



Driving Innovation

Acme United Corporation is one of the largest worldwide suppliers of innovative cutting, measuring and safety products for the school, home, office and industrial markets. The Company has facilities in the U.S., Canada, England, Germany, Hong Kong and China.

## Recognition

### Fortune Small Business

- Acme has been selected for a second consecutive year by *Fortune Small Business* as one of the top 100 fastest-growing public companies in the U.S.

### Chicago Athenaeum, Museum of Architecture and Design

- *Good Design Award* for Westcott® brand *iPoint™* Pencil Sharpeners

### Learning Magazine Teacher's Choice Award

- Westcott® 8-inch Soft Handle Blunt Scissors™
- Westcott® 5-inch Soft Handle Blunt Scissors™
- Westcott® 12-inch Rotary Trimmer

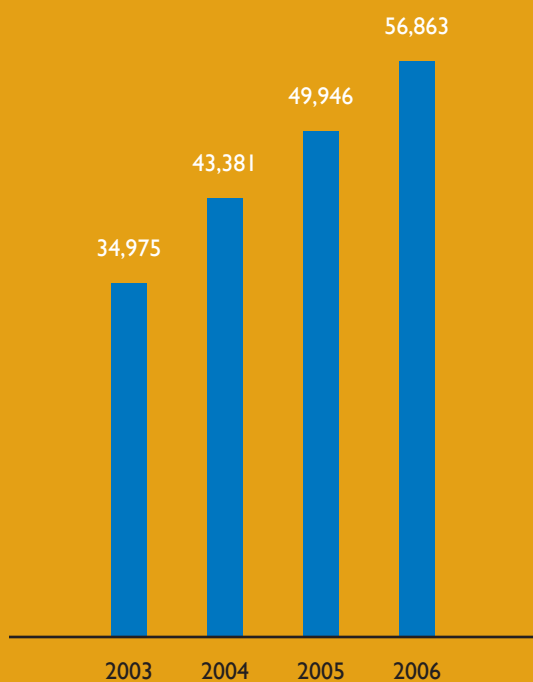
### About iPoint™

Acme United's revolutionary *iPoint™* electric pencil sharpener, featured on the cover of the 2006 annual report, is evidence of Acme United's Drive for Innovation, and marks the Company's entrance into the pencil sharpening market. School, office and home office users appreciate *iPoint™*'s auto self-sharpening and auto eject. Users simply place their pencil in the sharpener and sit back as *iPoint™* does the rest. Once the pencil is at the perfect point, the *iPoint™* sensor ejects the pencil—a totally hands-free operation. Using Westcott's patented technology, the high-quality titanium blades stay sharper longer. Acme's *iPoint™* offers an unique space-saving design, and the EZ View shavings reservoir makes it easy to see when your *iPoint™* needs emptying.

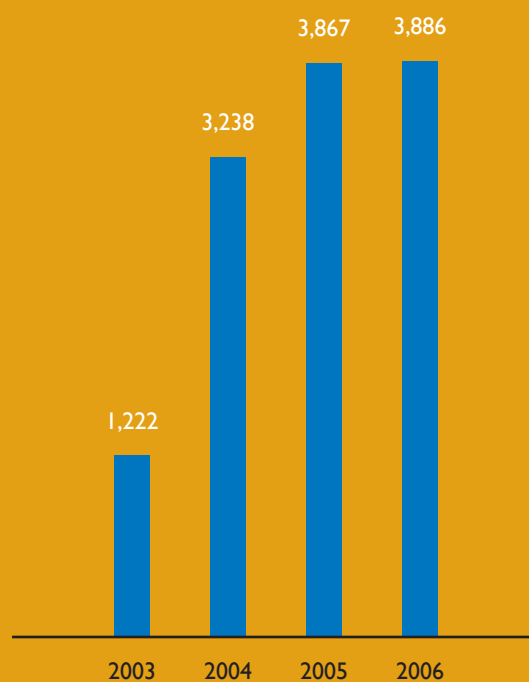


# Financial Highlights

**Net Sales** (dollars in thousands)



**Net Income** (dollars in thousands)



	2003	2004	2005	2006
(Amounts in thousands except per share data)				
<b>Operating Results</b>				
Net Sales	\$ 34,975	\$ 43,381	\$ 49,946	\$ 56,863
Net Income (I)	1,222	3,238	3,867	3,886
Net Income Per Share (I)	0.34	0.85	1.02	1.05
<b>Financial Positions at December 31</b>				
Working Capital	\$ 10,777	\$ 12,927	\$ 16,325	\$ 25,557
Total Assets	19,743	22,967	28,194	35,021
Shareholders' Equity (I)	10,179	13,982	14,995	18,131

*I Pro forma results in 2005 reflect earnings before non-recurring expense of \$1.5 million (\$930,000 after tax).*

# Letter to Shareholders

## Performance and Value

In 2006 Acme United delivered strong financial performance and value to our shareholders. Revenues increased to \$56.9 million in 2006 compared to \$49.9 million in 2005. Net income was \$3.89 million versus \$3.87 million the prior year. Earnings per share increased to \$1.05 in 2006 compared to \$1.02 in 2005.

## Growing Financial Strength

Acme United's financial strength improved in 2006. Gross margins were strong, averaging 43%, as a result of new product introductions and productivity improvements. New products continued to generate 30% of domestic sales in 2006 and offset higher raw material and shipment costs.

During the year, we carefully reviewed cost and relentlessly focused on detail. As a result, the Company is one of the lowest-cost suppliers in the world.

## Growing Brands, New Products

In 2006 we extended the reach of our global brands, products and channels to our increasingly large customer base. This includes the world's premier merchandisers, who depend on our Westcott®, Clauss® and PhysiciansCare® teams to provide leadership and management of their product categories.

Evidence of our success can be seen for the second consecutive year as *Fortune Small Business* again recognized Acme United as one of the top 100 fastest-growing public companies in the United States.

We see the results of new product innovation and attention to customer needs across all three of our brands. Our Westcott®, Clauss® and PhysiciansCare® branded products grew in range and depth, providing customers a complete school/home/office/industrial solution to meet a full range of cutting, measuring and safety needs.

New Westcott® products include our innovative, mechanical-assisted scissors, refreshed-assisted scissors, award-winning rotary trimmers, and the *iZone*™ family of school tools—scissors, *Twist-It*™ rulers, erasers, tape measures, staple removers and math tools—for students of all ages. Our *iPoint*™ electric pencil sharpeners have also been extremely well received, and have won a *Good Design Award* from the Chicago Athenaeum, Museum of Architecture and Design. *Good Design* is one of the oldest and most important product design competitions in the world. We anticipate the pencil sharpener product family to be a growth platform in 2007 and future years.

New Clauss® products encompass a comprehensive line of branded quality tools for professionals. New items include True Professional™ sewing shears, utility knives, chef shears, hobby knives and craft implements. In the industrial market, we introduced a complete range of high-performance cutting tools.

Our PhysiciansCare® brand of first-aid and safety products also grew in scope and depth, focusing on increased comfort, ease of use and simplicity. New PhysiciansCare® products include a powerful new merchandising platform—our one-stop relief station—featuring pre-packaged two-packs of analgesics, stomach remedies, cough and cold, and allergy/sinus medications. We also introduced an innovative hand sanitizer and the soft-sided E-Z Care™ First Aid Kit.

In 2006 the Company generated strong retail and back-to-school sales. Highlights included our award-winning five-inch Soft Handle Blunt Scissors™, featuring stainless-steel blades and a soft handle for greater comfort, available in three assorted "kids' colors." We expanded our distribution channels and gained market share, penetrating a number of global retailers and superstores, and demonstrating strong sell-through of products including Acme's patented titanium anti-bacterial kitchen shears.

### Strengthening Patent Portfolio

In 2006 the Company added numerous design and utility patents in support of our process and product innovations, including our proprietary carbo-nitride coating that enhances performance of our Titanium Bonded™ scissors and other products. These new patents are part of our large and growing intellectual property, and are an increasingly valuable portion of our corporate assets.

### Global Infrastructure

Acme United has built a strong global supply chain based on our winning combination of innovative design, quality manufacturing and low-cost sourcing. In 2006 the Company raised the bar in logistics management and laid the foundation for further growth. Implementation of a new forecasting model and an upgrade to our material requirements planning and supply chain planning systems strengthened our ability to forecast and analyze our business to support rapid product innovation.

We intend to sharpen our focus on advancing customer service levels and reducing spending, while managing products throughout their lifecycle. Our scorecard reporting system captures internal service levels and increases first-time fill



rates, allowing Acme United to meet the demanding customer service requirements of the world's largest merchandisers.

### Belief in Our Future

We are optimistic about the future. We believe there are significant opportunities for increased distribution to our current customers, sales to new customers and acquisitions of related product lines. We remain determined to provide the best total value on a global basis, creating world-class quality with the lowest cost.

Our management team and dedicated employees were responsible for our performance in 2006, and I would like to thank them for the strong effort. We look forward to continuing to build in 2007.

Thank you for your continued support.

A handwritten signature in blue ink that reads "Walter C. Johnsen". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

# Driving Innovation

We have created a culture based on the free exchange of ideas and the opportunity to turn those ideas into better products with greater value, sharper cutting, higher quality and increased comfort. As we leverage our industry-leading intellectual property—featuring our patented titanium bonding process—to create new product categories, we remain keenly focused on giving customers the high-quality/high-value products they demand.

Our drive for innovation creates an industry-leading rate of new products, enabling our brands to dominate their categories and hold leading market share with our premier

customer base. Over 40 Acme United patents define our leadership role and leverage our ability to create a growing product pipeline.

