insufficient to pay the amount of the items presented for that day in the Disbursement Account and to maintain the Imprest Balance in the Designated Deposit Account, Borrower shall be deemed to have made a request for an Advance to be maintained as a Base Rate Advance as of such date in the amount of such shortfall, such Advance to be deposited in the Designated Deposit Account or the Disbursement Account, as appropriate. In addition, any amount required to be paid as interest hereunder, or as fees or other charges under this Agreement or any other agreement with HSBC, or with respect to any other Obligation, which shall become due, shall be deemed a request for an Advance to be maintained as a Base Rate Advance as of the date such payment is due, in the amount required to pay in full such interest, fee, charge or Obligation under this Agreement, or any other agreement with HSBC and such request shall be irrevocable.

(c) Excluding Advances that have been deemed to have been requested under Section 3.5(b) (which shall not require the delivery of a Notice of Borrowing), each Notice of Borrowing must be received by HSBC prior to 11:00 AM (New York time), on the requested Funding Date, specifying: (1) the amount of the Advance which, for LIBOR Rate Advances, shall be in a minimum amount of \$500,000 and in integral multiples of \$100,000 in excess thereof; (2) the requested Funding Date; (3) if the Advance shall be transferred to the Designated Deposit Account or to another account set forth in the Notice of Borrowing, and (4) whether the Advance is to be comprised of LIBOR Rate Advances or Base Rate Advances. Interest Periods for LIBOR Rate Advances shall be for one month. No LIBOR Rate Advance shall be made available to Borrower during the continuance of a Default or an Event of Default. After giving effect to each such borrowing, there shall not be outstanding more than three (3) LIBOR Rate Advances, in the aggregate at any time. HSBC shall provide Borrower with a quote of the actual interest rate available for the LIBOR Rate Advance requested by Borrower, which quote shall be given on the day such LIBOR Rate Advance is requested and such quote shall be effective from the day provided by HSBC until one (1) Business Day thereafter.

(d) Except as provided in sub-clause (b) of this Section 3.5, the proceeds of all such Advances will then be made available to Borrower on the Funding Date by HSBC by transfer to the Designated Deposit Account and, subsequently, by wire transfer to such other account as Borrower may instruct in the Notice of Borrowing.

(e) Notwithstanding anything to the contrary contained herein, HSBC shall not be required to purchase United States Dollar deposits in the London interbank market or other applicable LIBOR Rate market to fund any LIBOR Rate Advances, but the provisions hereof shall be deemed to apply as if HSBC had purchased such deposits to fund the LIBOR Rate Advances.

(f) Each Interest Period of a LIBOR Rate Advance shall commence on the date such LIBOR Rate Advance is made and shall be for a period of one-month, provided that the exact length of each Interest Period shall be determined in accordance with the practice of the interbank market for offshore Dollar deposits and no Interest Period shall end after the Revolving Line Maturity Date.

(g) Provided that no Event of Default shall have occurred and be continuing, Borrower, may, on the last Business Day of the then current Interest Period applicable to any outstanding LIBOR Rate Advance, or on any Business Day with respect to Base Rate Advances, convert any such advance into an advance of another type in the same aggregate principal amount provided that any conversion of a LIBOR Rate Advance shall be made only on the last Business Day of the then current Interest Period applicable to such LIBOR Rate Advance. If Borrower desires to convert an advance, Borrower shall give HSBC a Notice of Conversion by no later than 11:00 AM (New York time) (i) on the day which such conversion is to occur with respect to a conversion from a Base Rate Advance to a LIBOR Rate Advance, or (ii) on the day which such conversion is to occur with respect to a conversion from a LIBOR Rate Advance to a Base Rate Advance, specifying, in each case, the date of such conversion and the loans to be converted.

(h) At its option and upon written notice given prior to 11:00 AM (New York time) on the date of such prepayment, Borrower may prepay the LIBOR Rate Advances in whole at any time or in part from time to time, together with amounts which may be owed to HSBC pursuant to Section 3.5(i), and with accrued interest on the principal being prepaid to the date of such repayment. Borrower shall specify the date of prepayment of LIBOR Rate Advances and the amount of such prepayment. In the event that any prepayment of a LIBOR Rate Advance is required or permitted on a date other than the last Business Day of the then current Interest Period with respect thereto, Borrower shall indemnify HSBC therefor in accordance with Section 3.5(i).

(i) Borrower shall indemnify HSBC and hold HSBC harmless from and against any and all losses or expenses that HSBC may sustain or incur as a consequence of any prepayment, conversion of or any default by Borrower in the payment of the principal of or interest on any LIBOR Rate Advance or failure by Borrower to complete a borrowing of, a prepayment of or conversion of or to a LIBOR Rate Advance after notice thereof has been given, including, but not limited to, any interest payable by HSBC to lenders of funds obtained by it in order to make or maintain its LIBOR Rate Advance hereunder. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by HSBC to Borrower shall be conclusive absent manifest error.

(j) Notwithstanding any other provision hereof, if any Requirement of Law, treaty, regulation or directive, or any change therein or in the interpretation or application thereof, shall make it unlawful for HSBC (for purposes of this Section 3.5(j), "HSBC" shall include the office or branch where HSBC or any corporation or bank controlling HSBC makes or maintains any LIBOR Rate Advances) to make or maintain its LIBOR Rate Advances, the obligation of HSBC to make LIBOR Rate Advances hereunder shall forthwith be cancelled and Borrower shall, if any affected LIBOR Rate Advances are then outstanding, promptly upon request from HSBC, either pay all such affected LIBOR Rate Advances or convert such affected LIBOR Rate Advances into Base Rate Advances. If any such payment or conversion of any LIBOR Rate Advances is made on a day that is not the last day of the Interest Period applicable to such LIBOR Rate Advances, Borrower shall pay HSBC, upon HSBC's request, such amount or amounts as may be necessary to compensate HSBC for any loss or expense sustained or incurred by HSBC in respect of such LIBOR Rate Advance as a result of such payment or conversion, including (but not limited to) any interest or other amounts payable by HSBC to lenders of funds obtained by HSBC in order to make or maintain such LIBOR Rate Advance. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by HSBC to Borrower shall be conclusive absent manifest error.

3.6 Additional Provisions Governing LIBOR Rate Advances. Notwithstanding any other provision of this Agreement to the contrary, the following provisions shall govern with respect to LIBOR Rate Advances as to the matters covered:

(a) Increased Costs. In the event that any applicable law, treaty or governmental regulation, or any change therein or in the interpretation or application thereof, or compliance by HSBC (for purposes of this Section 3.6(a), references to HSBC shall also include any corporation or bank controlling HSBC) and the office or branch where HSBC makes or maintains any LIBOR Rate Advances with any request or directive (whether or not having the force of law) from any central bank or other financial, monetary or other authority, shall:

(i) subject HSBC to any tax of any kind whatsoever with respect to this Agreement or any other Loan Document or change the basis of taxation of payments to HSBC of principal, fees, interest or any other amount payable hereunder or under any other Loan Documents (except for changes in the rate of tax on the overall net income of HSBC by the jurisdiction in which it maintains its principal office);

(ii) impose, modify or hold applicable any reserve, special deposit, assessment or similar requirement against assets held by, or deposits in or for the account of, advances or loans by, or other credit extended by, any office of HSBC, including (without limitation) pursuant to Regulation D of the Board of Governors of the Federal Reserve System; or

(iii) impose on HSBC or the London interbank LIBOR Rate market any other condition with respect to this Agreement or any other Loan Document;

and the result of any of the foregoing is to increase the cost to HSBC of making, renewing or maintaining its Advances hereunder by an amount that HSBC reasonably deems to be material or to reduce the amount of any payment (whether of principal, interest or otherwise) in respect of any of the Advances by an amount that HSBC reasonably deems to be material, then, in any case Borrower shall promptly pay HSBC, upon its demand, such additional amount as will compensate HSBC for such additional cost or such reduction, as the case may be, provided that the foregoing shall not apply to increased costs which are reflected in the Adjusted LIBO Rate. HSBC shall certify the amount of such additional cost or reduced amount to Borrower, and such certification shall be conclusive absent manifest error.

(b) Basis For Determining Interest Rate Inadequate or Unfair. In the event that HSBC shall have determined that:

(i) reasonable means do not exist for ascertaining the Adjusted LIBO Rate applicable pursuant to Section 3.5 for any Interest Period; or

(ii) Dollar deposits in the relevant amount and for the relevant maturity are not available in the London interbank LIBOR Rate market, with respect to an outstanding LIBOR Rate Advance, a proposed LIBOR Rate Advance, or a proposed conversion of a Base Rate Advance into a LIBOR Rate Advance,

then HSBC shall give Borrower prompt written, telephonic or telegraphic notice of such determination. If such notice is given, (i) any such requested LIBOR Rate Advance shall be made as a Base Rate Advance, unless Borrower shall notify HSBC no later than 10:00 AM (New York time) two (2) Business Days prior to the date of such proposed borrowing, that its request for such borrowing shall be cancelled or made as an unaffected type of LIBOR Rate Advance, (ii) any Base Rate Advance or LIBOR Rate Advance which was to have been converted to an affected type of LIBOR Rate Advance shall be continued as or converted into a Base Rate Advance, or, if Borrower shall notify HSBC, no later than 10:00 AM (New York time) two (2) Business Days prior to the proposed conversion, shall be maintained as an unaffected type of LIBOR Rate Advance, and (iii) any outstanding affected LIBOR Rate Advances shall be converted into a Base Rate Advance, or, if Borrower shall notify HSBC, no later than 10:00 AM (New York time) two (2) Business Days prior to the last Business Day of the then current Interest Period applicable to such affected LIBOR Rate Advance, shall be converted into an unaffected type of LIBOR Rate Advance, on the last Business Day of the then current Interest Period for such affected LIBOR Rate Advance. Until such notice has been withdrawn, HSBC shall have no obligation to make an affected type of LIBOR Rate Advance or maintain outstanding affected LIBOR Rate Advances and Borrower shall have no right to convert a Base Rate Advance or an unaffected type of LIBOR Rate Advance into an affected type of LIBOR Rate Advance.

(c) Capital Adequacy.

(i) In the event that HSBC shall have determined that any applicable law, rule, regulation or guideline regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by HSBC (for purposes of this Section 3.6(c), references to HSBC shall also include any corporation or bank controlling HSBC) and the office or branch where HSBC makes or maintains any LIBOR Rate Advances with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on HSBC's capital as a consequence of its obligations hereunder to a level below that which HSBC could have achieved but for such adoption, change or compliance (taking into consideration HSBC's policies with respect to capital adequacy) by an amount reasonably deemed by HSBC to be material, then, from time to time, Borrower shall pay upon demand to HSBC such additional amount or amounts as will compensate HSBC for such reduction. In determining such amount or amounts, HSBC may use any reasonable averaging or attribution methods. The protection of this Section 3.6(c) shall be available to HSBC regardless of any possible contention of invalidity or inapplicability with respect to the applicable law, regulation or condition.

(ii) A certificate of HSBC setting forth such amount or amounts as shall be necessary to compensate it with respect to Section 3.6(c) (i) when delivered to Borrower shall be conclusive absent manifest error.

4 CREATION OF SECURITY INTEREST

4.1 Grant of Security Interest. Borrower hereby grants to HSBC, to secure the payment and performance in full of all of the Obligations, a continuing security interest in and to, and pledges to HSBC, all of the Collateral, wherever located, whether now owned or existing or hereafter acquired or arising, and all proceeds and products thereof.

4.2 Priority of Security Interest. Borrower represents, warrants, and covenants that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral (subject only to Permitted Liens that may have superior priority to HSBC's Lien under this Agreement). If Borrower shall acquire a commercial tort claim, Borrower shall promptly notify HSBC in a writing signed by Borrower of the general details thereof and grant to HSBC in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to HSBC.

If this Agreement is terminated, HSBC's Lien in the Collateral shall continue until the Obligations (other than inchoate indemnity obligations) are repaid in full in cash. Upon payment in full in cash of the Obligations and at such time as HSBC's obligation to make Credit Extensions has terminated, HSBC shall, at Borrower's sole cost and expense, release its Liens in the Collateral and all rights therein shall revert to Borrower.