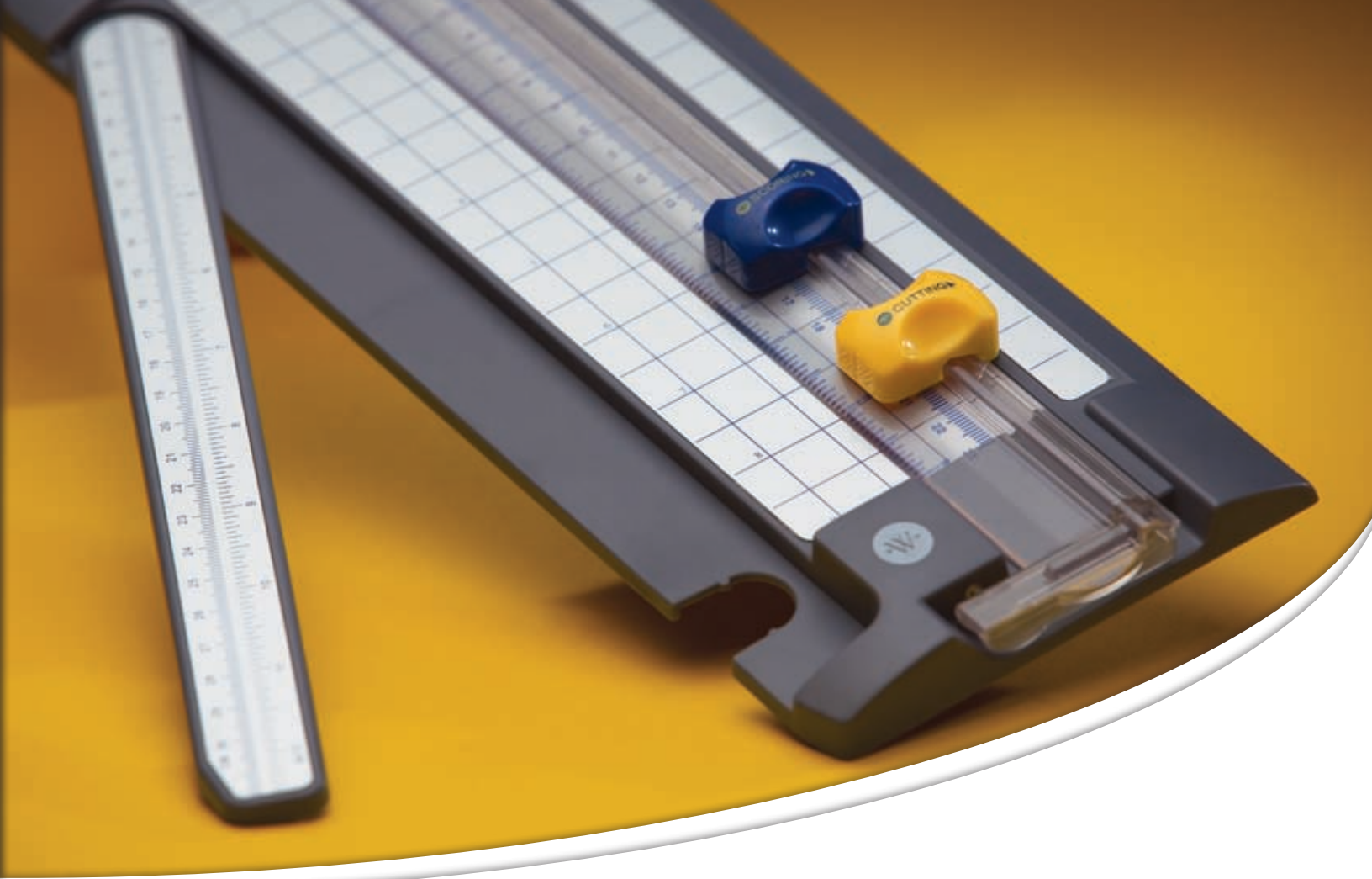
The cornerstone of our precision cutting technology is our titanium nitride bonding process, which forms one of the hardest coatings in existence, and enables us to apply a proprietary composition of titanium nitride and other materials to the surface of cutting blades through physical vapor deposition. The result is an engineered metal treatment, optimized to enhance the hardness and cutting performance of the blades.



The school iPoint features adjustable feed to accommodate any diameter of pencil







The right-angle ruler folds out conveniently for all types of trimming needs



## Westcott®

As the leading brand in its category, Westcott® is extending its product range and depth—enabling the Company to cross-market to related audiences. For example, Westcott® is not only meeting the needs of the workplace, with the creation of premium office tools for executives but is also a complete school tools provider for students.

In 2006 Westcott® extended its product scope through the introduction of innovative products, including our award-winning line of mechanically assisted scissors, *Critters™* “The Gang” scissors, award-winning rotary trimmers, and the *iZone™* family of school tools.

Westcott’s product and category leadership was recognized in 2006 in global design competitions and by leading educational organizations. Westcott’s Titanium Bonded™ *iPoint™* pencil sharpeners won a *Good Design Award* from the Chicago Athenaeum, Museum of Architecture and Design out of hundreds of submissions received from over 25 countries. The *iPoint™* sharpener is Acme United’s first entry into the electric pencil sharpener market. It expands Acme’s cutting expertise and leverages our patented Titanium Bonded™ franchise.

We won the *Learning Magazine Gold Teacher’s Choice Award* in 2006 for three Westcott™ products: our eight-inch Soft Handle Blunt Scissors™, five-inch Soft Handle Blunt Scissors™ and new 12-inch rotary trimmer with EasyChange™ blade system.

# Clauss®

Building on its reputation for quality in the workplace, Clauss® branded tools are currently favorites of the automotive, textile, food processing, floral, craft and electronic sectors, and extend Acme United's market reach by virtue of the brand's reputation for superior quality and rapid product innovation.

For over 125 years, the Clauss® brand has earned its reputation for tools "for those who live their craft™" in the workplace as well as at home. Task-driven solutions, innovation, and commitment to the Clauss® heritage of quality are the foundation of this world-renowned brand, which provides high performance for True Professionals™.

In 2006 Clauss® introduced a comprehensive line of branded quality tools for professionals. New items include True Professional™ sewing shears, True Professional™ cartridge-based utility knives, chef shears, hobby knives and craft knives. As the Acme United "Innovation Engine" brings our patented Titanium Bonded™ technology to new categories of products, Clauss® branded items are poised to enter new channels and meet the needs of demanding professionals and consumers throughout the world.



An innovative locking mechanism allows our kitchen shears to separate for easy cleaning and storage







Convenience and portability converge in our fold-out kit



## Physicians Care®

As part of the PhysiciansCare® brand focus on ease of use, we redesigned delivery systems for our first-aid stations, making it faster and easier to locate products when they're needed. Our new E-Z Care™ First Aid Kit features a soft-sided three-way pouch that can be hung from a cabinet or door to display the kit's contents. PhysiciansCare® has also updated our Personal Disaster Kit™ and our line of safety products to better meet the needs of consumers who demand consistent quality at a value price.

We continually conduct research to better understand consumers and create products to address their unmet needs. By talking with customers and extending our product offerings, our PhysiciansCare® team provides the right product at the right time at the office, in the workplace and at home.

In 2006 PhysiciansCare® created a new merchandising platform—a “one-stop relief station” featuring pre-packaged two-packs of analgesics, stomach remedies, cough and cold, and allergy/sinus medications. This new concept not only simplifies the consumer's purchase decision, but also makes it easier to “auto replenish” supplies.

## Pathway to Growth

As we create growth from our strategic, integrated brand approach, the Company expects to enter new markets. We anticipate cross-selling our PhysiciansCare® first-aid and safety products to an increasing audience of Clauss® industrial customers. We plan to extend our reach within the Clauss® floral market, introduce Clauss® professional tools to the home improvement market and familiarize the craft and sewing markets with other selective products. Acme United and all of our brands are taking a clear path forward to global growth.

### Comprehensive, Integrated Solutions

Westcott®, Clauss® and PhysiciansCare® branded products are growing in range and depth, providing customers comprehensive, integrated school/home/office/industrial solutions to meet a full range of cutting, measuring and safety needs. As we address new customers, channels, categories and global locations, Acme United realizes growth opportunities through cross-selling and increased brand equity.

Our three brands are leading their categories

### Innovative Technology

Our titanium nitride bonding process, strong patent position and powerful in-house design and marketing expertise allow Acme United to leverage our titanium technology across all cutting categories—creating new solutions and quality products across the entire school, corporate office, home office and workshop desktop.

### Environmental Sustainability

In 2006 we introduced an environmentally sustainable line of scissors and trimmers. Customer response to the products and to their improved, eco-friendly packaging has been strong. Global retailers appreciate Acme United's ecological commitment, and recognize the increasing importance we place on ecological sensitivity.



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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2006

OR

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

Commission file number 01-07698

**ACME UNITED CORPORATION**

*Exact name of registrant as specified in its charter*

**Connecticut**  
*(State or other jurisdiction of  
incorporation or organization)*

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

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

**06824**  
*(Zip Code)*

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

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

Title of each class	<i>Name of each exchange on which registered</i>
<b>\$2.50 par value Common Stock</b>	<b>American Stock Exchange</b>

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

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

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

YES  NO ( )

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act.

YES ( ) NO (✓)

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

Large accelerated filer ( ) Accelerated filer ( ) Non-accelerated filer (✓)

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the registrant’s most recently completed second fiscal quarter was \$39,924,671.

Registrant had 3,538,833 shares outstanding as of March 1, 2007 of its \$2.50 par value Common Stock.

Documents Incorporated By Reference

(1) Proxy Statement for the annual meeting scheduled for April 23, 2007 is incorporated into the Company’s 2006 10-K, Part III.

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# PART I

## Item 1. Business

### General

Acme United Corporation (together with its subsidiaries, the “Company”) was organized as a partnership in 1867 and incorporated in 1882 under the laws of the State of Connecticut. The Company is a leading worldwide supplier of innovative cutting, measuring and safety products to the school, home, office and industrial markets. The Company’s operations are in the United States, Canada, Europe (located in Germany) and Asia (located in Hong Kong and China). The operations in the United States, Canada and Europe are primarily involved in product development, manufacturing, marketing, sales, administrative and distribution activities. The operation in Asia is involved in sourcing, quality control and sales activities. Net sales in 2006 were the following: United States – \$44.3 million, Canada – \$7.3 million, and Europe – \$5.2 million.

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

### Business Strategy

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

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

The Company markets and sells under three main brands – Westcott™, Clauss™ and PhysiciansCare™.

### Principal Products

Principal products within the cutting device category are scissors, shears, guillotine paper trimmers, rotary paper trimmers, rotary cutters, hobby knives and blades, utility knives, manicure products, medical cutting instruments and pencil sharpeners. Products introduced in 2005 and 2006 included proprietary titanium bonded scissors and trimmers, mechanical-assisted scissors, a new line of Clauss™ hot forged scissors, and electric and manual iPoint pencil sharpeners. Other new Clauss™ products in 2006 included True Professional™ sewing shears, utility knives, chef shears, hobby knives and craft implements. Principal products within the measuring instrument category are rulers, math tools and tape measures. Products introduced in 2006 included the iZone family of school tools – Twist-it™ rulers, erasers, tape measures, staple removers and math tools. Products introduced in 2005 included a new line of Westcott™ tearing rulers and professional grade aluminum rulers. Principal products within the safety product category are first aid kits, personal protection products and over-the-counter medication refills. New PhysiciansCare™

products included a one-stop relief station featuring pre-packaged two-packs of analgesics, stomach remedies, cough and cold, and allergy/sinus medications. Also introduced were an innovative hand sanitizer and the soft-sided E-Z Care™ First Aid Kit. Products introduced in 2005 included new Physicians Care™ branded over-the-counter medications.

### **Product Distribution**

Independent manufacturer representatives and direct sales are primarily used to sell the Company's line of consumer products to wholesale, contract and retail stationery distributors, office supply super stores, school supply distributors, industrial distributors, wholesale florists and mass market retailers. The Company had two customers with sales of 10% or more of total sales in 2006 and three customers with sales of 10% or more of total sales in 2005 and 2004. Sales to those major customers represented approximately 29% of total net sales in 2006, 41% of total net sales in 2005 and 43% of total net sales in 2004.

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

### **Other**

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

Employment – As of December 31, 2006, the Company employed 120 people, all of whom are full time and none of whom are covered by union contracts. Employee relations are considered good and no foreseeable problems with the work force are evident.

## **Item 1A. Risk Factors**

**The Company is subject to a number of significant risks that might cause the Company's actual results to vary materially from its forecasts, targets or projections, including:**

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

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

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

**Loss of a Major Customer could result in a decrease in the Company's future sales and earnings.**

Net sales to the Company's customers exceeding 10% of consolidated net sales amounted to approximately 29%, 41% and 43% of total net revenues for the years ended December 31, 2006, 2005 and 2004, respectively. The Company anticipates that a limited number of customers may account for a substantial portion of our total net revenues for the foreseeable future. The loss of a major customer or a disruption in sales to such a customer could result in a decrease of our future sales and earnings.

**Reliance on foreign suppliers could negatively impact our business.**

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

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

**The loss of key management could affect the Company's ability to run its business.**

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

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

**Failure to protect the Company's proprietary rights or the costs of protecting these rights could negatively impact its business.**

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

**The Company may need to raise additional capital to fund its operations.**

The Company's management believes, under current conditions, that the Company's current cash and cash equivalents, cash generated by operations, together with the borrowing availability under its revolving loan agreement with Wachovia Bank, will be sufficient to fund planned operations for the next twelve months. However, if the Company is unable to generate sufficient cash from operations, it may be required to find additional funding sources. If adequate financing is unavailable or is unavailable

on acceptable terms, the Company may be unable to maintain, develop or enhance its operations, products and services, take advantage of future opportunities or respond to competitive pressures.

**We may not be able to maintain or to raise prices in response to inflation and increasing costs.**

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

**The Company is subject to intense competition in the office products marketplace.**

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

**Product liability claims or regulatory actions could adversely impact the Company's financial results and reputation.**

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

**The Company's business is subject to risks associated with seasonality which could adversely impact its cash flow, financial condition, or results of operations.**

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

**To compete successfully, the Company must develop and commercialize a continuing stream of innovative new products that create consumer demand.**

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

**The Company is subject to environmental regulation and environmental risks.**

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

**Item 1B. Unresolved Staff Comments**

The Company had no unresolved Securities and Exchange Commission staff comments as of December 31, 2006.

**Item 2. Properties**

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

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



### Item 3. Legal Proceedings

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

### Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of the security holders of the Company through the solicitation of proxies or otherwise during the fourth quarter of the year ended December 31, 2006.

## PART II

### Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters

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

<b>Year Ended December 31, 2006</b>	<b>High</b>	<b>Low</b>	<b>Dividends Declared</b>
Fourth Quarter	\$ 15.25	\$ 13.70	\$ .03
Third Quarter	15.97	13.30	.03
Second Quarter	16.10	14.00	.03
First Quarter	14.35	12.14	.03

<b>Year Ended December 31, 2005</b>			
Fourth Quarter	\$ 16.15	\$ 13.01	\$ .03
Third Quarter	20.90	12.75	.03
Second Quarter	21.00	13.30	.03
First Quarter	19.75	12.27	.02

As of March 7, 2007 there were approximately 1,766 holders of record of the Company's Common Stock.

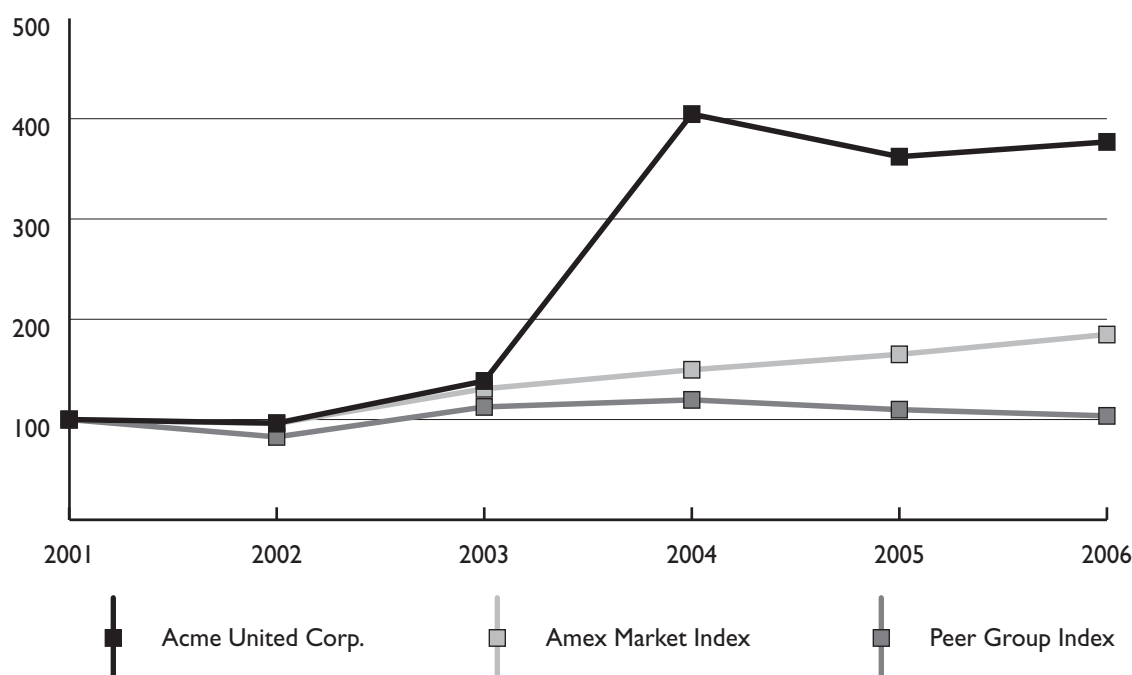
#### Performance Graph

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

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

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

### Compare 5-year Cumulative Total Return Among Acme United Corp., Amex Market Index And Peer Group Index



Assumes \$100 invested on January 1, 2001

Assumes dividend reinvested Fiscal year ending December 31, 2006

### Issuer Purchases of Equity Securities

On October 4, 2005, the Company announced a stock repurchase program of 150,000 shares. The program does not have an expiration date. The Company did not repurchase any of its shares during 2006. As of December 31, 2006, there were 125,000 shares available for purchase under the announced repurchase program.

## Item 6. Selected Financial Data

### FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

(All figures in thousands except per share data)

	2006	2005	2004	2003	2002
Net sales	\$ 56,863	\$ 49,947	\$ 43,381	\$ 34,975	\$ 30,884
Net income	\$ 3,886	\$ 2,937	\$ 3,238	\$ 1,222	\$ 660
Total assets	\$ 35,021	\$ 28,194	\$ 22,967	\$ 19,743	\$ 17,614
Long-term debt, less current portion	\$ 10,218	\$ 5,577	\$ 1,434	\$ 2,752	\$ 2,032
Net income					
Per share (Basic)	\$ 1.11	\$ 0.84	\$ 0.96	\$ 0.37	\$ 0.19
Per share (Diluted)	\$ 1.05	\$ 0.78	\$ 0.85	\$ 0.34	\$ 0.19
Dividends per share	\$ 0.12	\$ 0.11	\$ 0.06	\$ —	\$ —

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Forward-Looking Information**

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

### **Critical Accounting Policies**

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

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

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

*Intangible Assets.* Intangible assets with a finite useful life are recorded at cost upon acquisition and amortized over the term of the related contract. Intangible assets held by the Company with a finite useful life include deferred financing costs, patents and trademarks. Deferred financing costs

are amortized over the term of the related debt. Patents and trademarks are amortized over their estimated useful life. The weighted average amortization period of intangible assets at December 31, 2006 is 14 years. The Company reviews the value recorded for intangible assets to assess recoverability from future operations using undiscounted cash flows. Impairments are recognized in operating results to the extent the carrying value exceeds fair value determined based on the net present value of estimated future cash flows. The projection of future cash flows requires the Company to make estimates about the amount of future revenues. The actual future results could differ significantly from these estimates, and resulting changes in the estimates of future cash flows could be significant and could affect the recoverability of intangible assets. During 2006, the net book value of the Company's intangible assets increased to \$877,796 from \$769,852.

*Accounting for Stock-Based Compensation.* In the first quarter of 2006, the Company began accounting for stock-based compensation in accordance with the fair value recognition provisions of Statement of Financial Accounting Standards No. 123R. ("SFAS 123R") The Company uses the Black-Scholes option – pricing model, which requires the input of subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them ("expected term"), the estimated volatility of the Company's common stock price over the expected term ("volatility") and the number of options that will ultimately not complete their vesting requirements ("forfeitures"). Changes in the subjective assumptions can materially affect estimates of fair value stock-based compensation, and the related amount recognized on the consolidated statements of operations. Refer to Note II "Stock Option Plans" in the Notes to Consolidated Financial Statements in this report for a more detailed discussion of the effects of SFAS 123R on the Company's results of operations and financial condition.

## **Results of Operations 2006 Compared with 2005**

### **Net Sales**

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

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

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

### **Gross Profit**

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

### **Selling, General and Administrative**

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

### **Non-Recurring Charge**

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

### **Operating Income**

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

### **Interest Expense, Net**

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

### **Other Income (Expense), Net**

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

### **Income Tax**

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

## **Results of Operations 2005 Compared with 2004**

### **Net Sales**

Net sales increased \$6,565,726 or 15% (14% in constant currency) in 2005 to \$49,946,374 compared to \$43,380,648 in 2004. U.S. and Hong Kong sales increased by \$5,319,117 or 16%. Hong Kong sales were to global customers, primarily direct imports to U.S. customers. Sales increased in Canada by \$852,313 or 14% and 6% in local currency. European sales increased by \$394,296 or 11% both in US dollars and local currency.



The 16% sales increase in the United States was mainly due to the success of new products and a full year effect of the Clauss Cutlery business acquired in June of 2004. Clauss sales approximated \$3,300,000 in 2005 and \$1,700,000 for seven months in 2004. The major driver in new product sales was the expansion of the Company's patented titanium bonded scissors. The ability for the Company to expand its customer base with titanium products attributed to sales growth. The expansion into titanium sewing scissors also contributed to the growth. Other new product sales included hot forged sewing scissors, Critters scissors, Kids scissors, Craft scissors and the launch of several innovative rulers.

The 6% sales increase in local currency in Canada was mainly the result of additional placement in one of the major superstores and a new major retailer.

The 11% sales increase in Europe was due to the additional placement of manicure scissors into a major retailer in Germany and new sales of paper trimmers into a multinational superstore across Europe.

### **Gross Profit**

Gross profit was 45% of net sales in both 2005 and 2004. Excluding the unfavorable impact of an unusually high amount of airfreight expense to meet new product and new customer requirements, the comparison would have been 47% in 2005 versus 46% in 2004. The increased percentage of new products with higher gross margins and sales of a more profitable product mix in Europe were partially offset by an unfavorable product mix, higher raw material costs and price pressure in the U.S. business.

### **Selling, General and Administrative**

Selling, general and administrative expenses were \$15,512,488 in 2005 compared with \$14,162,082 in 2004, an increase of \$1,350,406. SG&A expenses were 31% of net sales in 2005 compared to 33% in 2004. Higher sales commission and freight costs associated with higher sales amounted to \$682,000. Other major contributors to the increase in SG&A expenses were market research, new product development, an expansion of the sourcing and quality control office in Hong Kong and the addition of sales and marketing personnel in North America and Europe.