4.3 Authorization to File Financing Statements. Borrower hereby authorizes HSBC to file financing statements, without notice to Borrower, with all appropriate jurisdictions to perfect or protect HSBC's interest or rights hereunder, including a notice that any disposition of the Collateral, by either Borrower or any other Person, shall be deemed to violate the rights of HSBC under the Code. Such financing statements may indicate the Collateral as "all assets of the Debtor" or words of similar effect, or as being of an equal or lesser scope, or with greater detail, all in HSBC's discretion.

5 REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

5.1 Due Organization, Authorization; Power and Authority. Borrower is duly existing and in good standing as a Registered Organization in its jurisdiction of formation and is qualified and licensed to do business and is in good standing in any jurisdiction in which the conduct of its business or its ownership of property requires that it be qualified except where the failure to do so could not reasonably be expected to have a material adverse effect on Borrower's business. In connection with this Agreement, Borrower has delivered to HSBC a completed certificate signed by Borrower, entitled "Perfection Certificate". Borrower represents and warrants to HSBC that (a) Borrower's exact legal name is that indicated on the Perfection Certificate and on the signature page hereof; (b) Borrower is an organization of the type and is organized in the jurisdiction set forth in the Perfection Certificate; (c) the Perfection Certificate accurately sets forth Borrower's organizational identification number or accurately states that Borrower has none; (d) the Perfection Certificate accurately sets forth Borrower's place of business, or, if more than one, its chief executive office as well as Borrower's mailing address (if different than its chief executive office); (e) Borrower (and each of its predecessors) has not, in the past five (5) years, changed its jurisdiction of formation, organizational structure or type, or any organizational number assigned by its jurisdiction; and (f) all other information set forth on the Perfection Certificate pertaining to Borrower and each of its Subsidiaries is accurate and complete (it being understood and agreed that Borrower may from time to time update certain information in the Perfection Certificate after the Effective Date to the extent permitted by one or more specific provisions in this Agreement). If Borrower is not now a Registered Organization but later becomes one, Borrower shall promptly notify HSBC of such occurrence and provide HSBC with Borrower's organizational identification number.

The execution, delivery and performance by Borrower of the Loan Documents to which it is a party have been duly authorized, and do not (i) conflict with any of Borrower's Operating Documents, (ii) contravene, conflict with, constitute a default under or violate any material Requirement of Law, (iii) contravene, conflict or violate any applicable order, writ, judgment, injunction, decree, determination or award of any Governmental Authority by which Borrower or any of its Subsidiaries or any of their property or assets may be bound or affected, (iv) require any action by, filing, registration, or qualification with, or Governmental Approval from, any Governmental Authority (except such Governmental Approvals which have already been obtained and are in full force and effect, or (v) constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which it is a party or by which it is bound in which the default could reasonably be expected to have a material adverse effect on Borrower's business.

5.2 Collateral. Borrower has good title to, has rights in, and the power to transfer each item of the Collateral upon which it purports to grant a Lien hereunder, free and clear of any and all Liens except Permitted Liens. Borrower has no deposit accounts other than the deposit accounts with HSBC, the deposit accounts, if any, described in the Perfection Certificate delivered to HSBC in connection herewith, or of which Borrower has given HSBC notice and taken such actions as are necessary to give HSBC a perfected security interest therein.

The Collateral is not in the possession of any third party bailee (such as a warehouse) except as otherwise provided in the Perfection Certificate. None of the components of the Collateral shall be maintained at locations other than as provided in the Perfection Certificate or as permitted pursuant to Section 7.2.

Borrower is not a party to, nor is it bound by, any Restricted License.

5.3 Environmental Compliance. Borrower and its Subsidiaries conduct in the ordinary course of business a review of the effect of existing Environmental Laws and claims alleging potential liability or responsibility for violation of any Environmental Law on their respective businesses, operations and properties, and as a result thereof the Borrower has reasonably concluded that such Environmental Laws and claims are not reasonably likely to result in a Material Adverse Change.

5.4 Litigation. There are no actions, or proceedings to the knowledge of the Borrower, threatened in writing, at law, in equity, in arbitration or before any Governmental Authority, by or against the Borrower or any of its Subsidiaries or against any of their properties or revenues, and not otherwise disclosed in the Borrower's public filings with the SEC, that (a) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby, or (b) either individually or in the aggregate, if determined adversely, are reasonably likely to result in a Material Adverse Change.

5.5 Financial Statements; Financial Condition. All consolidated financial statements for Borrower and any of its Subsidiaries delivered to HSBC fairly present in all material respects Borrower's consolidated financial condition and Borrower's consolidated results of operations. There has not been any material adverse change in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to HSBC.

5.6 Solvency. The fair salable value of Borrower's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; Borrower is not left with unreasonably small capital after the transactions in this Agreement; and Borrower is able to pay its debts (including trade debts) as they mature.

5.7 Regulatory Compliance. Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act of 1940, as amended. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations X, T and U of the Federal Reserve Board of Governors). Borrower has complied in all material respects with the Federal Fair Labor Standards Act. Neither Borrower nor any of its Subsidiaries is a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company" as each term is defined and used in the Public Utility Holding Company Act of 2005. Borrower has not violated any laws, ordinances or rules, the violation of which could reasonably be expected to have a material adverse effect on its business. None of Borrower's or any of its Subsidiaries' properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each of its Subsidiaries have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all Government Authorities that are necessary to continue their respective businesses as currently conducted.

5.8 Subsidiaries; Investments. Borrower does not have any Subsidiaries or own any stock, partnership interest or other equity securities except as set forth in item 18 of the Perfection Certificate.

5.9 Tax Returns and Payments; Pension Contributions. Borrower has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower. Borrower may defer payment of any contested taxes, provided that Borrower (a) in good faith contests its obligation to pay the taxes by appropriate proceedings promptly and diligently instituted and conducted, (b) notifies HSBC in writing of the commencement of, and any material development in, the proceedings, (c) takes proper reserves, and (d) posts bonds or takes any other steps required to prevent the governmental authority levying such contested taxes from obtaining a Lien upon any of the Collateral that is other than a "Permitted Lien". Borrower is unaware of any claims or adjustments proposed for any of Borrower's prior tax years which could result in additional taxes becoming due and payable by Borrower. Borrower has paid all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and Borrower has not withdrawn from participation in, and has not permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

5.10 Use of Proceeds. Borrower shall use the proceeds of the Credit Extensions solely for commercial purposes as follows: for general corporate purposes, including working capital needs of the Borrower and its Subsidiaries (including repayment of such Subsidiaries' debts), capital expenditures, acquisitions, and for stock repurchases and dividend payments by the Borrower, in each case, to the extent permitted by this Agreement.

5.11 Anti-Terrorism; Trading with the Enemy. Neither Borrower nor any Subsidiary of Borrower is in violation of any Anti-Terrorism Law or engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law. Neither Borrower nor any Subsidiary of Borrower, or, to Borrowers' knowledge, their respective agents acting or benefiting in any capacity in connection with the Advances or other transactions hereunder, is any of the following (each a "Blocked Person"): (i) a Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224; a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224; a Person or entity with which any Lender is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law; a Person or entity that commits, threatens or conspires to commit or supports "terrorism" as defined in the Executive Order No. 13224; a Person or entity that is named as a "specially designated national" on the most current list published by the U.S. Treasury Department Office of Foreign Asset Control at its official website or any replacement website or other replacement official publication of such list; or a Person or entity who is affiliated or associated with a Person or entity listed above. Neither any Borrower or, to the knowledge of any Borrower, any of its agents acting in any capacity in connection with the Advances or other transactions hereunder (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person, or (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224. Neither Borrower has engaged, nor does it intend to engage, in any business or activity prohibited by the Trading with the Enemy Act.

5.12 Full Disclosure. No written representation, warranty or other statement of Borrower in any certificate or written statement given to HSBC, as of the date such representation, warranty, or other statement was made, taken together with all such written certificates and written statements given to HSBC, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading (it being recognized by HSBC that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected or forecasted results).

6 AFFIRMATIVE COVENANTS

Borrower shall do all of the following:

6.1 Government Compliance. Maintain its and all its Subsidiaries' legal existence and good standing in their respective jurisdictions of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to have a material adverse effect on Borrower's business or operations. Borrower shall comply, and have each Subsidiary comply, with all laws, ordinances and regulations to which it is subject, noncompliance with which could have a material adverse effect on Borrower's business.

6.2 Financial Statements, Reports, Certificates. Deliver to HSBC:

(a) Intentionally Omitted;

(b) Quarterly Financial Statements. As soon as available, but no later than forty-five (45) days after the last day of each fiscal, a company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations for such fiscal quarter certified by a Responsible Officer and in a form acceptable to HSBC (the "**Quarterly Financial Statements**");

(c) Quarterly Compliance Certificate. Within forty-five (45) days after the last day of each fiscal quarter and together with the Quarterly Financial Statements, a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such fiscal quarter, Borrower was in full compliance with all of the terms and conditions of this Agreement, and setting forth calculations showing compliance with the financial covenants set forth in this Agreement and such other information as HSBC shall reasonably request;

(d) Annual Audited Financial Statements. As soon as available, but no later than ninety (90) days after the last day of Borrower's fiscal year, audited consolidated financial statements prepared under GAAP, consistently applied, together with an unqualified opinion on the financial statements from an independent certified public accounting firm acceptable to HSBC in its reasonable discretion;

(e) Other Statements. Within five (5) days of delivery, copies of all statements, reports and notices made available to Borrower's security holders or to any holders of Subordinated Debt;

(f) SEC Filings. Within five (5) days of filing, copies of all periodic and other reports, proxy statements and other materials filed by Borrower with the SEC, any Governmental Authority succeeding to any or all of the functions of the SEC or with any national securities exchange, or distributed to its shareholders, as the case may be. Documents required to be delivered pursuant to the terms hereof (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which Borrower posts such documents, or provides a link thereto, on Borrower's website on the Internet at Borrower's website address. As to any information contained in the materials furnished pursuant to this clause (f), Borrower shall not be required separately to furnish such information under clauses (b), (c) and (e), but the foregoing shall not be in derogation of the obligation of Borrower to furnish the information and materials described in such clauses (b), (c) and (e) at the times specified therein.

(g) Legal Action Notice. A prompt report of any legal actions pending or threatened in writing against Borrower or any of its Subsidiaries that could result in damages or costs to Borrower or any of its Subsidiaries that could reasonably be expected to cause a Material Adverse Change with respect to Borrower or any of its Subsidiaries;

(h) Intentionally Omitted; and

(i) Other Financial Information. Budgets, sales projections, operating plans and other financial information reasonably requested by HSBC.

6.3 Inventory; Returns. Keep all Inventory in good and marketable condition, free from material defects. Returns and allowances between Borrower and its Account Debtors shall follow Borrower's customary practices as they exist at the Effective Date.

6.4 Taxes; Pensions. Timely file, and require each of its Subsidiaries to timely file, all required tax returns and reports and timely pay, and require each of its Subsidiaries to timely pay, all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower and each of its Subsidiaries, except for deferred payment of any taxes contested pursuant to the terms of Section 5.9 hereof, and shall deliver to HSBC, on demand, appropriate certificates attesting to such payments, and pay all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms.

In the event any payments are received by HSBC from Borrower pursuant to this Agreement, such payments will be made subject to applicable withholding for any taxes, levies, fees, deductions, withholding, restrictions or conditions of any nature whatsoever. Notwithstanding the foregoing, if at any time any Governmental Authority, applicable law, regulation or international agreement requires Borrower to make any such deduction or withholding from any such payment or other sum payment hereunder to HSBC, the amount due from Borrower with respect to such payment or other sum payable hereunder will be increased to the extent necessary to ensure that, after the making of such required deduction or withholding, HSBC receives a net sum equal to the sum which it would have received had no deductions or withholding been required, and Borrower shall pay the full amount deducted or withheld to the relevant Governmental Authority. Borrower will, upon request, furnish HSBC with proof satisfactory to HSBC indicating that Borrower has made such withholding payment; provided, however, that Borrower need not make any withholding payment if the amount or validity of such withholding payment is contested in good faith by appropriate proceedings and as to which payment in full is bonded or reserved against by Borrower. The agreements and obligations of Borrower contained in this provision shall survive the termination of this Agreement.

6.5 Insurance. Keep its business and the Collateral insured for risks and in amounts standard for companies in Borrower's industry and location and as HSBC may reasonably request. Insurance policies shall be in a form, with companies, and in amounts that are satisfactory to HSBC. All property policies shall have a lender's loss payable endorsement showing HSBC as the sole lender loss payee and waive subrogation against HSBC. All liability policies shall show, or have endorsements showing, HSBC as an additional insured. All policies (or the loss payable and additional insured endorsements) shall provide that the insurer shall give HSBC at least twenty (20) days notice before canceling, amending, or declining to renew its policy. At HSBC's request, Borrower shall deliver certified copies of policies and evidence of all premium payments. Except as otherwise provided in this Section 6.5, proceeds payable under any policy shall, at HSBC's option, be payable to HSBC on account of the Obligations. Notwithstanding the foregoing, (a) so long as no Event of Default has occurred and is continuing, Borrower shall have the option of (i) applying the proceeds of any casualty policy up to Five Hundred Thousand Dollars (\$500,000) for all losses under all casualty policies in any one year, as it determines in its discretion and (ii) applying the proceeds of any casualty policy in excess of Five Hundred Thousand Dollars (\$500,000) for all losses under all casualty policies in any one year, toward the replacement or repair of destroyed or damaged property; provided that any such replaced or repaired property shall be deemed Collateral in which HSBC has been granted a first priority security interest, and (b) after the occurrence and during the continuance of an Event of Default, all proceeds payable under such casualty policy shall, at the option of HSBC, be payable to HSBC on account of the Obligations. If Borrower fails to obtain insurance as required under this Section 6.5 or to pay any amount or furnish any required proof of payment to third persons and HSBC, HSBC may make all or part of such payment or obtain such insurance policies required in this Section 6.5, and take any action under the policies HSBC deems prudent.

6.6 Operating Accounts. Maintain its primary depository account and cash management account with HSBC.

6.7 Financial Covenants. Maintain as of the last day of each quarter, unless otherwise noted, on a consolidated basis with respect to Borrower and its Subsidiaries

(a) Debt/Net Worth Ratio. A ratio of Total Liabilities less Subordinated Debt to Tangible Net Worth of not more than 1.75 to 1.0.

(b) Tangible Net Worth. A Tangible Net Worth of at least \$18,000,000.

(c) Fixed Charge Coverage Ratio. Measured as of the end of each fiscal quarter for the four (4) fiscal quarter period then-ended, a Fixed Charge Coverage Ratio of at least 1.1 to 1.0.

(d) Definitions. As used in this Section 6.7 or elsewhere in this Agreement, the following capitalized terms have the following meanings:

“**EBITDA**” shall mean (a) Net Income, plus (b) Interest Expense, plus (c) to the extent deducted in the calculation of Net Income, depreciation expense and amortization expense, plus (d) income tax expense.

“**Fixed Charge Coverage Ratio**” means, for any period, the ratio of (x) EBITDA minus capital expenditures (net of amounts financed by third parties) to (y) the sum of (i) Interest Expense, plus (ii) income tax expense plus (iii) all dividends and distributions actually paid in such period, plus (iv) all scheduled payments of principal with respect to Indebtedness.

“**Interest Expense**” means for any period, interest expense (whether cash or non-cash) determined in accordance with GAAP for the relevant period ending on such date, including, in any event, interest expense with respect to any Loan and other Indebtedness of Borrower and its Subsidiaries, including, without limitation or duplication, all commissions, discounts, or related amortization and other fees and charges with respect to letters of credit and bankers’ acceptance financing and the net costs associated with interest rate swap, cap, and similar arrangements, and the interest portion of any deferred payment obligation (including leases of all types).

“**Net Income**” means, as calculated on a consolidated basis for Borrower and its Subsidiaries for any period as at any date of determination, the net profit (or loss), after provision for taxes, of Borrower and its Subsidiaries for such period taken as a single accounting period.

“**Tangible Net Worth**” is, on any date, the consolidated total assets of Borrower and its Subsidiaries, including any tax receivables, minus (a) any amounts attributable to (i) goodwill, (ii) intangible items including unamortized debt discount and expense, Patents, Trademarks, Copyrights, and research and development expenses except prepaid expenses, (iii) notes, accounts receivable and other obligations owing to Borrower from its officers or other Affiliates, and (iv) reserves not already deducted from assets, minus (b) Total Liabilities plus Subordinated Debt.

“**Total Liabilities**” is on any day, obligations that should, under GAAP, be classified as liabilities on Borrower’s consolidated balance sheet.

6.8 [Intentionally Omitted].

6.9 Litigation Cooperation. From the date hereof and continuing through the termination of this Agreement, make available to HSBC, without expense to HSBC, Borrower and its officers, employees and agents and Borrower’s books and records, to the extent that HSBC may deem them reasonably necessary to prosecute or defend any third-party suit or proceeding instituted by or against HSBC with respect to any Collateral or relating to Borrower.

6.10 Access to Collateral; Books and Records. Allow HSBC, or its agents, at reasonable times, on one (1) Business Day’s notice (provided no notice is required if an Event of Default has occurred and is continuing), to inspect the Collateral and audit and copy Borrower’s Books. The foregoing inspections and audits shall be at Borrower’s expense.

6.11 Formation or Acquisition of Subsidiaries. At the time that Borrower forms any direct or indirect Subsidiary or acquires any direct or indirect Subsidiary after the Effective Date, Borrower shall (a) in the case of a Domestic Subsidiary cause such new Domestic Subsidiary to provide to HSBC either a joinder to the Loan Agreement to cause such Domestic Subsidiary to become a co-borrower hereunder or an executed Guaranty to cause such Domestic Subsidiary to become a Guarantor hereunder, together with such appropriate financing statements and/or Control Agreements, all in form and substance satisfactory to HSBC (including being sufficient to grant HSBC a first priority Lien (subject to Permitted Liens) in and to the assets of such newly formed or acquired Domestic Subsidiary), (b) in case of a direct Subsidiary, provide to HSBC appropriate certificates and powers and financing statements, pledging all of the direct or beneficial ownership interest in such new Subsidiary (to the extent permitted), in form and substance satisfactory to HSBC, and (c) provide to HSBC all other documentation in form and substance satisfactory to HSBC, including one or more opinions of counsel satisfactory to HSBC, which in its opinion is appropriate with respect to the execution and delivery of the applicable documentation referred to above. Any document, agreement, or instrument executed or issued pursuant to this Section 6.11 shall be a Loan Document.

6.12 Environmental Compliance. Comply in all respects with all Environmental Laws, except if such failure to comply could not reasonably be expected to result in a Material Adverse Change. Not suffer, cause or permit any disposal of Hazardous Materials at any property owned, leased or operated by Borrower or any Subsidiary except in accordance with applicable Environmental Laws. Promptly notify Lender in the event of the disposal of any Hazardous Materials in violation of any Environmental Law at any property owned, leased or operated by Borrower or any of its Subsidiaries, or in the event of any release, or threatened release, of a Hazardous Materials in violation of any Environmental Law from any such property, in each case, if such violation could reasonably be expected to result in a Material Adverse Change. Deliver promptly to Lender copies of any documents received from the United States Environmental Protection Agency or any state, provincial, county or municipal environmental or health agency concerning a violation or alleged violation by Borrower or any Subsidiary of any Environmental Law that could reasonably be expected to result in a Material Adverse Change.

6.13 Further Assurances. Execute any further instruments and take further action as HSBC reasonably requests to perfect or continue HSBC's Lien in the Collateral or to effect the purposes of this Agreement. Deliver to HSBC, within five (5) days after the same are sent or received, copies of all correspondence, reports, documents and other filings with any Governmental Authority regarding compliance with or maintenance of Governmental Approvals or Requirements of Law or that could reasonably be expected to have a material effect on any of the Governmental Approvals or otherwise on the operations of Borrower or any of its Subsidiaries.

7 NEGATIVE COVENANTS

Borrower shall not do any of the following without HSBC's prior written consent:

7.1 Dispositions. Convey, sell, lease, transfer, assign, or otherwise dispose of (collectively, "**Transfer**") or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Transfers (a) of Inventory in the ordinary course of business; (b) of worn-out or obsolete Equipment; (c) in connection with Permitted Liens and investments permitted by Section 7.7(b); and (d) other sales in an aggregate not to exceed One Million Dollars (\$1,000,000) in any fiscal year.

7.2 Changes in Business, Control, or Business Locations.

(a) Engage in or permit any of its Subsidiaries to engage in any business that is materially different from the businesses currently engaged in by Borrower and such Subsidiary, as applicable, or reasonably related thereto; (b) liquidate or dissolve; or (c) permit or suffer any Change in Control.

Borrower shall not, without at least thirty (30) days prior written notice to HSBC: (1) add any new offices or business locations, including warehouses (unless such new offices or business locations contain less than One Million Dollars (\$1,000,000) in Borrower's assets or property) or deliver any portion of the Collateral valued, individually or in the aggregate, in excess of One Million Dollars (\$1,000,000) to a bailee at a location other than to a bailee and at a location already disclosed in the Perfection Certificate, (2) change its jurisdiction of organization, (3) change its organizational structure or type, (4) change its legal name, or (5) change any organizational number (if any) assigned by its jurisdiction of organization.

7.3 Mergers or Acquisitions. Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person except where (I) if the total consideration including cash and the value of any non-cash consideration, for all such transactions does not in the aggregate exceed Two Million Dollars (\$2,000,000) in any fiscal year of Borrower (a) no Event of Default has occurred and is continuing or would exist after giving effect to the transactions; (b) Borrower is the surviving legal entity; and (c) immediately after giving effect to such acquisition Borrower's unrestricted cash and Cash Equivalents plus the Committed Availability is at least Two Million Five Hundred Thousand Dollars (\$2,500,000); or (II) if the total consideration including cash and the value of any non-cash consideration, for all such transactions in the aggregate exceeds Two Million Dollars (\$2,000,000) in any fiscal year of Borrower (a) HSBC shall have consented to such transaction in its sole and absolute discretion; (b) no Event of Default has occurred and is continuing or would exist after giving effect to the transactions; (c) Borrower is the surviving legal entity; (d) immediately after giving effect to such acquisition Borrower's unrestricted cash and Cash Equivalents plus the Committed Availability is at least Two Million Five Hundred Thousand Dollars (\$2,500,000); and (e) no later than thirty (30) days prior to the closing of such acquisition, Borrower has delivered to HSBC a Compliance Certificate demonstrating that after giving effect to such acquisition Borrower will be in compliance with all covenants on a pro forma basis after giving effect to such acquisition. A Subsidiary may merge or consolidate into another Subsidiary or into Borrower.

7.4 Indebtedness. Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness; provided that prior to incurring any Subordinated Debt after the Effective Date, Borrower shall deliver to HSBC a Compliance Certificate demonstrating that after giving effect to such incurrence of Subordinated Debt, Borrower will be in compliance with all covenants in this Agreement on a pro forma basis after giving effect to such incurrence.

7.5 Encumbrance. Create, incur, allow, or suffer any Lien on any of the Collateral other than Permitted Liens.

7.6 Maintenance of Collateral Accounts. Maintain any Collateral Account unless HSBC has a first priority perfected security interest in such Collateral Account pursuant to a Control Agreement.