### **Non-Recurring Charge**

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

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

Since October 1998, the tenant leased portions of buildings to subtenants, primarily for use as commercial warehouses. Approximately 30% of the total square footage is subject to subleases. The remainder has been empty since 1996.

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

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

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

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

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

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

In the quarter ended September 30, 2005, the Company accrued a charge of approximately \$1.5 million related to the estimated cost to demolish the structures and remove certain environmentally hazardous material included in the buildings to be demolished.

The estimated costs were based on a third party contractor's estimate. Actual costs incurred in 2005 and 2006 approximated the original estimates recorded in the quarter ended September 30, 2005.

### **Operating Income**

Operating income was \$5,342,201 in 2005 compared with \$5,490,448 in 2004, a decrease of \$148,247. The decrease is due to the \$1,500,000 charge on the Bridgeport property. Operating income for the United States excluding the \$1,500,000 charge increased by approximately \$973,000 or 18%.

Operating income increased in Canada by \$21,000 or 5%. The European operating loss decreased by \$505,000 or 76%. The results of the European operations are improving due to higher sales and a more profitable product mix. The higher sales are primarily due to increases in the sales force and increases in advertising.

### Interest Expense, Net

Interest expense for 2005 was \$234,868 compared with \$157,335 for 2004, a \$77,533 increase. The increase in interest expense was primarily the result of higher borrowings under the Company's bank revolving credit agreement.

### Other (Expense) Income, Net

Net other expense was (\$341,267) in 2005 compared to net other income of \$7,203 in 2004. The change from 2004 is primarily due to higher foreign exchange transaction losses in 2005.

### Income Tax

The effective tax rate in 2005 was 38% compared to 39% in 2004. The lower effective tax rate is principally due to lower losses in Europe for which there is no recorded tax benefit because the losses in Europe cannot be utilized to offset earnings in other countries.

### Contractual Obligations

The following table summarizes the amounts of payments due during the periods specified under the Company's contractual obligations as of December 31, 2006:

(dollars in thousands)

Contractual Obligations	Payments Due by Period			
	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years
Long-Term Debt Obligations	\$ 9	\$ 10,198	\$ 11	\$ 8
Operating Lease Obligations	466	621	264	—
Total	\$ 475	\$ 10,819	\$ 275	\$ 8

### Off-Balance Sheet Transactions

The Company did not engage in any off-balance sheet transactions during 2006.

### Liquidity and Capital Resources

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

	2006	2005
Working Capital	\$ 25,560,449	\$ 16,325,098
Current Ratio	5.31	3.17
Long-Term Debt to Equity Ratio	56.4%	39.7%

The increase in working capital in 2006 is attributable to a 25% increase in inventory. Inventory turnover decreased from 2.6 in 2005 to 2.2 in 2006, calculated using a twelve month average inventory balance. The inventory buildup was mainly in response to anticipated product demand and increased customer specific inventory. Additionally, given the lengthy lead times associated with product availability and our customer's requirements for complete and on-time deliveries, the Company's management decided to increase inventory levels.

The average number of days sales outstanding in accounts receivable was 64 days in 2006 and 59 days in 2005. The increase is due to higher sales to customers receiving more favorable payment terms.

Total debt in 2006 increased by \$4,639,066 compared to total debt at December 31, 2005, principally as a result of the buildup of inventory and receivables and payment for the demolition of the former manufacturing facility located in Bridgeport, CT.

On March 6, 2006, the Company modified its revolving loan agreement with Wachovia Bank (the "Modified Loan Agreement"). The amendments include an increase in the maximum borrowing amount from \$10 million to \$15 million; an extension of the maturity date from September 30, 2007 to June 30, 2009; a decrease in the interest rate to LIBOR plus 1% from LIBOR plus 1.5%, as well as the relaxation of certain covenant restrictions. Funds borrowed under the Modified Loan Agreement will be used for working capital, general operating expenses and other purposes. As of December 31, 2006, \$10,187,245 was outstanding and \$4,812,755 was available for borrowing under the Modified Loan Agreement.

Due to the provisions of the Modified Loan Agreement, the Company, among other things, is restricted with respect to additional borrowings, investments, mergers and property and equipment purchases. Further, the Company is required to maintain specific amounts of tangible net worth, a specified debt service coverage ratio and a fixed charge coverage ratio. The Company was in compliance with all covenants under the Modified Loan Agreement as of and through December 31, 2006 and believes these financial covenants will continue to be met for the remainder of the term of the facility.

Capital expenditures during 2006 and 2005 were \$564,887 and \$1,430,530, respectively which were, in part, financed with debt. Included in the 2005 capital expenditures was \$455,000 associated with the capitalization of a lease termination and associated costs (Refer to Note 19 "Non-Recurring Charge" for additional information). Capital expenditures in 2007 are not expected to differ materially from recent years.

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

### **Recently Issued Accounting Standards**

In June 2006, the FASB issued Interpretation ("FIN") No. 48 "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109". FIN 48 establishes a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently assessing the impact of FIN 48 on its consolidated financial position and results of operations.

In September 2006, the FASB issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". SFAS No. 158 requires that employers recognize, on a prospective basis, the funded status of defined benefit pension and other postretirement benefit plans on their consolidated balance sheets and recognize, as a component of other comprehensive income (loss) net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. The Company adopted SFAS No. 158 as of December 31, 2006, and it did not have a material impact on its consolidated financial position and results of operations.

## Item 7A. Qualitative and Quantitative Disclosure about Market Risk

The Company's debt portfolio and associated interest rates follow:

(dollars in thousands)	2007	2008	2009	2010	2011	There- after	Total	Fair Value
<b>Long-term Debt</b>								
<b>(including current portion):</b>								
Amount at fixed rate	\$ 9	\$ 5	\$ 5	\$ 5	\$ 5	\$ 10	\$ 39	\$ 39
Average interest rate	6.5%	6.5%	6.5%	6.5%	6.5%	0.0%	6.5%	
Amount at variable rate	\$ 0	\$ 0	\$10,187	\$ 0	\$ 0	\$ 0	\$10,187	\$10,187
Average interest rate	0.0%	0.0%	6.3%	0.0%	0.0%	0.0%	0.0%	

### Interest Rate Risk

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

### Foreign Currency Risk

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

At times, the Company utilizes forward foreign exchange contracts to hedge specific transactions with third parties denominated in foreign currencies. The terms of these forward foreign exchange contracts are typically 90 days to a year. Because the contracts are acquired for specific transactions, they are an effective hedge against fluctuations in the value of the foreign currency underlying such transaction. The Company's Canadian subsidiary previously entered into a forward foreign exchange contract to reduce the risk of inventory purchases in a currency other than its functional currency, the Canadian dollar. The Company hedged the risk of foreign currency fluctuations for approximately \$1.5 million of inventory purchases in 2005 by the Canadian subsidiary. The foreign exchange contract expired at December 31, 2005. Adjustments to the fair value were reported as a component of accumulated other comprehensive loss in the statement of changes in stockholders' equity.

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

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

### Inflation

Inflation had a negligible effect on the Company's operations during 2006 and 2005. The Company estimates that any inflationary effects, in the aggregate, were generally recovered or offset through increased pricing or cost reductions in both years.

## Item 8. Financial Statements and Supplementary Data

### Acme United Corporation and Subsidiaries

#### CONSOLIDATED STATEMENTS OF OPERATIONS

<b>For the years ended December 31,</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Net sales	\$ 56,862,992	\$ 49,946,374	\$ 43,380,648
<b>Costs and expenses:</b>			
Cost of goods sold	32,280,219	27,591,685	23,728,118
Selling, general and administrative expenses	17,869,753	15,512,488	14,162,082
Provision for loss on property demolition	—	1,500,000	—
Operating income	6,713,020	5,342,201	5,490,448
<b>Non operating items:</b>			
Interest expense, net	615,500	234,868	157,335
Other income (expense), net	251,557	(341,267)	7,203
Income before income taxes	6,349,077	4,766,066	5,340,316
Income tax expense	2,463,415	1,828,756	2,101,911
Net income	\$ 3,885,662	\$ 2,937,310	\$ 3,238,405

#### **Earnings per share:**

Basic	\$ 1.11	\$ 0.84	\$ 0.96
Diluted	\$ 1.05	\$ 0.78	\$ 0.85

See accompanying notes.



**Acme United Corporation and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**

	December 31, 2006	December 31, 2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,838,172	\$ 1,076,489
Accounts receivable, less allowance	10,852,037	9,391,546
Inventories	15,677,294	12,530,454
Deferred income taxes	273,919	324,919
Prepaid expenses and other current assets	845,640	541,991
<b>Total current assets</b>	<b>31,487,062</b>	<b>23,865,399</b>
Property, plant and equipment:		
Land	158,902	152,363
Buildings	2,777,599	2,953,515
Machinery and equipment	7,006,219	6,525,213
<b>Total property, plant and equipment</b>	<b>9,942,720</b>	<b>9,631,091</b>
Less: accumulated depreciation	7,402,675	6,845,051
<b>Net plant, property and equipment</b>	<b>2,540,045</b>	<b>2,786,040</b>
Goodwill	88,828	88,828
Intangible assets, less accumulated amortization	877,796	769,852
Intangible pension asset	—	87,760
Deferred income taxes	27,235	596,087
<b>Total assets</b>	<b>\$ 35,020,966</b>	<b>\$ 28,193,966</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 2,357,715	\$ 2,174,051
Other accrued liabilities	3,660,252	3,859,100
Accrual for property demolition	—	1,497,150
Current portion of long-term debt	8,517	10,000
<b>Total current liabilities</b>	<b>5,929,851</b>	<b>7,540,301</b>
Deferred income taxes	—	140,774
Long-term debt, less current portion	10,217,931	5,577,382
Other	645,192	870,515
<b>Total liabilities</b>	<b>16,889,607</b>	<b>14,128,972</b>
<b>Stockholders' Equity</b>		
Common stock, par value \$2.50: authorized 8,000,000 shares; issued 4,192,824 shares in 2006 and 4,161,824 shares in 2005, including treasury stock		
	10,482,060	10,404,560
Treasury stock, at cost, 678,991 shares in 2006 and 2005	(5,438,776)	(5,438,776)
Additional paid-in capital	3,013,667	2,623,887
Accumulated other comprehensive loss	(941,042)	(1,071,236)
Retained earnings	11,015,450	7,546,559
<b>Total stockholders' equity</b>	<b>18,131,359</b>	<b>14,064,994</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 35,020,966</b>	<b>\$ 28,193,966</b>

See accompanying notes.