7.7 Distributions; Investments.

(a) Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock; provided that Borrower may pay dividends or make any distribution or payment or redeem, retire or purchase any capital stock, so long as after giving effect to such repurchase no Default or Event of Default has occurred and is continuing and Borrower will be in compliance with all covenants on a pro forma basis after giving effect to such repurchase; provided further that Borrower may only repurchase up to \$2,000,000 of its common stock in any fiscal year, and only so long as after giving effect to such repurchase no Default or Event of Default has occurred and is continuing and Borrower will be in compliance with all covenants on a pro forma basis after giving effect to such repurchase; or

(b) directly or indirectly make any investments, loans or advances, excepting investments, loans and advances to any Subsidiary, suppliers or vendors in the ordinary course of business, and ordinary course of business travel and expense advances, to any Person, or permit any of its Subsidiaries to do so, so long as after giving effect thereto no Default or Event of Default has occurred and is continuing.

7.8 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower, except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person.

7.9 Subordinated Debt. (a) Make or permit any payment on any Subordinated Debt, except under the terms of the subordination, intercreditor, or other similar agreement to which such Subordinated Debt is subject, or (b) amend any provision in any document relating to the Subordinated Debt which would increase the amount thereof or adversely affect the subordination thereof to Obligations owed to HSBC.

7.10 Anti-Terrorism; Trading with the Enemy. Borrower shall not nor shall it permit any Subsidiary or agent to: (a) conduct any business or engage in any transaction or dealing with any Blocked Person, including the making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person; (b) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224; (c) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in the Executive Order No. 13224, the PATRIOT Act or any other Anti-Terrorism Law or (d) engage in any business or activity in violation of the Trading with the Enemy Act. Borrower shall deliver to HSBC any certification or other evidence requested from time to time by HSBC in its sole discretion, confirming its compliance with this Section.

7.11 Compliance. Become an "investment company" or a company controlled by an "investment company", under the Investment Company Act of 1940, as amended, or undertake as one of its important activities extending credit to purchase or carry margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System), or use the proceeds of any Credit Extension for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on Borrower's business, or permit any of its Subsidiaries to do so; withdraw or permit any Subsidiary to withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any present pension, profit sharing and deferred compensation plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

8 EVENTS OF DEFAULT

Any one of the following shall constitute an event of default (an "**Event of Default**") under this Agreement:

8.1 Payment Default. Borrower fails to (a) make any payment of principal or interest on any Credit Extension on its due date, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable (which three (3) Business Day cure period shall not apply to payments due on the Revolving Line Maturity Date). During the cure period, the failure to make or pay any payment specified under clause (a) or (b) hereunder is not an Event of Default (but no Credit Extension will be made during the cure period);

8.2 Covenant Default.

- (a) Borrower fails or neglects to perform any obligation in Sections 6.2, 6.4, 6.5, 6.6, 6.7, 6.10, or violates any covenant in Section 7; or
- (b) Borrower fails or neglects to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement or any Loan Documents, and as to any default (other than those specified in this Section 8) under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure the default within ten (10) days after the occurrence thereof. Cure periods provided under this section shall not apply, among other things, to financial covenants or any other covenants set forth in clause (a) above;

8.3 Material Adverse Change. A Material Adverse Change occurs;

8.4 Attachment; Levy; Restraint on Business.

(a) (i) The service of process seeking to attach, by trustee or similar process, any funds of Borrower or of any entity under the control of Borrower (including a Subsidiary) on deposit or otherwise maintained with HSBC or any HSBC Affiliate, or (ii) a notice of lien or levy is filed against any of Borrower's assets by any government agency, and the same under subclauses (i) and (ii) hereof are not, within sixty (60) days after the occurrence thereof, discharged or stayed (whether through the posting of a bond or otherwise); provided, however, no Credit Extensions shall be made during any sixty (60) day cure period; or

(b) (i) any material portion of Borrower's assets is attached, seized, levied on, or comes into possession of a trustee or receiver, or (ii) any court order enjoins, restrains, or prevents Borrower from conducting any material part of its business;

8.5 Insolvency (a) Borrower is unable to pay its debts (including trade debts) as they become due or otherwise becomes insolvent; (b) Borrower begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against Borrower and not dismissed or stayed within thirty (30) days (but no Credit Extensions shall be made while of any of the conditions described in clause (a) exist and/or until any Insolvency Proceeding is dismissed);

8.6 Other Agreements. There is, under any agreement to which Borrower or any Guarantor is a party with a third party or parties, (a) any default resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount individually or in the aggregate in excess of One Million Dollars (\$1,000,000); or (b) any default by Borrower or Guarantor, the result of which could have a material adverse effect on Borrower's or any Guarantor's business: provided, however, that the Event of Default under this Section 8.6 caused by the occurrence of a default under such other agreement shall be cured or waived for purposes of this Agreement upon HSBC receiving written notice from the party asserting such default of such cure or waiver of the default under such other agreement, if at the time of such cure or waiver under such other agreement (x) HSBC has not declared an Event of Default under this Agreement and/or exercised any rights with respect thereto; (y) any such cure or waiver does not result in an Event of Default under any other provision of this Agreement or any Loan Document; and (z) in connection with any such cure or waiver under such other agreement, the terms of any agreement with such third party are not modified or amended in any manner which could in the good faith judgment of HSBC be materially less advantageous to Borrower or any Guarantor;

8.7 Judgments. One or more final judgments, orders, or decrees for the payment of money in an amount, individually or in the aggregate, of at least One Million Dollars (\$1,000,000) (not covered by independent third-party insurance as to which liability has been accepted by such insurance carrier) shall be rendered against Borrower and the same are not, within sixty (60) days after the entry thereof, discharged or execution thereof stayed or bonded pending appeal, or such judgments are not discharged prior to the expiration of any such stay (provided that no Credit Extensions will be made prior to the discharge, stay, or bonding of such judgment, order, or decree);

8.8 Misrepresentations. Borrower or any Person acting for Borrower makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to HSBC or to induce HSBC to enter this Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect when made;

8.9 Subordinated Debt. Any document, instrument, or agreement evidencing any Subordinated Debt shall for any reason be revoked or invalidated or otherwise cease to be in full force and effect, any Person shall be in breach thereof or contest in any manner the validity or enforceability thereof or deny that it has any other liability or obligation thereunder, or the Obligations shall for any reason be subordinated or shall not have the priority contemplated by this Agreement;

8.10 Guaranty. (a) Any guaranty of any Obligations to HSBC terminates or ceases for any reason to be in full force and effect; (b) any Guarantor does not perform any obligation or covenant under any guaranty of the Obligations to HSBC; (c) any circumstance described in Sections 8.3, 8.4, 8.5, 8.7, or 8.8 occurs with respect to any Guarantor; (d) the liquidation, winding up, or termination of existence of any Guarantor; or (e) (i) a material impairment in the perfection or priority of HSBC's Lien in the collateral provided by Guarantor or in the value of such collateral or (ii) a material adverse change in the general affairs, management, results of operation, condition (financial or otherwise) or the prospect of repayment of the Obligations occurs with respect to any Guarantor; or

8.11 HSBC Group. Borrower or any of its Subsidiaries defaults under any agreement (other than any Loan Document) with HSBC or any of its Affiliates.

8.12 Governmental Approvals. Any Governmental Approval shall have been (a) revoked, rescinded, suspended, modified in an adverse manner or not renewed in the ordinary course for a full term or (b) subject to any decision by a Governmental Authority that designates a hearing with respect to any applications for renewal of any of such Governmental Approval or that could result in the Governmental Authority taking any of the actions described in clause (a) above, and such decision or such revocation, rescission, suspension, modification or non-renewal (i) has, or could reasonably be expected to have, a Material Adverse Change, or (ii) adversely affects the legal qualifications of Borrower or any of its Subsidiaries to hold such Governmental Approval in any applicable jurisdiction and such revocation, rescission, suspension, modification or non-renewal could reasonably be expected to affect the status of or legal qualifications of Borrower or any of its Subsidiaries to hold any Governmental Approval in any other jurisdiction.

9 HSBC'S RIGHTS AND REMEDIES

9.1 Rights and Remedies. While an Event of Default occurs and continues HSBC may, without notice or demand, do any or all of the following:

(a) declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by HSBC);

(b) stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and HSBC;

(c) [Intentionally Omitted];

(d) settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that HSBC considers advisable, notify any Person owing Borrower money of HSBC's security interest in such funds, and verify the amount of such account;

(e) make any payments and do any acts it considers necessary or reasonable to protect the Collateral and/or its security interest in the Collateral. Borrower shall assemble the Collateral if HSBC requests and make it available as HSBC designates. HSBC may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants HSBC a license to enter and occupy any of its premises, without charge, to exercise any of HSBC's rights or remedies;

(f) apply to the Obligations any (i) balances and deposits of Borrower it holds, or (ii) any amount held by HSBC owing to or for the credit or the account of Borrower;

(g) ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral. HSBC is hereby granted a non-exclusive, royalty-free license or other right to use, without charge, Borrower's labels, Patents, Copyrights, mask works, rights of use of any name, trade secrets, trade names, Trademarks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with HSBC's exercise of its rights under this Section, Borrower's rights under all licenses and all franchise agreements inure to HSBC's benefit;

(h) place a "hold" on any account maintained with HSBC and/or deliver a notice of exclusive control, any entitlement order, or other directions or instructions pursuant to any Control Agreement or similar agreements providing control of any Collateral;

(i) demand and receive possession of Borrower's Books; and

(j) exercise all rights and remedies available to HSBC under the Loan Documents or at law or equity, including all remedies provided under the Code (including disposal of the Collateral pursuant to the terms thereof).

9.2 Power of Attorney. Borrower hereby irrevocably appoints HSBC as its lawful attorney-in- fact, exercisable upon the occurrence and during the continuance of an Event of Default, to: (a) endorse Borrower's name on any checks or other forms of payment or security; (b) sign Borrower's name on any invoice or bill of lading for any Account or drafts against Account Debtors; (c) settle and adjust disputes and claims about the Accounts directly with Account Debtors, for amounts and on terms HSBC determines reasonable; (d) make, settle, and adjust all claims under Borrower's insurance policies; (e) pay, contest or settle any Lien, charge, encumbrance, security interest, and adverse claim in or to the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; and (f) transfer the Collateral into the name of HSBC or a third party as the Code permits. Borrower hereby appoints HSBC as its lawful attorney-in-fact to sign Borrower's name on any documents necessary to perfect or continue the perfection of HSBC's security interest in the Collateral regardless of whether an Event of Default has occurred until all Obligations have been satisfied in full and HSBC is under no further obligation to make Credit Extensions hereunder. HSBC's foregoing appointment as Borrower's attorney in fact, and all of HSBC's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and HSBC's obligation to provide Credit Extensions terminates.

9.3 Protective Payments. If Borrower fails to obtain the insurance called for by Section 6.5 or fails to pay any premium thereon or fails to pay any other amount which Borrower is obligated to pay under this Agreement or any other Loan Document, HSBC may obtain such insurance or make such payment, and all amounts so paid by HSBC are HSBC Expenses and immediately due and payable, bearing interest at the then highest rate applicable to the Obligations, and secured by the Collateral. HSBC will make reasonable efforts to provide Borrower with notice of HSBC obtaining such insurance at the time it is obtained or within a reasonable time thereafter. No payments by HSBC are deemed an agreement to make similar payments in the future or HSBC's waiver of any Event of Default.

9.4 Application of Payments and Proceeds Upon Default. If an Event of Default has occurred and is continuing, HSBC may apply any funds in its possession, whether from Borrower account balances, payments, proceeds realized as the result of any collection of Accounts or other disposition of the Collateral, or otherwise, to the Obligations in such order as HSBC shall determine in its sole discretion. Any surplus shall be paid to Borrower or other Persons legally entitled thereto; Borrower shall remain liable to HSBC for any deficiency. If HSBC, in its good faith business judgment, directly or indirectly enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, HSBC shall have the option, exercisable at any time, of either reducing the Obligations by the principal amount of the purchase price or deferring the reduction of the Obligations until the actual receipt by HSBC of cash therefor.

9.5 HSBC's Liability for Collateral. So long as HSBC complies with reasonable banking practices regarding the safekeeping of the Collateral in the possession or under the control of HSBC, HSBC shall not be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other Person. Borrower bears all risk of loss, damage or destruction of the Collateral.