**Acme United Corporation and Subsidiaries**
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY**

	Outstanding Shares of Common Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balances, December 31, 2003	3,265,551	\$ 9,132,030	\$ (1,621,813)	\$ 2,028,574	\$ (1,370,441)	\$ 2,010,274	\$ 10,178,624
Net income						2,937,310	2,937,310
Translation Adjustment					328,028		328,028
Change in fair value of derivative financial instruments					(82,268)		(82,268)
Change in minimum pension liability					132,463		132,463
Income taxes relating to minimum pension liability					(39,369)		(39,369)
Comprehensive income							3,276,164
Distribution to shareholders						(214,800)	(214,800)
Issuance of common stock	196,700	491,750		202,429			694,179
Purchase of treasury stock	(48,830)		(252,798)				(252,798)
Balances, December 31, 2004	3,413,421	\$ 9,623,780	\$ (1,874,611)	\$ 2,231,003	\$ (1,031,587)	\$ 5,033,879	\$ 13,982,464
Net Income						2,937,310	2,937,310
Translation adjustment					170,432		170,432
Change in fair value of derivative financial instruments					82,268		82,268
Change in minimum pension liability					(471,532)		(471,532)
Income taxes relating to minimum pension liability					179,183		179,183
Comprehensive income							2,897,661
Tax benefit from exercise of employee stock options				326,713			326,713
Distribution to shareholders						(424,630)	(424,630)
Issuance of common stock	312,312	780,780		66,171			846,951
Purchase of treasury stock	(242,900)		(3,564,165)				(3,564,165)
Balances, December 31, 2005	3,482,833	\$ 10,404,560	\$ (5,438,776)	\$ 2,623,887	\$ (1,071,236)	\$ 7,546,559	\$ 14,064,994
Net Income						3,885,662	3,885,662
Translation adjustment					52,438		52,438
Change in minimum pension liability					125,413		125,413
Income taxes relating to minimum pension liability					(47,657)		(47,657)
Comprehensive income							4,015,856
Stock compensation expense				275,540			275,540
Tax benefit from exercise of employee stock options				82,986			82,986
Distribution to shareholders						(416,770)	(416,770)
Issuance of common stock	31,000	77,500		31,255			108,755
Balances, December 31, 2006	3,513,833	\$ 10,482,060	\$ (5,438,776)	\$ 3,013,672	\$ (941,042)	\$ 11,015,450	\$ 18,131,359

See accompanying notes.

**Acme United Corporation and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<b>For the years ended December 31,</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Operating activities:</b>			
Net income	\$ 3,885,662	\$ 2,937,310	\$ 3,238,405
Adjustments to reconcile net income to net cash (used) provided by operating activities			
Depreciation	800,449	610,509	492,361
Amortization	34,679	42,263	29,986
Stock compensation expense	275,540	—	—
Deferred income taxes	442,033	(462,621)	(56,958)
Loss on disposal of property, plant and equipment	4,378	64,254	59,156
Tax benefit on stock options	82,986	326,713	—
Changes in operating assets and liabilities			
Accounts receivable	(1,546,848)	(297,236)	(1,974,964)
Inventories	(2,940,755)	(4,248,853)	(64,949)
Prepaid expenses and other current assets	(329,249)	(71,910)	(213,326)
Accounts payable	146,571	(107,819)	540,792
Other accrued liabilities	(1,678,844)	768,779	2,218,454
<b>Total adjustments</b>	<b>(4,709,060)</b>	<b>(3,375,921)</b>	<b>1,030,552</b>
<b>Net cash (used) provided by operating activities</b>	<b>(823,398)</b>	<b>(438,611)</b>	<b>4,268,957</b>
<b>Investing activities:</b>			
Purchase of property, plant and equipment	(564,887)	(1,430,530)	(443,330)
Purchase of patents and trademarks	(142,623)	(252,468)	(336,673)
Proceeds from sale of property, plant and equipment	12,854	160,045	51,583
<b>Net cash used by investing activities</b>	<b>(694,656)</b>	<b>(1,522,953)</b>	<b>(728,420)</b>
<b>Financing activities:</b>			
Net borrowings (repayments) of long-term debt	4,634,611	4,159,274	(3,467,595)
Distributions to shareholders	(428,934)	(380,978)	(143,007)
Purchase of treasury stock	—	(3,564,165)	(252,798)
Issuance of common stock	108,755	846,951	694,179
<b>Net cash provided (used) by financing activities</b>	<b>4,314,432</b>	<b>1,061,082</b>	<b>(3,169,221)</b>
Effect of exchange rate changes	(34,695)	88,461	126,553
<b>Net change in cash and cash equivalents</b>	<b>2,761,683</b>	<b>(812,021)</b>	<b>497,869</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,076,489</b>	<b>1,888,510</b>	<b>1,390,641</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 3,838,172</b>	<b>\$ 1,076,489</b>	<b>\$ 1,888,510</b>

**Supplemental cash flow information**

Cash paid for income taxes	\$ 2,180,324	\$ 1,716,028	\$ 1,390,967
Cash paid for interest	\$ 617,645	\$ 234,523	\$ 157,335

See accompanying notes.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **I. Operations**

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

### **2. Accounting Policies**

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

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

**Translation of Foreign Currency** – For foreign operations, assets and liabilities are translated at rates in effect at the end of the year; revenues and expenses are translated at average rates in effect during the year. Resulting translation adjustments are made directly to accumulated other comprehensive loss. Foreign currency transaction gains and losses are recognized in operating results. Foreign currency transaction gains (losses), which are included in other income (expense), net, were \$149,791, in 2006, (\$397,535) in 2005, and (\$110,519) in 2004.

**Cash Equivalents** – Investments with an original maturity of three months or less at the date of purchase are considered cash equivalents.

**Accounts Receivable** – Accounts receivable are shown less an allowance for doubtful accounts of \$116,811 in 2006 and \$136,050 in 2005.

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

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

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

**Intangible Assets** – Intangible assets with a finite useful life are recorded at cost upon acquisition and amortized over the term of the related contract. Intangible assets held by the Company with a finite useful life include deferred financing costs, patents, and trademarks. Deferred financing costs are amortized over the term of the related debt. Patents and trademarks are amortized over their estimated useful life. The weighted average amortization period of intangible assets at December 31, 2006 is 14 years.

**Goodwill** – As of January 1, 2002, the Company adopted Financial Accounting Standards Board (“FASB”) Statement No. 142, *Goodwill and Other Intangible Assets (SFAS 142)* and therefore, no longer amortizes goodwill, but rather tests it annually for impairment. There was no impairment of goodwill at December 31, 2006 and December 31, 2005.

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

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

**Research and Development** – Research and development costs (\$306,422 in 2006, \$244,904 in 2005, and \$456,905 in 2004) are expensed as incurred.

**Shipping Costs** – Shipping costs (\$2,496,981 in 2006, \$2,310,596 in 2005, and \$1,684,448 in 2004) are included in selling, general and administrative expenses.

**Advertising Costs** – The Company expenses the production costs of advertising the first time that the related advertising takes place. Advertising costs (\$1,292,250 in 2006, \$1,252,366 in 2005, and \$1,109,217 in 2004) are included in selling, general and administrative expenses.

**Concentrations** – The Company performs ongoing credit evaluations of its customers and generally does not require collateral. Allowances for credit losses are provided and have been within management’s expectations. In 2006 the Company had two customers with net sales exceeding 10% of consolidated net sales and three customers in both 2005 and 2004. Net sales to these customers amounted to approximately 19% and 10% in 2006, 18%, 12% and 11%, in 2005 and 18%, 14% and 11% in 2004.

**Derivatives** – The Company accounts for derivative financial instruments consistent with the requirements of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* and its amendments, FASB Statement 137, *Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133*, and FASB Statement No. 138, *Accounting for Derivative Instruments and Certain Hedging Activities*. The Company recognizes all derivative financial instruments, such as interest rate swap contracts, forward foreign exchange contracts, and foreign currency option contracts, in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are either recognized periodically in operations or in stockholders’ equity as a component of accumulated other comprehensive income (loss) depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in operations along with the portions of the changes in the fair values of the hedged items that relate to the hedged risk(s).

Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive (loss) income, net of deferred income taxes. Changes in fair value of derivatives used as hedges of the net investment in foreign operations are reported in other comprehensive income (loss) as part of the cumulative translation adjustment. Changes in fair values of derivatives not qualifying as hedges are reported in operations.

In June 2006, the FASB issued Interpretation (“FIN”) No. 48 *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109*. FIN 48 establishes a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently assessing the impact of FIN 48 on its consolidated financial position and results of operations.

In September 2006, the FASB issued Statement No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158). SFAS No. 158 requires that an employer recognize, on a prospective basis, the funded status of its defined benefit pension and other postretirement benefit plans on its consolidated balance sheets, and recognize, as a component of other comprehensive income (loss), net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. The Company adopted SFAS No. 158 as of December 31, 2006, and it did not have a material impact on the consolidated financial position and results of operations.

Reclassifications – Certain prior year amounts have been reclassified to conform to the current year presentation.

### 3. Inventories

<b>Inventories consist of:</b>	<b>2006</b>	<b>2005</b>
Finished goods	\$ 14,709,418	\$ 11,691,337
Work in process	62,675	116,377
Materials and supplies	905,201	722,740
	<b>\$ 15,677,294</b>	<b>\$ 12,530,454</b>

Inventories are stated net of valuation allowances for obsolescence of \$405,963 in 2006 and \$453,369 in 2005.

### 4. Intangible Assets

<b>Intangible assets consist of:</b>	<b>2006</b>	<b>2005</b>
Deferred financing costs	\$ 70,577	\$ 70,577
Patents	569,359	457,086
Trademarks	392,236	361,886
	<b>1,032,172</b>	<b>889,549</b>
Accumulated amortization	154,376	119,697
	<b>\$ 877,796</b>	<b>\$ 769,852</b>



Amortization expense for deferred financing costs for the years ended December 31, 2006, 2005 and 2004 was \$0, \$12,658, and \$13,615, respectively. Amortization expense for patents and trademarks for the years ended December 31, 2006, 2005 and 2004 was \$34,679, \$29,605, and \$16,371, respectively. The estimated aggregate amortization expense for each of the next five succeeding years is as follows: 2007 – \$36,615; 2008 – \$36,615; 2009 – \$36,615; 2010 – \$36,615; and 2011 – \$35,956.

## 5. Other Accrued Liabilities

<b>Other accrued liabilities consist of:</b>	<b>2006</b>	<b>2005</b>
Vendor rebates	\$ 2,410,097	\$ 2,657,403
Accrual for demolition cost	–	1,497,150
Other	1,895,348	2,072,212
	<b>\$ 4,305,445</b>	<b>\$ 6,226,765</b>

## 6. Pension and Profit Sharing

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

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

The incremental effects of adopting the provision of Statement 158 were immaterial to the Company's statement of financial position at December 31, 2006. The adoption of Statement 158 had no effect on the Company's consolidated statement of income for the year ended December 31, 2006 or for any prior period presented, and it will not effect the Company's operating results in future periods.

The plan asset weighted average allocation at December 31, 2006 and December 31, 2005, by asset category, is as follows:

<b>Asset Category</b>	<b>2006</b>	<b>2005</b>
Equity	68%	67%
Fixed Income	29%	30%
Other	3%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>

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

For years ending December 31, 2006 and 2005, equity securities include 10,000 shares in each year, of the Company's Common Stock having a market value of \$144,100 and \$139,600 at those dates, respectively.