9.6 No Waiver; Remedies Cumulative. HSBC's failure, at any time or times, to require strict performance by Borrower of any provision of this Agreement or any other Loan Document shall not waive, affect, or diminish any right of HSBC thereafter to demand strict performance and compliance herewith or therewith. No waiver hereunder shall be effective unless signed by the party granting the waiver and then is only effective for the specific instance and purpose for which it is given. HSBC's rights and remedies under this Agreement and the other Loan Documents are cumulative. HSBC has all rights and remedies provided under the Code, by law, or in equity. HSBC's exercise of one right or remedy is not an election and shall not preclude HSBC from exercising any other remedy under this Agreement or other remedy available at law or in equity, and HSBC's waiver of any Event of Default is not a continuing waiver. HSBC's delay in exercising any remedy is not a waiver, election, or acquiescence.

9.7 Demand Waiver. Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by HSBC on which Borrower is liable.

10 NOTICES

All notices, consents, requests, approvals, demands, or other communication by any party to this Agreement or any other Loan Document must be in writing and shall be deemed to have been validly served, given, or delivered: (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the U.S. mail, first class, registered or certified mail return receipt requested, with proper postage prepaid; (b) upon transmission, when sent by electronic mail or facsimile transmission; (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (d) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address, facsimile number, or email address indicated below. HSBC or Borrower may change its mailing or electronic mail address or facsimile number by giving the other party written notice thereof in accordance with the terms of this Section 10.

If to Borrower:

Acme United Corporation
60 Round Hill Road, Fax:
Fairfield, Connecticut 06824
Attn: Chief Financial Officer
Fax: (203) 254-6521
Email: PDriscoll@AcmeUnited.com

With a copy to:

Brody Wilkinson PC
2507 Post Road
Southport, Connecticut 06890
Attn: James Rice
Fax: (203) 319-7112
Email: jrice@brodywilk.com

If to HSBC:

HSBC Bank USA, National Association
452 Fifth Avenue
New York, New York
Attn: Relationship Manager - Acme United
Fax: (212) 525-2555
Email: john.i.athanasoulis@us.hsbc.com

11 CHOICE OF LAW, VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE

This Agreement and the other Loan Documents shall be governed by and construed in accordance with the laws of the State of New York applied to contracts to be performed wholly within the State of New York. Any judicial proceeding brought by HSBC against Borrower with respect to any of the Obligations, this Agreement or any other Loan Document or related agreement may be brought in any court of competent jurisdiction in the County of New York, State of New York, United States of America, and, by execution and delivery of this Agreement, Borrower accepts for itself and in connection with its properties, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts in connection with any such judicial proceeding brought by HSBC against Borrower, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement. Borrower hereby waives personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to Borrower at its address set forth in Section 10 and service so made shall be deemed completed five (5) days after the same shall have been so deposited in the mails of the United States of America. Nothing herein shall affect the right to serve process in any manner permitted by law or shall limit the right of HSBC to bring proceedings against Borrower in the courts of any other jurisdiction. Borrower waives any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens. Any judicial proceeding by Borrower against HSBC involving, directly or indirectly, any matter or claim in any way arising out of, related to or connected with this Agreement or any related agreement, shall be brought only in a federal or state court located in the County of New York, State of New York.

TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND HSBC EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

12 GENERAL PROVISIONS

12.1 Successors and Assigns. This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights or obligations under it without HSBC's prior written consent (which may be granted or withheld in HSBC's discretion). HSBC has the right, without the consent of or notice to Borrower, to sell, transfer, assign, negotiate, or grant participation in all or any part of, or any interest in, HSBC's obligations, rights, and benefits under this Agreement and the other Loan Documents.

12.2 Indemnification.

(a) Borrower shall indemnify HSBC and its officers, directors, Affiliates, employees and agents from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including, without limitation, reasonable fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against HSBC in any litigation, proceeding or investigation instituted or conducted by any governmental agency or instrumentality or any other Person with respect to any aspect of, or any transaction contemplated by, or referred to in, or any matter related to, this Agreement or the other Loan Documents, whether or not HSBC is a party thereto, except to the extent that any of the foregoing is caused by the gross negligence or willful misconduct of the party being indemnified (as determined by a court of competent jurisdiction in a final and non-appealable judgment).

(b) Borrower shall indemnify HSBC and its officers, directors, Affiliates, employees and agents from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including, without limitation, reasonable fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against HSBC (i) under or on account of Borrower's violation of any applicable Environmental Laws, including, without limitation, the assertion of any Lien thereunder and/or (ii) with respect to any discharge of Hazardous Materials, the presence of any Hazardous Materials affecting real property owned or leased by Borrower, whether or not the same originates or emerges from such real property or any contiguous real estate. Borrower's obligations under this sub-section shall arise upon the discovery of the presence of any Hazardous Material at any real property owned or leased by Borrower, whether or not any federal, state, or local environmental agency has taken or threatened any action in connection with the presence of any Hazardous Materials.

(c) Borrower shall indemnify HSBC and hold HSBC harmless from and against any and all losses or expenses that HSBC may sustain or incur as a consequence of any prepayment, conversion of or any default by Borrower in the payment of the principal of or interest on any LIBOR Rate Advance or failure by Borrower to complete a borrowing of, a prepayment of or conversion of or to a LIBOR Rate Advance after notice thereof has been given, including, but not limited to, any interest payable by HSBC to lenders of funds obtained by it in order to make or maintain its LIBOR Rate Advances hereunder. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by HSBC to Borrower shall be conclusive absent manifest error.

12.3 Time of Essence. Time is of the essence for the performance of all Obligations in this Agreement.

12.4 Severability of Provisions. Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

12.5 Correction of Loan Documents. HSBC may correct patent errors and fill in any blanks in the Loan Documents consistent with the agreement of the parties so long as HSBC provides Borrower with written notice of such correction and allows Borrower at least ten (10) days to object to such correction. In the event of such objection, such correction shall not be made except by an amendment signed by both HSBC and Borrower.

12.6 Amendments in Writing; Waiver; Integration. No purported amendment or modification of any Loan Document, or waiver, discharge or termination of any obligation under any Loan Document, shall be enforceable or admissible unless, and only to the extent, expressly set forth in a writing signed by the party against which enforcement or admission is sought. Without limiting the generality of the foregoing, no oral promise or statement, nor any action, inaction, delay, failure to require performance or course of conduct shall operate as, or evidence, an amendment, supplement or waiver or have any other effect on any Loan Document. Any waiver granted shall be limited to the specific circumstance expressly described in it, and shall not apply to any subsequent or other circumstance, whether similar or dissimilar, or give rise to, or evidence, any obligation or commitment to grant any further waiver. The Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of the Loan Documents merge into the Loan Documents.

12.7 Maximum Charges. In no event whatsoever shall interest and other charges charged hereunder exceed the highest rate permissible under law. In the event interest and other charges as computed hereunder would otherwise exceed the highest rate permitted under law, such excess amount shall be first applied to any unpaid principal balance owed by Borrower, and if the then remaining excess amount is greater than the previously unpaid principal balance, HSBC shall promptly refund such excess amount to Borrower and the provisions hereof shall be deemed amended to provide for such permissible rate.

12.8 Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one Agreement.

12.9 Survival. All covenants, representations and warranties made in this Agreement continue in full force until this Agreement has terminated pursuant to its terms and all Obligations (other than inchoate indemnity obligations and any other obligations which, by their terms, are to survive the termination of this Agreement) have been paid in full and satisfied. The obligation of Borrower in Section 12.2 to indemnify HSBC shall survive until the statute of limitations with respect to such claim or cause of action shall have run.

12.10 Confidentiality/Sharing of Information.

(a) HSBC shall hold all non-public information obtained by Borrower pursuant to the requirements of this Agreement in accordance with HSBC's customary procedures for handling confidential information of this nature; provided, however, HSBC may disclose such confidential information (i) to its examiners, affiliates, outside auditors, counsel and other professional advisors, (ii) to any prospective transferees, and (iii) as required or requested by any Governmental Authority or pursuant to legal process or applicable law; provided, further that (x) unless specifically prohibited by applicable law or court order, HSBC shall use reasonable efforts prior to disclosure thereof, to notify Borrower of the applicable request for disclosure of such non-public information (A) by a Governmental Authority (other than any such request in connection with an examination of the financial condition of HSBC by such Governmental Authority) or (B) pursuant to legal process and (y) in no event shall HSBC be obligated to return any materials furnished by Borrower other than those documents and instruments in possession of HSBC in order to perfect its Lien on the Collateral once the Obligations have been paid in full and this Agreement has been terminated.

(b) Borrower acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to Borrower or one or more of its Affiliates (in connection with this Agreement or otherwise) by HSBC or by one or more Subsidiaries or Affiliates of HSBC and Borrower hereby authorizes HSBC, following HSBC's receipt of Borrower's prior written consent, to share any information delivered to HSBC by Borrower and its Subsidiaries pursuant to this Agreement, or in connection with the decision of HSBC to enter into this Agreement, to any such Subsidiary or Affiliate of HSBC, it being understood that any such Subsidiary or Affiliate of any Lender receiving such information shall be bound by the provision of this Section 12.10. Such authorization shall survive the repayment of the Obligations and the termination of this Agreement

12.11 Attorneys' Fees, Costs and Expenses. All costs and expenses may be charged to the Designated Deposit Account and shall be part of the Obligations, including, without limitation:

(a) reasonable attorneys' fees and disbursements incurred by HSBC, (i) in all efforts made to enforce payment of any Obligation or effect collection of any Collateral, or (ii) in connection with the entering into, modification, amendment and administration of this Agreement or any consents or waivers hereunder and all related agreements, documents and instruments, or (iii) in instituting, maintaining, preserving, enforcing and foreclosing on HSBC's security interest in or Lien on any of the Collateral, whether through judicial proceedings or otherwise, or (iv) in defending or prosecuting any actions or proceedings arising out of or relating to HSBC's transactions with Borrower, or (v) in connection with any advice given to HSBC with respect to its rights and obligations under this Agreement and all related agreements, or (vi) in connection with the enforcement of this Agreement or any consent or waivers hereunder and all related agreements, documents and instruments; and

(b) reasonable fees and disbursements incurred by HSBC in connection with any appraisals of Inventory or other Collateral, field examinations, collateral analysis or monitoring or other business analysis conducted by outside Persons in connection with this Agreement and all related agreements.

12.12 Electronic Execution of Documents. The words "execution," "signed," "signature" and words of like import in any Loan Document shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and enforceability as a manually executed signature or the use of a paper-based recordkeeping systems, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act.

12.13 Captions. The headings used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

12.14 Construction of Agreement. The parties mutually acknowledge that they and their attorneys have participated in the preparation and negotiation of this Agreement. In cases of uncertainty this Agreement shall be construed without regard to which of the parties caused the uncertainty to exist.

12.15 Relationship. The relationship of the parties to this Agreement is determined solely by the provisions of this Agreement. The parties do not intend to create any agency, partnership, joint venture, trust, fiduciary or other relationship with duties or incidents different from those of parties to an arm's-length contract.

12.16 Third Parties. Nothing in this Agreement, whether express or implied, is intended to: (a) confer any benefits, rights or remedies under or by reason of this Agreement on any persons other than the express parties to it and their respective permitted successors and assigns; (b) relieve or discharge the obligation or liability of any person not an express party to this Agreement; or (c) give any person not an express party to this Agreement any right of subrogation or action against any party to this Agreement.

12.17 [Intentionally Omitted].

12.18 PATRIOT Act Notice. HSBC hereby notifies Borrower that pursuant to the requirements of the PATRIOT Act, it is required to obtain, verify and record information that identifies Borrower, which information includes the names and addresses of Borrower and other information that will allow HSBC to identify Borrower in accordance with the PATRIOT Act.

12.19 Injunctive Relief. Borrower recognizes that, in the event Borrower fails to perform, observe or discharge any of its obligations or liabilities under this Agreement, any remedy at law may prove to be inadequate relief to Lenders; therefore, HSBC, if HSBC so requests, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving that actual damages are not an adequate remedy.

12.20 Consequential Damages. None of HSBC nor any agent or attorney for any of them, shall be liable to Borrower for indirect, punitive, exemplary, incidental, special or consequential damages arising from any breach of contract, tort or other wrong relating to the establishment, administration or collection of the Obligations.

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date.

BORROWER:

ACME UNITED CORPORATION

By _____

Name: Walter C. Johnsen

Title: Chairman of the Board and Chief Executive Officer

HSBC:

HSBC Bank USA, National Association

By _____

Name: _____

Title: _____

EXHIBIT A

SECURED REVOLVING NOTE

\$30,000,000

Maturity Date: April 5, 2017

FOR VALUE RECEIVED, ACME UNITED CORPORATION, a Connecticut corporation (“Borrower”) hereby promises to pay to the order of HSBC Bank, National Association or the holder (the “Lender”) of this Secured Revolving Note (this “Revolving Note”) at 452 Fifth Avenue, New York, New York or such other place of payment as the holder of this Revolving Note may specify from time to time in writing, in lawful money of the United States of America, the principal amount of Thirty Million Dollars (\$30,000,000) or such other principal amount as Lender has advanced to Borrower, together with interest at a rate as specified in the Loan Agreement (defined hereafter).

This Revolving Note is the Revolving Note referred to in, and is executed and delivered in connection with, that certain Loan and Security Agreement dated April 5, 2012, by and between Borrower and Lender (as the same may from time to time be amended, modified or supplemented in accordance with its terms, the “Loan Agreement”), and is entitled to the benefit and security of the Loan Agreement and the other Loan Documents (as defined in the Loan Agreement), to which reference is made for a statement of all of the terms and conditions thereof. All payments shall be made in accordance with the Loan Agreement. All terms defined in the Loan Agreement shall have the same definitions when used herein, unless otherwise defined herein. An Event of Default under the Loan Agreement shall constitute a default under this Revolving Note.

Borrower waives presentment and demand for payment, notice of dishonor, protest and notice of protest under the UCC or any applicable law. Borrower agrees to make all payments under this Revolving Note without setoff, recoupment or deduction and regardless of any counterclaim or defense. This Revolving Note has been negotiated and delivered to Lender and is payable in the State of New York. This Revolving Note shall be governed by and construed and enforced in accordance with, the laws of the State of New York, excluding any conflicts of law rules or principles that would cause the application of the laws of any other jurisdiction.

BORROWER FOR ITSELF

ACME UNITED CORPORATION

By:
Title:

EXHIBIT B

COLLATERAL DESCRIPTION ATTACHMENT TO LOAN AND SECURITY AGREEMENT

All personal property of Borrower (herein referred to as "Borrower" or "Debtor") whether presently existing or hereafter created or acquired, and wherever located, including, but not limited to:

- all accounts (including health-care-insurance receivables), chattel paper (including tangible and electronic chattel paper), deposit accounts, documents (including negotiable documents), equipment (including all accessions and additions thereto), financial assets, general intangibles (excluding patents, trademarks, copyrights, but including goodwill, payment intangibles and software), goods (including fixtures), instruments (including promissory notes), inventory (including all goods held for sale or lease or to be furnished under a contract of service, and including returns and repossessions), investment property (including securities and securities entitlements), letter of credit rights, money, and all of Debtor's books and records with respect to any of the foregoing, and the computers and equipment containing said books and records;
 - any and all cash proceeds and/or noncash proceeds of any of the foregoing, including, without limitation, insurance proceeds, and all supporting obligations and the security therefor or for any right to payment. All terms above have the meanings given to them in the New York Uniform Commercial Code, as amended or supplemented from time to time, including revised Division 9 of the Uniform Commercial Code-Secured Transactions.
-

EXHIBIT C COMPLIANCE

CERTIFICATE

The undersigned, the **[Chief Financial Officer]** **[Chief Executive Officer]** of ACME UNITED CORPORATION, a Connecticut corporation (the "Borrower"), gives this certificate to HSBC BANK USA, NATIONAL ASSOCIATION (the "HSBC"), in accordance with the requirements of Sections 6.2(d) of that certain Loan and Security Agreement, dated as of April , 2012 (including all annexes, exhibits or schedules thereto, and as from time to time amended, restated, supplemented or otherwise modified, the "Loan Agreement"), by and between Acme United Corporation, a Connecticut corporation ("Borrower") and HSBC Bank USA, National Association ("HSBC"). Capitalized terms used herein without definition are so used as defined in the Loan Agreement.

1. No Default or Event of Default has occurred or is continuing, except for such conditions or events listed on Schedule 1 attached hereto, specifying the nature and status and period of existence thereof and what action the Borrower has taken, is taking, or proposes to take with respect thereto.

2. Borrower is in compliance in all material respects with all representations, warranties, and covenants set forth in the Loan Agreement and the other Loan Documents, except as set forth on Schedule 2 attached hereto. Without limiting the generality of the foregoing, the Borrower is in compliance with the financial covenants contained in Section 6.7 of the Loan Agreement as demonstrated by the calculations set forth on Schedule 3 hereof.

ACME UNITED CORPORATION

By: _____

Name:

Title:

EXHIBIT D NOTICE OF

BORROWING

Reference is made to that certain Loan and Security Agreement, dated as of April 5, 2012 (including all annexes, exhibits or schedules thereto, and as from time to time amended, restated, supplemented or otherwise modified, the "Loan Agreement"), by and between Acme United Corporation, a Connecticut corporation ("Borrower") and HSBC Bank USA, National Association ("HSBC"). Capitalized terms used herein without definition are so used as defined in the Loan Agreement.

Pursuant to Section 3.2 of the Loan Agreement, please take notice that Borrower requests a Revolving Loan as follows:

Funding Date of Proposed Advance: _____, 200__

Amount of Advance: \$ _____

The proposed Advance will be [Base Rate Advance][an LIBOR Rate Advance with an Interest Period of _].

To induce HSBC to make the requested Advance, Borrower hereby represents and warrants that all of the conditions contained in Section 3.2 of the Loan Agreement have been satisfied on and as of the date hereof, and will continue to be satisfied on and as of the Funding Date of the requested Advance, before and after giving effect thereto.

ACME UNITED CORPORATION

By: _____

Name:

Title:

EXHIBIT E NOTICE OF

CONVERSION

Reference is made to that certain Loan and Security Agreement, dated as of April 5, 2012 (including all annexes, exhibits or schedules thereto, and as from time to time amended, restated, supplemented or otherwise modified, the "Loan Agreement"), by and between Acme United Corporation, a Connecticut corporation ("Borrower") and HSBC Bank USA, National Association ("HSBC"). Capitalized terms used herein without definition are so used as defined in the Loan Agreement.

Borrower hereby gives irrevocable notice, pursuant to Section 3.5 of the Loan Agreement, of its request to:

(a) on [date] convert \$[] of the aggregate outstanding principal amount of the Advances, bearing interest at the [Base] [LIBOR] Rate, into a(n) [Base Rate][LIBOR Rate] Advance [and, in the case of a LIBOR Rate Advance, having an Interest Period of [one][three][six] month(s)];

(b) on [date] continue \$[] of the aggregate outstanding principal amount of the LIBOR Rate Advance, bearing interest at the LIBOR Rate Rate, as a LIBOR Rate Rate having an Interest Period of [one][three][six] month(s)].

Borrower hereby represents and warrants that all of the conditions contained in Section 3.2 of the Loan Agreement have been satisfied on and as of the date hereof, and will continue to be satisfied on and as of the date of the conversion/continuation requested hereby, before and after giving effect thereto.

ACME UNITED CORPORATION

By: _____

Name:

Title:

Schedule 7.4

Existing Indebtedness

None

Schedule 7.5

Existing Liens

None

PLEDGE AGREEMENT

This Pledge Agreement (this "Agreement") dated as of April 5, 2012 by and between HSBC BANK USA, NATIONAL ASSOCIATION ("HSBC") and ACME UNITED CORPORATION ("Pledgor").

BACKGROUND

Pledgor and HSBC have entered or are entering into a Loan and Security Agreement dated as of the date hereof (as amended, modified, restated or supplemented from time to time, the "Loan Agreement"), pursuant to which HSBC has agreed, subject to the terms and conditions contained therein, to provide certain financial accommodations to Pledgor.

In order to induce HSBC to provide or continue to provide the financial accommodations described in the Loan Agreement, Pledgor has agreed to pledge and grant a security interest to HSBC in the Collateral (as hereinafter defined).

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Definitions. All capitalized terms used herein which are not defined shall have the meanings given to them in the Loan Agreement.

2. Pledge and Grant of Security Interest. To secure the full and punctual payment and performance of the (a) Obligations and (b) all other indebtedness, obligations and liabilities of Pledgor to HSBC under the Loan Agreement and the Other Documents whether now existing or hereafter arising, direct or indirect, liquidated or unliquidated, absolute or contingent, due or not due and whether under, pursuant to or evidenced by a note, agreement, guaranty, instrument or otherwise ((a) and (b) collectively, the "Indebtedness"), Pledgor hereby pledges, assigns, hypothecates, transfers and grants a security interest to HSBC in all of the following (the "Collateral"):

(a) the shares of stock set forth under Pledgor's name on Schedule A annexed hereto and expressly made a part hereof (the "Pledged Stock"), the certificates representing the Pledged Stock and all dividends, cash, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the Pledged Stock, provided that the Pledged Stock shall not include more than 65% of the issued and outstanding shares of voting stock of any Foreign Subsidiary. For purposes of this Agreement, "Foreign Subsidiary" means a controlled foreign corporation (as defined in the Internal Revenue Code) and "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended (or any successor statute thereto) and the regulations thereunder;

(b) all additional shares of stock of any issuer of the Pledged Stock (and the certificates representing such additional shares), set forth on Schedule A (each of the foregoing, an "Issuer") from time to time acquired by Pledgor in any manner, including, without limitation, stock dividends or a distribution in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares, stock split, spin-off or split-off (which shares and certificates shall be deemed to be part of the Collateral), and all dividends, cash, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such shares of the Pledged Stock, provided that no Pledgor shall be required to pledge more than 65% of the issued and outstanding shares of voting stock of any Foreign Subsidiary;

(c) all options and rights, whether as an addition to, in substitution of or in exchange for any shares of the Pledged Stock; and

(d) all (x) intercompany notes at any time issued to Pledgor and (y) other promissory notes from time to time issued to, or held by, Pledgor (“Pledged Notes”).

3. Delivery of Collateral. All (a) certificates representing or evidencing the the Pledged Stock and (b) Pledged Notes shall be delivered to and held by HSBC pursuant hereto and shall be accompanied by duly executed instruments of transfer or assignment in blank (and with respect to any Pledged Note, at the request of HSBC, endorsed to HSBC) all in form and substance satisfactory to HSBC. Each Pledgor hereby authorizes the Issuer upon written demand by HSBC to deliver any certificates, instruments or other distributions issued in connection with the Collateral directly to HSBC, in each case to be held by HSBC, subject to the terms hereof. HSBC shall have the right, at any time in its discretion and without notice to the Pledgor, to transfer to or to register in the name of HSBC or any of its nominees any or all of the Pledged Stock. In addition, HSBC shall have the right at any time to exchange certificates or instruments representing or evidencing any Pledged Stock for certificates or instruments of smaller or larger denominations.

4. Representations and Warranties of Pledgor. Pledgor represents and warrants to HSBC (which representations and warranties shall be deemed to continue to be made until all of the Indebtedness has been paid in full and the Loan Agreement has been irrevocably terminated) that:

(a) Pledgor has the requisite power and authority to enter into this Agreement, to pledge the Collateral for the purposes described herein and to carry out the transactions contemplated by this Agreement.

(b) The execution, delivery and performance by Pledgor of this Agreement and the pledge of the Collateral hereunder have been duly and properly authorized and do not and will not result in any violation of any agreement, indenture, instrument, license, judgment, decree, order, law, statute, ordinance or other governmental rule or regulation applicable to Pledgor.

(c) This Agreement constitutes the legal, valid and binding obligation of Pledgor enforceable against Pledgor in accordance with its terms.