Other disclosures related to the pension plan follow:

	2006	2005
<b>Assumptions used to determine benefit obligation:</b>		
Discount rate	5.75%	5.50%
Changes in benefit obligation:		
Benefit obligation at beginning of year	\$ (3,616,356)	\$ (3,481,433)
Interest cost	(187,284)	(204,229)
Service cost	(30,000)	(35,000)
Actuarial loss	92,624	(326,375)
Benefits and plan expenses paid	413,286	430,681
Benefit obligation at end of year	(3,327,730)	(3,616,356)

**Changes in plan assets:**

Fair value of plan assets at beginning of year	3,070,541	3,452,495
Actual return on plan assets	253,229	48,727
Benefits and plan expenses paid	(413,286)	(430,681)
Fair value of plan assets at end of year	2,910,484	3,070,541
Funded status	(417,246)	(545,815)

**Amounts recognized in Accumulated**

**Other Comprehensive Income:**

Net (gain) / loss	1,231,335	1,435,732
Prior service cost / (credit)	78,984	-
Total	1,310,319	1,435,732

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

	2006	2005	2004
<b>Assumptions used to determine net periodic benefit cost:</b>			
Discount rate	5.50%	5.75%	6.00%
Expected return on plan assets	8.00%	8.00%	8.00%
<b>Components of net benefit expense:</b>			
Interest cost	\$ 187,284	\$ 204,229	\$ 206,327
Service cost	30,000	35,000	35,000
Expected return on plan assets	(230,819)	(260,089)	(257,424)
Amortization of prior service costs	8,776	8,776	8,776
Amortization of actuarial gain	89,363	66,204	67,972
Net periodic benefit cost	\$ 84,604	\$ 54,120	\$ 60,651

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

The following table discloses the change in other comprehensive income:

	2006	2005	2004
Decrease/(increase) in minimum liability included in other comprehensive income, excluding income tax effect	\$ 204,397	\$ (471,532)	\$ 132,463
(Increase)/decrease in Accumulated Other Comprehensive Income to reflect the Adoption of FAS 158	\$ (78,984)		

The following benefits, as appropriate, are expected to be paid:

2007	\$ 368,164
2008	375,095
2009	367,313
2010	350,056
2011	332,020
Years 2012 – 2016	\$1,415,486

The Company also has a qualified, non-contributory profit sharing plan covering substantially all United States employees. Annual Company contributions are determined by the Compensation Committee. For the years ended December 31, 2006, 2005 and 2004, contributions amounted to a 50% match, up to the first 6% of employee contributions. Total contribution expense under this plan approximated \$77,673 in 2006, \$60,000 in 2005, and \$63,000 in 2004.

## 7. Income Taxes

The amounts of income taxes (benefit) reflected in operations follow:

	2006	2005	2004
<b>Current:</b>			
Federal	\$ 1,341,284	\$ 1,817,861	\$ 1,714,456
State	159,972	236,019	211,927
Foreign	540,103	237,497	232,486
	2,041,359	2,291,377	2,158,869
<b>Deferred:</b>			
Federal	401,738	(393,334)	(70,436)
State	40,892	(69,287)	4,397
Foreign	(20,574)		9,081
	422,056	(462,621)	(56,958)
	\$ 2,463,415	\$ 1,828,756	\$ 2,101,911

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

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

	<b>2006</b>	<b>2005</b>	<b>2004</b>
United States	\$ 5,150,322	\$ 4,288,531	\$ 4,927,741
Foreign	1,198,756	477,535	412,575
	<u>\$ 6,349,078</u>	<u>\$ 4,766,066</u>	<u>\$ 5,340,316</u>

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

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Federal income taxes at 34% statutory rate	\$ 2,158,687	\$ 1,620,462	\$ 1,815,707
State and local taxes, net of federal income tax effect	128,243	155,773	147,373
Permanent items, not subject to tax	53,822	65,935	(31,907)
Foreign tax rate difference	(217,158)	(92,908)	
Non-recognition of foreign tax loss carryforwards	339,821	79,494	170,738
Provision for income taxes	<u>\$ 2,463,415</u>	<u>\$ 1,828,756</u>	<u>\$ 2,101,911</u>

Income taxes paid, net of refunds received, were \$2,180,324 in 2006, \$1,716,028 in 2005 and \$1,390,967 in 2004.

	<b>2006</b>	<b>2005</b>
Deferred income tax liabilities:		
Property, plant and equipment	\$ 119,806	\$ 140,774
	119,806	140,774
<b>Deferred income tax assets:</b>		
Asset valuations	273,919	255,131
Operating loss carryforwards and credits	1,755,222	1,482,907
Pension	133,086	168,424
Other	13,981	429,945
	2,176,208	2,336,407
Net deferred income tax asset before valuation allowance	2,056,402	2,195,633
Valuation allowance	(1,755,222)	(1,415,401)
Net deferred income tax asset	<u>\$ 301,180</u>	<u>\$ 780,232</u>

The Company provides deferred income taxes on foreign subsidiary earnings, which are not considered permanently reinvested. Earnings permanently reinvested would become taxable upon the sale or liquidation of a foreign subsidiary or upon the remittance of dividends. Foreign subsidiary earnings of \$4,097,768 and \$2,300,000 are considered permanently reinvested as of December 31, 2006 and 2005, respectively, and the amount of deferred income taxes thereon cannot be readily determined.

In December 2004, the FASB issued FSP No. FAS 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation provision within the American Jobs Creation Act of 2004* (“AJCA”). The AJCA provides a one-time 85% dividends received deduction for certain foreign earnings that are repatriated under a plan for reinvestment in the United States, provided certain criteria are met. FSP No. 109-2 was effective immediately and provides accounting and disclosure guidance for the repatriation provision. FSP No. 109-2 allows companies additional time to evaluate the effects of the law on its unremitted earnings for the purpose of applying the “indefinite reversal criteria” under APB Opinion No. 23, *Accounting for Income Taxes – Special Areas*, and requires explanatory disclosures from companies that have not yet completed the evaluation. Under the provisions of the AJCA, the Company repatriated approximately \$500,000 of qualifying dividends in the fourth quarter of 2005, which resulted in additional income tax expense of approximately \$28,000 for the year.

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

At December 31, 2006, the Company has tax operating loss carry forwards aggregating \$5,850,740, all of which are applicable to Germany, and can be carried forward indefinitely.

## 8. Debt

Long term debt consists of:

	2006	2005
<b>Notes payable:</b>		
North American arrangements	\$ 10,187,245	\$ 5,544,500
Other	39,203	42,882
	10,226,448	5,587,382
Less current portion	8,517	10,000
	<u>\$ 10,217,931</u>	<u>\$ 5,577,382</u>

On March 6, 2006, the Company modified its Revolving Loan Agreement (the “Modified Loan Agreement”) with Wachovia Bank. The amendments include an increase in the maximum borrowing amount from \$10 million to \$15 million, an extension of the maturity date from September 30, 2007 to June 30, 2009, a decrease in the interest rate to LIBOR plus 1% from LIBOR plus 1.5%, as well as the relaxation of certain covenant restrictions. Funds borrowed under the Modified Loan Agreement will be used for working capital, general operating expenses and other purposes. As of December 31, 2006, \$10,187,245 was outstanding and \$4,812,755 was available for borrowing under the Modified Loan Agreement.

Under the Modified Loan Agreement, the Company is required to maintain specific amounts of tangible net worth, a specified debt service coverage ratio, and a fixed charge coverage ratio. The Company was in compliance with these financial covenants at December 31, 2006.

Maturities of long-term debt for the next five years follow: 2007– \$8,517; 2008 – \$5,279; 2009 – \$10,192,524; 2010 – \$5,279; and 2011 – \$5,279.

Interest paid was \$617,645 in 2006, \$234,523 in 2005 and \$157,335 in 2004.

## 9. Commitments and Contingencies

The Company leases certain office, manufacturing and warehouse facilities and various equipment under non-cancelable operating leases. Total rent expense was \$527,208 in 2006, \$332,644 in 2005 and \$309,107 in 2004. Minimum annual rental commitments under non-cancelable leases remaining terms of one year or more as of December 31, 2006: 2007 – \$465,624; 2008 – \$320,972; 2009 – \$300,270; 2010 – \$261,881; and 2011 – \$1,881.

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

## 10. Segment Information

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

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

In 2006 the Company had two customers that individually exceeded 10% of consolidated net sales and three customers in both 2005 and 2004. Net sales to these customers amounted to approximately 19% and 10% in 2006, 18%, 12% and 11% in 2005 and 18%, 14% and 11% in 2004. Sales to no other customer exceeded 10% of consolidated net sales.



**Financial data by segment:**

(000's omitted)	United States	Canada	Europe	Elimination	Consolidated
<b>2006</b>					
Sales to unaffiliated customers	\$ 44,283	\$ 7,344	\$ 5,236		\$ 56,863
InterCompany sales	195	—	1,111	(1,306)	—
Net sales	44,478	7,344	6,347	(1,306)	56,863
Operating income	7,262	588	(1,017)	(119)	6,713
Assets	26,447	6,286	4,219	(1,932)	35,021
Additions to property, plant and equipment	474	28	63	—	565
Depreciation and amortization	704	51	80	—	835
<b>2005</b>					
Sales to unaffiliated customers	\$ 39,060	\$ 6,838	\$ 4,049		\$ 49,946
InterCompany sales	75	5	1,115	(1,195)	—
Net sales	39,135	6,843	5,164	(1,195)	49,946
Operating income	5,010	484	(159)	7	5,342
Assets	21,735	5,490	2,754	(1,784)	28,194
Additions to property, plant and equipment	1,299	80	52	—	1,431
Depreciation and amortization	511	51	91	—	653
<b>2004</b>					
Sales to unaffiliated customers	\$ 33,741	\$ 5,986	\$ 3,654		\$ 43,381
InterCompany sales	84	3	656	(743)	—
Net sales	33,825	5,989	4,310	(743)	43,381
Operating income	5,537	463	(664)	154	5,490
Assets	16,401	5,413	2,835	(1,682)	22,967
Additions to property, plant and equipment	291	57	95	—	443
Depreciation and amortization	366	44	112	—	522

## II. Stock Option Plans

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

The Employee’s Plan provides for the issuance of incentive and nonqualified stock options at an exercise price equal to the fair market value of the common stock on the date the option is granted. The terms of the options granted are subject to the provisions of the Employee’s Plan. As of December 31, 2006, the number of shares available for grant under the Employee’s Plan was 27,688.

The Director Plan, approved by shareholders at the Annual Meeting of Shareholders on April 25, 2005, provides for the issuance of stock options for up to 50,000 shares of the Company’s common stock to non-salaried directors. Directors elected on April 25, 2005 and at subsequent Annual Meetings who have not received any prior grant under this or previous plans shall receive an initial grant of an option to purchase 5,000 shares of Common Stock (the “Initial Option”). Each elected Director not receiving an Initial Option will receive a 2,500 share option (the “Annual Option”). The Initial Option vests 25% on the date of grant and 25% in each of the next three years. The Annual Option becomes exercisable one day after the date of grant. The exercise price of all options granted shall equal the fair market value of the Common Stock on the date the option is granted and expires ten (10) years from the date of grant. As of December 31, 2006, the number of shares available for grant under the Director Plan was 20,000.