(d) Pledgor is the direct and beneficial owner of each share of the Pledged Stock set forth under Pledgor’s name on Schedule A annexed hereto.

(e) All of the Collateral consisting of Pledged Stock has been duly authorized, validly issued and are fully paid and nonassessable.

(f) This Agreement, together with the Loan Agreement, creates and grants a valid first lien on and perfected security interest in the Collateral and the proceeds thereof, subject to no prior security interest, mortgage, pledge, claim, lien, charge, hypothecation, assignment, offset or encumbrance whatsoever (collectively, “Liens”) or to any agreement purporting to grant to any third party a Lien upon the property or assets of Pledgor which would include the Collateral.

(g) There are no restrictions on transfer of the Pledged Stock contained in the Certificate of Incorporation or by-laws (or Certificate of Formation, limited liability company agreement or other organizational documents, as the case may be) of the Issuer or otherwise which have not otherwise been enforceably and legally waived by the necessary parties.

(h) None of the Collateral consisting of Pledged Stock has been issued or transferred in violation of the securities registration, securities disclosure or similar laws of any jurisdiction to which such issuance or transfer may be subject.

(i) There are no pending or, to the best of Pledgor's knowledge, threatened actions or proceedings before any court, judicial body, administrative agency or arbitrator which may materially adversely affect the Collateral.

(j) No consent, approval, authorization or other order of any Person and no consent, authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required by Pledgor either (i) for the pledge of the Collateral pursuant to this Agreement or for the execution, delivery or performance of this Agreement or (ii) for the exercise by the HSBC of the voting or other rights provided for in this Agreement or the remedies in respect of the Collateral pursuant to this Agreement, except as may be required in connection with such disposition by laws affecting the offering and sale of securities generally.

(k) No notification of the pledge evidenced hereby to any Person is required.

(l) The Pledged Stock constitutes one hundred percent (100%) of the issued and outstanding shares of capital stock and limited liability company interests of the Issuers thereof set forth on Schedule A annexed hereto, except in the case of any Issuers of a Foreign Subsidiary.

(m) As of the date hereof, there are no existing options, warrants, calls or commitments of any such character whatsoever relating to any Collateral consisting of Pledged Stock and no indebtedness or other security convertible into any Collateral.

(n) As of the date hereof any proxy or proxies heretofore given by Pledgor to any Person or Persons whatsoever have been revoked.

(o) The Pledged Notes described in Schedule B hereto constitute all of the promissory notes held by Pledgor.

(p) Each of Pledgor's Pledged Notes constitutes, or when executed by the obligor thereof will constitute, the legal, valid and binding obligation of such obligor, enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and by general equitable principles (regardless of whether enforcement is sought in equity or at law).

The representations and warranties set forth in this Section 4 shall survive the execution and delivery of this Agreement.

5. Covenants. Until such time as all of the Indebtedness has been paid in full and the Loan Agreement has been irrevocably terminated, Pledgor shall:

(a) Not sell, assign, transfer, convey, or otherwise dispose of its rights in or to the Collateral or any interest therein; nor create, incur or permit to exist any Lien whatsoever with respect to any of the Collateral or the proceeds thereof other than that created hereby, in each case unless expressly permitted by the Loan Agreement.

(b) At Pledgor's expense, defend HSBC's right, title and security interest in and to the Collateral against the claims of any Person and keep the Collateral free from all Liens, except for the Liens granted to HSBC under this Agreement.

(c) At any time, and from time to time, upon the written request of HSBC, execute and deliver such further documents and do such further acts and things as HSBC may reasonably request in order to effect the purposes of this Agreement including, but without limitation, delivering to HSBC upon the occurrence and during the continuance of an Event of Default irrevocable proxies in respect of the Collateral consisting of Pledged Stock in form satisfactory to HSBC. Until receipt thereof, this Agreement shall constitute Pledgor's proxy to HSBC or its nominee to vote all shares of Collateral consisting of Pledged hen registered in Pledgor's name.

(d) Within two (2) Business Days of receipt thereof by Pledgor, deliver to HSBC all notices and statements relating to the Collateral received by Pledgor.

(e) Not consent to or approve the issuance of (i) any additional shares of any class of capital stock or limited liability company interests of the Issuer; (ii) any securities convertible either voluntarily by the holder thereof or automatically upon the occurrence or nonoccurrence of any event or condition into, or any securities exchangeable for, any such shares; or (iii) any warrants, options, contracts or other commitments entitling any person to purchase or otherwise acquire any such shares.

6. Voting Rights and Dividends. In addition to HSBC's rights and remedies set forth in Section 8 hereof, in case an Event of Default shall have occurred and be continuing, HSBC shall (i) be entitled to vote the Collateral consisting of Pledged Stock, (ii) be entitled to give consents, waivers and ratifications in respect of the Collateral (Pledgor hereby irrevocably constituting and appointing HSBC, with full power of substitution, the proxy and attorney-in-fact of Pledgor for such purposes) and (iii) be entitled to collect and receive for its own use cash dividends paid on the Collateral consisting of Pledged Stock. Pledgor shall not be permitted to exercise or refrain from exercising any voting rights or other powers if, in the reasonable judgment of HSBC, such action would have a material adverse effect on the value of the Collateral or any part thereof; and, provided, further, that Pledgor shall give at least five (5) days' written notice of the manner in which Pledgor intends to exercise, or the reasons for refraining from exercising, any voting rights or other powers other than with respect to any election of directors and voting with respect to any incidental matters. All dividends and all other distributions in respect of any of the Collateral consisting of Pledged Stock, whenever paid or made, shall be delivered to HSBC to hold as Collateral and shall, if received by Pledgor, be received in trust for the benefit of HSBC, be segregated from the other property or funds of Pledgor, and be forthwith delivered to HSBC as Collateral in the same form as so received (with any necessary endorsement).

7. Events of Default. The term "Event of Default" wherever used herein shall mean the occurrence of any Event of Default under the Loan Agreement.

8. Remedies. Upon the occurrence and during the continuance of an Event of Default, HSBC may:

(a) Demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose or realize upon the Collateral (or any part thereof), as HSBC may determine in its sole discretion;

(b) Transfer any or all of the Collateral into its name, or into the name of its nominee or nominees;

(c) Exercise all rights with respect to the Collateral including, without limitation, all rights of conversion, exchange, subscription or any other rights, privileges or options pertaining to any shares of the Collateral consisting of Pledged Stock as if it were the absolute owner thereof, including, but without limitation, the right to exchange, at its discretion, any or all of the Collateral consisting of Pledged Stock upon the merger, consolidation, reorganization, recapitalization or other readjustment of the Issuer thereof, or upon the exercise by the Issuer of any right, privilege or option pertaining to any of the Collateral, and, in connection therewith, to deposit and deliver any and all of the Collateral with any committee, depository, transfer agent, registrar or other designated agent upon such terms and conditions as it may determine, all without liability except to account for property actually received by it;

(d) Subject to the requirements of applicable law, sell, assign and deliver the whole or, from time to time, any part of the Collateral at the time held by HSBC, at any private or public sale or auction, with or without demand, advertisement or notice of the time or place of sale or adjournment thereof or otherwise (all of which are hereby waived, except such notice as is required by applicable law and cannot be waived), for cash or credit or for other property for immediate or future delivery, and for such price or prices and on such terms as HSBC in its sole discretion may determine, or as may be required by applicable law; and

(e) Accelerate any Pledged Note which may be accelerated in accordance with its terms, and take any other lawful action to collect upon any Pledged Note (including, without limitation, to make any demand for payment thereon).

Pledgor hereby waives and releases any and all right or equity of redemption, whether before or after sale hereunder. At any such sale, unless prohibited by applicable law, HSBC may bid for and purchase the whole or any part of the Collateral so sold free from any such right or equity of redemption. All moneys received by HSBC hereunder whether upon sale of the Collateral or any part thereof or otherwise shall be held by HSBC and applied by it as provided in Section 11 hereof. No failure or delay on the part of HSBC in exercising any rights hereunder shall operate as a waiver of any such rights nor shall any single or partial exercise of any such rights preclude any other or future exercise thereof or the exercise of any other rights hereunder. HSBC shall have no duty as to the collection or protection of the Collateral or any income thereon nor any duty as to preservation of any rights pertaining thereto, except to apply the funds in accordance with the requirements of Section 11 hereof. HSBC may exercise its rights with respect to property held hereunder without resort to other security for or sources of reimbursement for the Indebtedness. In addition to the foregoing, HSBC shall have all of the rights, remedies and privileges of a secured party under applicable law and the Uniform Commercial Code of New York regardless of the jurisdiction in which enforcement hereof is sought.

9. Private Sale. Pledgor recognizes that HSBC may be unable to effect (or to do so only after delay which would adversely affect the value that might be realized from the Collateral) a public sale of all or part of the Collateral consisting of Pledged Stock by reason of certain prohibitions contained in the Securities Act, and may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such Collateral for their own account, for investment and not with a view to the distribution or resale thereof. Pledgor agrees that any such private sale may be at prices and on terms less favorable to the seller than if sold at public sales and that such private sales shall be deemed to have been made in a commercially reasonable manner. Pledgor agrees that HSBC has no obligation to delay sale of any Collateral consisting of Pledged Stock for the period of time necessary to permit any Issuer to register the Collateral consisting of Pledged for public sale under the Securities Act.

10. Proceeds of Sale. The proceeds of any collection, recovery, receipt, appropriation, realization, disposition or sale of the Collateral shall be applied by HSBC as follows:

(a) First, to the payment of all costs, expenses and charges of HSBC and to the reimbursement of HSBC for the prior payment of such costs, expenses and charges incurred in connection with the care and safekeeping of any of the Collateral (including, without limitation, the expenses of any sale or other proceeding, the expenses of any taking, attorneys' fees and expenses, court costs, any other fees or expenses incurred or expenditures or advances made by HSBC in the protection, enforcement or exercise of its rights, powers or remedies hereunder) with interest on any such reimbursement at the rate prescribed in the Loan Agreement as the Default Rate for Revolving Advances.

(b) Second, to the payment of the Indebtedness as provided in the Loan Agreement, in whole or in part, whether such Indebtedness is then due or not due.

(c) Third, to such Persons as required by applicable law including, without limitation, Section 9-615(a)(3) of the Uniform Commercial Code.

(d) Fourth, to the extent of any surplus thereafter remaining, to the applicable Pledgor or as a court of competent jurisdiction may direct.

In the event that the proceeds of any collection, recovery, receipt, appropriation, realization or sale are insufficient to satisfy the Indebtedness, Pledgor shall be liable for the deficiency together with interest thereon at the rate prescribed in the Loan Agreement as the Default Rate for Revolving Advances maintained as Base Rate Loans plus the costs and fees of any attorneys employed by HSBC to collect such deficiency.

HSBC, in its sole and absolute discretion, with or without notice to Pledgor, may deposit any proceeds of any collection, recovery, receipt, appropriation, realization, disposition or sale of the Collateral in a non-interest bearing cash collateral deposit account to be maintained as security for the Indebtedness.

11. Waiver of Marshaling. Pledgor hereby waives any right to compel any marshaling of any of the Collateral.

12. HSBC Appointed Attorney-In-Fact and Performance by HSBC. Upon the occurrence of an Event of Default which is continuing, Pledgor hereby irrevocably constitutes and appoints HSBC as Pledgor's true and lawful attorney-in-fact, with full power of substitution, to execute, acknowledge and deliver any instruments and to do in Pledgor's name, place and stead, all such acts, things and deeds for and on behalf of and in the name of Pledgor, which Pledgor could or might do or which HSBC may deem necessary, desirable or convenient to accomplish the purposes of this Agreement, including, without limitation, to execute such instruments of assignment or transfer or orders and to register, convey or otherwise transfer title to the Collateral into HSBC's name. Pledgor hereby ratifies and confirms all that said attorney-in-fact may so do and hereby declares this power of attorney to be coupled with an interest and irrevocable. If Pledgor fails to perform any agreement herein contained, HSBC may itself perform or cause performance thereof, and any costs and expenses of HSBC incurred in connection therewith shall be paid by Pledgor as provided in Section 24 hereof.

13. Termination. This Agreement shall terminate and Pledgor shall be entitled to the return, at Pledgor's expense, of such of the Collateral as has not theretofore been sold, disposed of or otherwise applied pursuant to this Agreement upon payment in full of the Indebtedness and irrevocable termination of the Loan Agreement.

14. Concerning HSBC. The recitals of fact herein shall be taken as statements of Pledgor for which HSBC assumes no responsibility. HSBC makes no representation to anyone as to the value of the Collateral or any part thereof or as to the validity or adequacy of the security afforded or intended to be afforded thereby or as to the validity of this Agreement. HSBC shall be protected in relying upon any notice, consent, request or other paper or document believed by it to be genuine and correct and to have been signed by a proper person. The permissive rights of HSBC hereunder shall not be construed as duties of HSBC. HSBC shall be under no obligation to take any action toward the enforcement of this Agreement or rights or remedies in respect of any of the Collateral. HSBC shall not be personally liable for any action taken or omitted by it in good faith and reasonably believed by it to be within the power or discretion conferred upon it by this Agreement.

15. Notices. Any notice or other communication required or permitted pursuant to this Agreement shall be deemed given (a) when personally delivered to any officer of the party to whom it is addressed, (b) on the earlier of actual receipt thereof or three (3) days following posting thereof by certified or registered mail, postage prepaid, (c) upon actual receipt thereof when sent by a recognized overnight delivery service or (d) upon actual receipt thereof when sent by telecopier to the number set forth below with electronic confirmation of receipt, in each case addressed to each party at its address or telecopier number set forth below or at such other address or telecopier number as has been furnished in writing by a party to the other by like notice:

If to HSBC:

HSBC Bank, National Association
452 Fifth Avenue
New York, New York 10018
Attention: Relationship Manager
Facsimile: (212) 525-_____

with a copy to:

Hahn & Hessen LLP
488 Madison Avenue
New York, New York 10022
Attention: Daniel M. Ford
Facsimile: (212) 478-7400

If to Pledgor:

with a copy to:

16. Governing Law. This Agreement and all rights and obligations hereunder shall be governed by and construed and enforced in all respects in accordance with the laws of the State of New York applied to contracts to be performed wholly within the State of New York.

17. Waivers. EACH PARTY HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING UNDER THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OTHER AGREEMENT EXECUTED OR DELIVERED BY THEM IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE AND EACH PARTY HERETO HEREBY AGREES AND CONSENTS THAT ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

18. Litigation. EACH PLEDGOR EXPRESSLY CONSENTS TO THE JURISDICTION AND VENUE OF EACH COURT OF COMPETENT JURISDICTION LOCATED IN THE STATE OF NEW YORK FOR ALL PURPOSES IN CONNECTION WITH THIS AGREEMENT. ANY JUDICIAL PROCEEDING BY ANY PLEDGOR AGAINST AGENT INVOLVING, DIRECTLY OR INDIRECTLY ANY MATTER OR CLAIM IN ANY WAY ARISING OUT OF, RELATED TO OR CONNECTED WITH THIS AGREEMENT SHALL BE BROUGHT ONLY IN A STATE COURT LOCATED IN THE COUNTY OF NEW YORK, STATE OF NEW YORK. EACH PLEDGOR FURTHER CONSENTS THAT ANY SUMMONS, SUBPOENA OR OTHER PROCESS OR PAPERS (INCLUDING, WITHOUT LIMITATION, ANY NOTICE OR MOTION OR OTHER APPLICATION TO EITHER OF THE AFOREMENTIONED COURTS OR A JUDGE THEREOF) OR ANY NOTICE IN CONNECTION WITH ANY PROCEEDINGS HEREUNDER, MAY BE SERVED INSIDE OR OUTSIDE OF THE STATE OF NEW YORK OR THE SOUTHERN DISTRICT OF NEW YORK BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, OR BY PERSONAL SERVICE PROVIDED A REASONABLE TIME FOR APPEARANCE IS PERMITTED, OR IN SUCH OTHER MANNER AS MAY BE PERMISSIBLE UNDER THE RULES OF SAID COURTS. EACH PLEDGOR WAIVES ANY OBJECTION TO JURISDICTION AND VENUE OF ANY ACTION INSTITUTED HEREON AND SHALL NOT ASSERT ANY DEFENSE BASED ON LACK OF JURISDICTION OR VENUE OR BASED UPON FORUM NON CONVENIENS.

19. No Waiver; Cumulative Remedies. Any and all of HSBC's rights with respect to the Liens granted under this Agreement shall continue unimpaired, and Pledgor shall be and remain obligated in accordance with the terms hereof, notwithstanding (a) the bankruptcy, insolvency or reorganization of Pledgor, (b) the release or substitution of any item of the Collateral at any time, or of any rights or interests therein, or (c) any delay, extension of time, renewal, compromise or other indulgence granted by HSBC in reference to any of the Indebtedness. Each Pledgor hereby waives all notice of any such delay, extension, release, substitution, renewal, compromise or other indulgence, and hereby consents to be bound hereby as fully and effectively as if Pledgor had expressly agreed thereto in advance. No failure on the part of HSBC to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof nor shall any single or partial exercise of any such right, power or remedy by HSBC preclude any other or further exercise thereof or the exercise of any right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies provided by law.

20. Severability. In case any security interest or other right of HSBC shall be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other security interest or other right, privilege or power granted under this Agreement. In the event that any provision of this Agreement or the application thereof to Pledgor or any circumstance in any jurisdiction governing this Agreement shall, to any extent, be invalid or unenforceable under any applicable statute, regulation, or rule of law, such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform to such statute, regulation or rule of law, and the remainder of this Agreement and the application of any such invalid or unenforceable provision to parties, jurisdictions, or circumstances other than to whom or to which it is held invalid or unenforceable shall not be affected thereby, nor shall same affect the validity or enforceability of any other provision of this Agreement.

21. Counterparts; Facsimiles. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same instrument. Any signature delivered by a party by facsimile transmission shall be deemed an original signature hereto.

22. Miscellaneous.

(a) This Agreement constitutes the entire and final agreement among the parties with respect to the subject matter hereof and neither this Agreement nor any term hereof may be changed, discharged or terminated orally, but only by an instrument in writing, signed by HSBC and Pledgor. No waiver of any term or condition of this Agreement, whether by delay, omission or otherwise, shall be effective unless in writing and signed by the party sought to be charged, and then such waiver shall be effective only in the specific instance and for the purpose for which given.

(b) This Agreement shall be binding upon Pledgor, and Pledgor's successors and assigns, and shall inure to the benefit of HSBC and its successors and assigns. The term "HSBC", as used herein, shall include any successor or assign of HSBC at the time entitled to the pledged interest in the Collateral.

(c) The headings and captions in this Agreement are for purposes of reference only and shall not constitute part of this Agreement for any other purpose.

23. Expenses. The Collateral shall also secure, and Pledgor shall pay to HSBC on demand, from time to time, all costs and expenses, (including but not limited to, attorneys' fees and costs, taxes, and all transfer, recording, filing and other charges) of, or incidental to, the custody, care, transfer, administration of the Collateral or any other collateral, or in any way relating to the enforcement, protection or preservation of the rights or remedies of HSBC under this Agreement or with respect to any of the Indebtedness.

24. Recapture. Anything in this Agreement to the contrary notwithstanding, if HSBC receives any payment or payments on account of the Indebtedness, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver, or any other party under the United States Bankruptcy Code, as amended, or any other federal or state bankruptcy, reorganization, moratorium or insolvency law relating to or affecting the enforcement of creditors' rights generally, common law or equitable doctrine, then to the extent of any sum not finally retained by HSBC, Pledgor's obligations to HSBC shall be reinstated and this Agreement shall remain in full force and effect (or be reinstated) until payment shall have been made to HSBC, which payment shall be due on demand.

[Remainder of Page Intentionally Left Blank; Signature Page to Follow]

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the day and year first written above.

PLEDGORS:

ACME UNITED CORPORATION

By: _____

Name: Walter C. Johnsen

Title: Chairman of the Board and Chief
Executive Officer

HSBC:

HSBC BANK USA, NATIONAL ASSOCIATION

By: _____

Name:

Title:

[Signature Page to Pledge Agreement]

SCHEDULE A
PLEDGED STOCK

Holder	Issuer	Class of Stock	Stock Certificate No.	No. of Shares	Percentage Pledged

SCHEDULE B
PLEDGED NOTES

Issuer	Holder	Principle

Schedule B - 1

SECURED REVOLVING NOTE

\$30,000,000

Maturity Date: April 5, 2017

FOR VALUE RECEIVED, ACME UNITED CORPORATION, a Connecticut corporation (“Borrower”) hereby promises to pay to the order of HSBC Bank, National Association or the holder (the “Lender”) of this Secured Revolving Note (this “Revolving Note”) at 452 Fifth Avenue, New York, New York or such other place of payment as the holder of this Revolving Note may specify from time to time in writing, in lawful money of the United States of America, the principal amount of Thirty Million Dollars (\$30,000,000) or such other principal amount as Lender has advanced to Borrower, together with interest at a rate as specified in the Loan Agreement (defined hereafter).

This Revolving Note is the Revolving Note referred to in, and is executed and delivered in connection with, that certain Loan and Security Agreement dated April 5, 2012, by and between Borrower and Lender (as the same may from time to time be amended, modified or supplemented in accordance with its terms, the “Loan Agreement”), and is entitled to the benefit and security of the Loan Agreement and the other Loan Documents (as defined in the Loan Agreement), to which reference is made for a statement of all of the terms and conditions thereof. All payments shall be made in accordance with the Loan Agreement. All terms defined in the Loan Agreement shall have the same definitions when used herein, unless otherwise defined herein. An Event of Default under the Loan Agreement shall constitute a default under this Revolving Note.

Borrower waives presentment and demand for payment, notice of dishonor, protest and notice of protest under the UCC or any applicable law. Borrower agrees to make all payments under this Revolving Note without setoff, recoupment or deduction and regardless of any counterclaim or defense. This Revolving Note has been negotiated and delivered to Lender and is payable in the State of New York. This Revolving Note shall be governed by and construed and enforced in accordance with, the laws of the State of New York, excluding any conflicts of law rules or principles that would cause the application of the laws of any other jurisdiction.

[Remainder of Page Intentionally Left Blank]

BORROWER FOR ITSELF

ACME UNITED CORPORATION

By: _____
Name: Walter C. Johnsen
Title: Chairman of the Board and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, WALTER C. JOHNSEN, certify that:

I have reviewed this Quarterly Report on Form 10-Q of Acme United Corporation;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By _____ /s/ Walter C. Johnsen
Walter C. Johnsen
Chairman of the Board and
Chief Executive Officer

Dated: May 14, 2012

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, PAUL G. DRISCOLL, certify that:

I have reviewed this Quarterly Report on Form 10-Q of Acme United Corporation;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By _____ /s/ Paul G. Driscoll
Paul G. Driscoll
Vice President and
Chief Financial Officer

Dated: May 14, 2012

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned officer of Acme United Corporation (the "Company") hereby certifies to my knowledge that the Company's quarterly report on Form 10-Q for the quarterly period ended March 31, 2012 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed to be a part of the Report or "filed" for any purpose whatsoever.

By _____ /s/ Walter C. Johnsen
Walter C. Johnsen
Chairman of the Board and
Chief Executive Officer

Dated: May 14, 2012

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Acme United Corporation and will be retained by Acme United Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned officer of Acme United Corporation (the “Company”) hereby certifies to my knowledge that the Company’s quarterly report on Form 10-Q for the quarterly period ended March 31, 2012 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed a part of the Report or “filed” for any purpose whatsoever.

By _____ /s/ Paul G. Driscoll
Paul G. Driscoll
Vice President and
Chief Financial Officer

Dated: May 14, 2012

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Acme United Corporation and will be retained by Acme United Corporation and furnished to the Securities and Exchange Commission or its staff upon request.