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

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Options outstanding at the beginning of the year	471,450	673,200	867,150
Options granted	113,500	111,500	6,500
Options forfeited	(10,000)	(938)	(3,750)
Options exercised	(31,000)	(312,312)	(196,700)
<b>Options outstanding at the end of the year</b>	<b>543,950</b>	<b>471,450</b>	<b>673,200</b>
<b>Options exercisable at the end of the year</b>	<b>407,888</b>	<b>368,700</b>	<b>622,263</b>
<b>Common stock available for future grants at the end of the year</b>	<b>47,688</b>	<b>151,188</b>	<b>60,500</b>

### **Weighted average price of options:**

Granted	\$ 14.42	\$ 15.64	\$ 5.50
Forfeited	14.24	4.00	4.33
Exercised	3.51	2.71	3.53
Outstanding	8.27	6.56	3.27
Exercisable	6.04	4.62	3.19

A summary of options outstanding at December 31, 2006 follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$1.25 to \$2.49	41,100	3	\$2.04	41,100	\$2.04
\$2.50 to \$3.65	140,350	5	3.09	140,350	3.09
\$3.66 to \$5.00	71,750	5	4.09	71,750	4.09
\$5.01 to \$7.25	74,250	4	5.67	73,313	5.67
\$7.26 to \$17.02	216,500	9	15.09	81,375	15.21
	543,950			407,888	

The weighted average remaining contractual life of outstanding stock options is 5 years.

### Stock Based Compensation

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

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

The Company estimates the expected term of options granted by evaluating various factors, including the vesting period, historical employee information, as well as current and historical stock prices and market conditions. The Company estimates the volatility of its common stock by calculating historical volatility based on the closing stock price on the last day of each of the 48 months leading up to the month the option was granted. The risk-free interest rate that the Company uses in the option valuation model is the interest rate on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term of the options granted. Historical information was the basis for calculating the dividend yield. The Company is required to estimate forfeitures at the time of grant and to revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company used a mix of historical data and future assumptions to estimate pre-vesting option forfeitures and to record stock-based compensation expense only for those awards that are expected to vest. All stock-based payment awards are amortized over the requisite service periods of the awards, which are generally the vesting periods. In the third quarter of 2006, the Company modified its vesting schedule for new grants. Grants issued after June 30, 2006 vest 25% one day after the first anniversary of the grant date and 25% one day after each of the next three anniversaries. Options granted prior to July 1, 2006 vest 25% one day after the date of grant, and 25% on the day after the anniversary of the grant date in each of the next three years.

The assumptions used to value option grants for the twelve months ended December 31, 2006 and December 31, 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Expected life in years	4 – 5	5
Interest rate	4.32 – 4.91%	3.72 – 3.90%
Volatility	.33 – .34	0.35 – 0.39
Dividend yield	0.80 – 0.90%	0.70%

Total stock-based compensation recognized in the Company's consolidated statement of operations for the year ended December 31, 2006 is \$275,544. As of December 31, 2006, there was approximately \$378,199 of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based payments granted to the Company's employees. As of December 31, 2006, the remaining unamortized expense is expected to be recognized over a weighted average period of 1.9 years.

Prior to January 1, 2006, the Company applied APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations to recognize compensation expense under its stock option plans. As such, no expense was recognized if, at the date of grant, the exercise price of the option was at least equal to the fair market value of the Company's Common Stock. No compensation expense related to the Company's stock option plans was required to be recognized for its plans in 2005 and 2004, except as discussed in Note 2.

The pro forma effects of recognizing the estimated fair value of stock-based compensation for the twelve months ended December 31, 2005 and 2004 has been disclosed previously in the Company's financial statements under the provisions of SFAS 123. The previously-disclosed pro forma information, as adjusted to reflect a 36 month, instead of a 48 month option vesting schedule, is presented below.

	<b>2005</b>	<b>2004</b>
Net income, as reported	\$ 2,937,310	\$ 3,238,405
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(272,904)	(76,929)
<b>Pro forma net income</b>	<b>\$ 2,664,406</b>	<b>\$ 3,161,476</b>
Basic-as reported	\$ 0.84	\$ 0.96
Basic-pro forma	\$ 0.76	\$ 0.94
Diluted-as reported	\$ 0.78	\$ 0.85
Diluted-pro forma	\$ 0.70	\$ 0.83

The weighted average fair value at the date of grant for options granted during 2006, 2005 and 2004 was \$4.86, \$7.42 and \$2.59 per option, respectively.

## 12. Earnings Per Share

The calculation of earnings per share follows:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Numerator:</b>			
Net income	\$ 3,885,662	\$ 2,937,310	\$ 3,238,405
<b>Denominator:</b>			
Denominator for basic earnings per share			
Weighted average shares outstanding	3,494,833	3,509,031	3,364,033
Effect of dilutive employee stock options	217,217	279,913	442,995
<b>Denominator for dilutive earnings per share</b>	<b>3,712,050</b>	<b>3,788,944</b>	<b>3,807,028</b>
Basic earnings per share	\$ 1.11	\$ 0.84	\$ 0.96
Dilutive earnings per share	\$ 1.05	\$ 0.78	\$ 0.85

For 2006 and 2005, 190,000 and 9,500 stock options were excluded from diluted earnings per share calculations because they would have been anti-dilutive. There were no anti-dilutive stock options for 2004.

### 13. Accumulated Other Comprehensive Loss

The components of the accumulated other comprehensive loss follow:

	Translation Adjustment	Derivative Financial Instruments	Minimum Pension Liability	Total
<b>Balances, December 31, 2004</b>	\$ (351,516)	\$ (82,268)	\$ (597,803)	\$(1,031,587)
Change in fair value of derivative financial Instruments		82,268		82,268
Change in minimum pension liability			(471,532)	(471,532)
Income taxes relating to minimum pension liability			179,183	179,183
Translation adjustment	170,432			170,432
<b>Balances, December 31, 2005</b>	(181,084)	–	(890,152)	(1,071,236)
Change in minimum pension liability			125,413	125,413
Income taxes relating to minimum pension liability			(47,657)	(47,657)
Translation adjustment	52,438			52,438
<b>Balances, December 31, 2006</b>	\$ (128,646)	\$ –	\$ (812,396)	\$ (941,042)

### 14. Financial Instruments

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

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

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

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

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

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalent	\$ 3,838	\$ 3,838	\$ 1,076	\$ 1,076
Accounts receivable	10,852	10,852	9,392	9,392
Accounts payable	(2,358)	(2,358)	(2,174)	(2,174)
Long-term debt	(10,226)	(10,226)	(5,587)	(5,587)



## 15. Quarterly Data (unaudited)

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

Quarters (000's omitted, except per share data)

<b>2006</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Total</b>
Net sales	\$ 12,257	\$ 16,984	\$ 15,532	\$ 12,090	\$ 56,863
Cost of goods sold	6,705	9,556	8,908	7,111	32,280
Net income	759	1,506	1,225	396	3,886
Basic earnings per share	\$ 0.22	\$ 0.43	\$ 0.35	\$ 0.11	\$ 1.11
Diluted earnings per share	\$ 0.20	\$ 0.40	\$ 0.33	\$ 0.11	\$ 1.05

<b>2005</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Total</b>
Net sales	\$ 10,583	\$ 14,904	\$ 13,400	\$ 11,059	\$ 49,946
Cost of goods sold	5,722	8,173	7,234	6,463	27,592
Net income	650	1,314	200	773	2,937
Basic earnings per share	\$ 0.19	\$ 0.37	\$ 0.06	\$ 0.22	\$ 0.84
Diluted earnings per share	\$ 0.17	\$ 0.34	\$ 0.05	\$ 0.21	\$ 0.78

## 16. Capital Structure

In 2006, the Company issued 31,000 shares of common stock with proceeds of \$108,755 upon the exercise of outstanding stock options.

## 17. Business Combination

On May 28, 2004, the Company purchased Clauss Cutlery, a division of Alco Industries, Inc. The purchase price was the aggregate value of inventory, trademarks and brand names totaling \$446,754. Included in the purchase price was a stand-by letter of credit the Company issued in the amount of \$230,000 for a trademark from Alco Industries, Inc. that was renewed by the U.S. Patent and Trademark Office on July 13, 2004. The letter of credit was set-up to expire on May 28, 2005, if the trademark was not renewed. Since the trademark was renewed prior to the expiration date, Alco Industries, Inc. enforced the letter of credit and drew down the funds. Included in the accompanying Statement of Operations are the operations of the acquired business since the date of acquisition. Proforma operating information for the periods prior to the acquisition is not provided because of the immateriality of the transaction on a proforma basis.

## **18. Impairment of Equipment**

During the second quarter of 2004, the Company abandoned its ruler manufacturing equipment. In accordance with FASB 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company recorded an impairment loss of \$84,820, or \$0.02 a share, for the full amount of the assets at the time of abandonment. There was no such impairment charge recorded during the year ended December 31, 2006 or 2005.

## **19. Non-Recurring Charge**

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

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

Since October 1998, the tenant leased portions of the buildings to subtenants, primarily for use as commercial warehouses. Approximately 30% of the total square footage is subject to subleases. The remainder has been empty since 1996.

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

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

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

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

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

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

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

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Acme United Corporation

We have audited the accompanying consolidated balance sheets of Acme United Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Acme United Corporation and subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

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

/s/ Ernst & Young LLP

Hartford, Connecticut

March 9, 2007

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There have been no disagreements with accountants related to accounting and financial disclosures in 2006.

### **Item 9A. Controls and Procedures**

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

Our Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures, which included inquiries made to certain other of our employees. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have each concluded that, as of December 31, 2006, our disclosure controls and procedures were effective and sufficient to ensure that we record, process, summarize and report information required to be disclosed by us in our periodic reports filed under the Securities and Exchange Commission's rules and forms.

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

During the quarter ended December 31, 2006, there were no changes in our internal control over financial reporting that materially affected, or was reasonably likely to materially affect, this control.

### **Item 9B. Other Information**

None

## PART III

### Item 10. Directors and Executive Officers of the Registrant

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

<b>Name</b>	<b>Age</b>	<b>Position Held with Company</b>
Walter C. Johnsen	56	Chairman of the Board, Chief Executive Officer and Director
Gary D. Penisten	75	Chairman Emeritus of the Board and Director
Brian S. Olschan	50	President, Chief Operating Officer and Director
Paul G. Driscoll	46	Vice President, Chief Financial Officer, Secretary and Treasurer
Rex L. Davidson	57	Director
George R. Dunbar	83	Director
Richmond Y. Holden, Jr.	53	Director
Susan H. Murphy	55	Director
Stephen Spinelli, Jr.	52	Director
Stevenson E. Ward III	61	Director

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

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

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

**Paul G. Driscoll** has served as Vice President and Chief Financial Officer, Secretary and Treasurer since October 2, 2002. Mr. Driscoll joined Acme as Director International Finance on March 19, 2001. From 1997 to 2001 he was employed by Ernest and Julio Gallo Winery including Director of Finance and Operations in Japan. Prior to Gallo he served in several increasingly responsible positions in Sterling Winthrop Inc. in New York City and Sanofi S.A. in France.

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

**George R. Dunbar** has served as director since 1977. He is the retired President of The U.S. Baird Corporation and is currently President of Dunbar Associates, LLC., a municipal management consulting firm. He is a former Chief Administrative Officer for the City of Bridgeport and served as President (1972–1987) of the Bryant Electric Division of Westinghouse Electric Corporation, manufacturer of electrical distribution and utilization products, Bridgeport, Connecticut.

**Richmond Y. Holden, Jr.** has served as director since 1998. He served as President and Chief Executive Officer of J.L. Hammett Co. from 1992-2006. J.L. Hammett Co. established in 1863, was a reseller of educational products through catalogs and retail stores; focusing on the needs of educational institutions. From 1997–2006 he has also served as Chairman of the Board of Ten Corp, a computer upgrade, network services and computer services company.

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

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

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

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

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



## **Item 11. Executive Compensation**

Information with respect to executive compensation is incorporated herein by reference to the section entitled “Executive Compensation” contained in the Company’s Proxy Statement to be filed with the Securities and Exchange Commission in connection with our 2007 Annual Meeting of Shareholders.

## **Item 12. Security Ownership of Certain Beneficial Owners and Management**

Information regarding security ownership of certain beneficial owners, directors and executive officers is incorporated herein by reference to the information in the section entitled “Security Ownership of Directors and Officers” contained in our Proxy Statement to be filed with the Securities and Exchange Commission in connection with its 2007 Annual Meeting of Shareholders.

## **Item 13. Certain Relationships and Related Transactions**

(None)

## **Item 14. Principal Accountant Fees and Services**

Information regarding principal accountant fees and services is incorporated herein by reference to the section entitled “Fees to Auditors” contained in the Company’s Proxy Statement to be filed with the Securities and Exchange Commission in connection with its 2007 Annual Meeting of Shareholders.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

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

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

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

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

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

#### (b) Exhibits.

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

**Exhibit No. Identification of Exhibit**

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3(i)	Certificate of Organization of the Company (1) Amendment to Certificate of Organization of Registrant dated September 24, 1968 (1) Amendment to Certificate of Incorporation of the Company dated April 27, 1971 (2) Amendment to Certificate of Incorporation of the Company dated June 29, 1971 (2)
3(ii)	Amendment to the Company's Bylaws (10)
4	Specimen of Common Stock certificate (2)
10.1	Non-Salaried Director Stock Option Plan dated April 22, 1996* (3)
10.1(a)	Amendment No. 1 to the Non-Salaried Director Stock Option Plan *(4)
10.1(b)	Amendment No. 2 to the Non-Salaried Director Stock Option Plan *(5)
10.2	1992 Amended and Restated Stock Option Plan* (6)
10.2(a)	Amendment No. 1 to the Amended and Restated Stock Option Plan* (7)
10.2(b)	Amendment No. 2 to the Amended and Restated Stock Option Plan* (8)
10.2(c)	Amendment No. 3 to the Amended and Restated Stock Option Plan* (9)
10.2(d)	Amendment No. 4 to the Amended and Restated Stock Option Plan* (9)
10.3	Acme United Employee Stock Option Plan dated February 26, 2002* as amended (11)
10.4	Severance Pay Plan dated September 28, 2004*
10.5	Salary Continuation Plan dated September 28, 2004*
10.6	2005 Non-Salaried Director Stock Option Plan (12)
21	Subsidiaries of the Registrant
23	Consent of Ernst & Young, Independent Auditors
31.1	Certification of Walter Johnsen pursuant to Rule 13a-14(a) and 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Paul Driscoll pursuant to Rule 13a-14(a) and 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Walter Johnsen pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Paul Driscoll pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- \* Indicates a management contract or a compensatory plan or arrangement
- (1) Previously filed in S-1 Registration Statement No. 230682 filed with the Commission on November 7, 1968 and amended by Amendment No. 1 on December 31, 1968 and by Amendment No. 2 on January 31, 1969.
  - (2) Previously filed as an exhibit to the Company's Form 10-K filed in 1971.
  - (3) Previously filed in the Company's Form S-8 Registration Statement No. 333-26739 filed with the Commission on May 9, 1997.
  - (4) Previously filed in the Company's Form S-8 Registration Statement No. 333-84505 filed with the Commission on August 4, 1999.
  - (5) Previously filed in the Company's Form S-8 Registration Statement No. 333-70348 filed with the Commission on September 21, 2000.
  - (6) Previously filed as an exhibit to the Company's Proxy Statement filed on March 29, 1996.
  - (7) Previously filed in the Company's Form S-8 Registration Statement No. 333-26737 filed with the Commission on May 9, 1997.
  - (8) Previously filed in the Company's Form S-8 Registration Statement No. 333-84499 filed with the Commission on August 4, 1999.
  - (9) Previously filed in the Company's Form S-8 Registration Statement No. 333-70346 filed with the Commission on September 27, 2001.
  - (10) Previously filed in the Company's form 8-K filed on February 28, 2006.
  - (11) Previously filed in the Company's Proxy statement for the 2005 Annual Meeting of Shareholders.
  - (12) Previously filed in the Company's Form S-8 Registration Statement No. 333-126478 filed with the Commission on July 8, 2005.

## SCHEDULE II

### Acme United Corporation and Subsidiaries VALUATION AND QUALIFYING ACCOUNTS

For the years ended December 31, 2006, 2005 and 2004

	<b>Balance at Beginning of Period</b>	<b>Charged to Costs and Expenses</b>	<b>Deductions and Other Adjustments</b>	<b>Balance at End of Period</b>
<b>2006</b>				
Allowance for doubtful accounts	\$ 136,050	\$ 51,256	\$ 70,495	\$ 116,811
Allowance for inventory obsolescence	453,369	99,234	146,640	405,963
Deferred income tax asset valuation allowance	1,415,401	339,821	—	1,755,222
<b>2005</b>				
Allowance for doubtful accounts	\$ 210,914	\$ (60,971)	\$ 13,893	\$ 136,050
Allowance for inventory obsolescence	620,538	218,269	385,438	453,369
Deferred income tax asset valuation allowance	1,335,907	79,494	—	1,415,401
<b>2004</b>				
Allowance for doubtful accounts	\$ 199,102	\$ 123,809	\$ 111,997	\$ 210,914
Allowance for inventory obsolescence	374,665	425,127	179,253	620,538
Deferred income tax asset valuation allowance	1,139,875	196,032	—	1,335,907

Pursuant to the requirements of Section 13 or 15(d) 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, on March 10, 2007.

## **ACME UNITED CORPORATION**

(Registrant)

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

## EXHIBIT 21

### PARENTS AND SUBSIDIARIES

The Company was organized as a partnership in 1867 and incorporated in 1882 under the laws of the State of Connecticut as The Acme Shear Company. The corporate name was changed to Acme United Corporation in 1971.

There is no parent of the registrant.

Registrant has the following subsidiaries, all of which are totally held:

<b>Name</b>	<b>Country of Incorporation</b>
Acme United Limited	Canada
Acme United Europe GmbH	Germany
Acme United (Asia Pacific) Limited	Hong Kong

All subsidiaries are active and included in the consolidated financial statements.

## EXHIBIT 23

### Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-84499, 33-98918, 333-26737, 333-70346, and 333-126478) pertaining to the Acme United Corporation Amended and Restated Stock Option Plan, the Registration Statements (Form S-8 Nos. 333-84505, 333-26739, 333-70348, and 333-126478) pertaining to the Acme United Corporation Non-Salaried Director Stock Option Plan and the Registration Statement (Form S-8 No. 333-84509) pertaining to the Acme United Corporation Deferred Compensation Plan for Directors and Acme United Corporation Deferred Compensation Plan for Walter C. Johnsen of our report dated March 9, 2007, with respect to the consolidated financial statements and schedule of Acme United Corporation and subsidiaries included in the Annual Report (Form 10-K) for the year ended December 31, 2006.

/s/ ERNST & YOUNG LLP

Hartford, Connecticut

March 9, 2007



## Exhibit 31.1

**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 annual report on Form 10-K for the annual period ended December 31, 2006 (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: March 14, 2007

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.

## Exhibit 31.2

**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 annual report on Form 10-K for the annual period ended December 31, 2006 (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/ PAUL G. DRISCOLL    

Paul G. Driscoll  
Vice President, Chief Financial Officer, Secretary and Treasurer

Dated: March 14, 2007

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.

## Exhibit 32.1

### **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 annual report on Form 10-K 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)) 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) 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
- (c) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: March 14, 2007

## Exhibit 32.2

### **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 Annual Report on Form 10-K 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)) 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) 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
- (c) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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, Chief Financial Officer, Secretary and Treasurer

Dated: March 14, 2007





## Officers

### Walter C. Johnsen

Chairman and Chief Executive Officer

### Brian S. Olschan

President and Chief Operating Officer

### Paul G. Driscoll

Vice President and  
Chief Financial Officer,  
Secretary and Treasurer

### James A. Benkovic

Senior Vice President—Global Sales

### Larry H. Buchtman

Vice President—Operations  
and Technology

## International Key Management

### Harry G. Wanless

General Manager,  
Acme United Limited  
(Canada)

### Dennis Liang

General Manager,  
Acme United (Asia Pacific) Limited  
(Hong Kong)

### Willi Engelsberg

Managing Director  
Acme United Europe, GmbH  
(Germany)

## Directors

### Rex L. Davidson

President and CEO  
Goodwill Industries of Greater New  
York and New Jersey

### Walter C. Johnsen

Chairman and Chief Executive Officer  
Acme United Corporation

### Gary D. Penisten

Chairman of the Board Emeritus  
Acme United Corporation

### George R. Dunbar

President, Dunbar Associates

### Susan H. Murphy

Vice President for Student  
and Academic Services  
Cornell University

### Stephen Spinelli, Jr.

Provost for Entrepreneurship  
and Global Management  
Babson College

### Richmond Y. Holden, Jr.

President and Chief Executive Officer  
J.L. Hammett Co.

### Brian S. Olschan

President and Chief Operating Officer  
Acme United Corporation

### Stevenson E. Ward III

Vice President and  
Chief Financial Officer  
Triton Thalassic Technologies, Inc.

## Corporate Offices

Acme United Corporation  
60 Roundhill Road  
Fairfield, CT 06824

## Stock Listing

The stock of Acme United Corporation  
is traded on the American Stock  
Exchange under the symbol ACU

## Annual Meeting

will be held at 11 a.m. on  
Monday, April 23, 2007 at  
The American Stock Exchange  
86 Trinity Place, New York, NY 10006

## Transfer Agent

American Stock Transfer Company  
40 Wall Street, New York, NY 10005

## Counsel

Brody, Wilkinson and Ober, P.C.  
Southport, CT

## Auditors

Ernst & Young LLP  
Hartford, CT