

ACME UNITED CORP  
Form 10-Q  
November 12, 2010  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

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

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Commission file number 001-07698

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

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|                                                                                  |                                                       |
|----------------------------------------------------------------------------------|-------------------------------------------------------|
| CONNECTICUT<br>(State or other jurisdiction of incorporation or<br>organization) | 06-0236700<br>(I.R.S. Employer Identification<br>No.) |
|----------------------------------------------------------------------------------|-------------------------------------------------------|

|                                                                                           |                     |
|-------------------------------------------------------------------------------------------|---------------------|
| 60 ROUND HILL ROAD, FAIRFIELD,<br>CONNECTICUT<br>(Address of principal executive offices) | 06824<br>(Zip Code) |
|-------------------------------------------------------------------------------------------|---------------------|

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T ( 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit

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and post such files). Yes ☐ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒

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

As of November 5, 2010 the registrant had outstanding 3,061,837 shares of its \$2.50 par value Common Stock.

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ACME UNITED CORPORATION

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

|                                           | September 30,<br>2010<br>(unaudited) | December 31,<br>2009<br>(Note 1) |
|-------------------------------------------|--------------------------------------|----------------------------------|
| <b>ASSETS</b>                             |                                      |                                  |
| Current assets:                           |                                      |                                  |
| Cash and cash equivalents                 | \$ 7,232                             | \$ 6,519                         |
| Accounts receivable, less allowance       | 14,943                               | 10,704                           |
| Inventories:                              |                                      |                                  |
| Finished goods                            | 19,559                               | 16,337                           |
| Work in process                           | 382                                  | 97                               |
| Raw materials and supplies                | 31                                   | 966                              |
|                                           | 19,972                               | 17,400                           |
| Prepaid expenses and other current assets | 1,174                                | 1,133                            |
| Total current assets                      | 43,321                               | 35,756                           |
| Property, plant and equipment:            |                                      |                                  |
| Land                                      | 164                                  | 172                              |
| Buildings                                 | 2,463                                | 2,558                            |
| Machinery and equipment                   | 8,695                                | 8,170                            |
|                                           | 11,322                               | 10,900                           |
| Less accumulated depreciation             | 9,197                                | 8,812                            |
|                                           | 2,126                                | 2,088                            |
| Note receivable                           | 1,852                                | 1,891                            |
| Other assets                              | 2,471                                | 2,574                            |
| Total assets                              | \$ 49,769                            | \$ 42,309                        |

See notes to condensed consolidated financial statements.

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

|                                                                                                                                                                   | September 30,<br>2010<br>(unaudited) | December 31,<br>2009<br>(Note 1) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------------------|
| <b>LIABILITIES</b>                                                                                                                                                |                                      |                                  |
| Current liabilities:                                                                                                                                              |                                      |                                  |
| Accounts payable                                                                                                                                                  | \$ 4,490                             | \$ 3,546                         |
| Other accrued liabilities                                                                                                                                         | 2,925                                | 3,257                            |
| Total current liabilities                                                                                                                                         | 7,415                                | 6,803                            |
| Bank debt                                                                                                                                                         | 15,420                               | 9,154                            |
| Other                                                                                                                                                             | 1,721                                | 1,811                            |
| Total liabilities                                                                                                                                                 | 24,556                               | 17,768                           |
| <b>STOCKHOLDERS' EQUITY</b>                                                                                                                                       |                                      |                                  |
| Common stock, par value \$2.50:<br>authorized 8,000,000 shares;<br>issued - 4,361,774 shares in 2010<br>and 4,313,024 shares in 2009,<br>including treasury stock | 10,903                               | 10,783                           |
| Additional paid-in capital                                                                                                                                        | 4,489                                | 4,208                            |
| Retained earnings                                                                                                                                                 | 22,454                               | 20,508                           |
| Treasury stock, at cost - 1,305,237 shares<br>in 2010 and 1,155,165 shares in 2009                                                                                | (11,711 )                            | (10,144 )                        |
| Accumulated other comprehensive income:                                                                                                                           |                                      |                                  |
| Translation adjustment                                                                                                                                            | 212                                  | 321                              |
| Unrecognized pension costs                                                                                                                                        | (1,134 )                             | (1,134 )                         |
|                                                                                                                                                                   | (922 )                               | (813 )                           |
| Total stockholders' equity                                                                                                                                        | 25,213                               | 24,541                           |
| Total liabilities and stockholders' equity                                                                                                                        | \$ 49,769                            | \$ 42,309                        |

See notes to condensed consolidated financial statements.

ACME UNITED CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

(all amounts in thousands, except share and per share amounts)

|                                                                                                                  | Three Months Ended<br>September 30 |           | Nine Months Ended<br>September 30 |           |
|------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------|-----------------------------------|-----------|
|                                                                                                                  | 2010                               | 2009      | 2010                              | 2009      |
| Net sales                                                                                                        | \$ 16,083                          | \$ 15,269 | \$ 49,789                         | \$ 45,727 |
| Cost of goods sold                                                                                               | 10,426                             | 9,771     | 31,468                            | 28,827    |
| Gross Profit                                                                                                     | 5,657                              | 5,498     | 18,321                            | 16,900    |
| Selling, general and<br>administrative expenses                                                                  | 5,000                              | 4,864     | 15,418                            | 14,166    |
| Operating income                                                                                                 | 657                                | 634       | 2,903                             | 2,734     |
| Non-operating items:                                                                                             |                                    |           |                                   |           |
| Interest:                                                                                                        |                                    |           |                                   |           |
| Interest expense                                                                                                 | 86                                 | 38        | 217                               | 124       |
| Interest income                                                                                                  | (39 )                              | (31 )     | (112 )                            | (97 )     |
| Interest expense, net                                                                                            | 47                                 | 7         | 105                               | 27        |
| Other (income) expense, net                                                                                      | (3 )                               | (461 )    | 36                                | (480 )    |
| Total other expense (income)                                                                                     | 44                                 | (454 )    | 141                               | (453 )    |
| Income before income taxes                                                                                       | 613                                | 1,088     | 2,762                             | 3,187     |
| Income tax expense                                                                                               | 1                                  | 360       | 371                               | 1,076     |
| Net income                                                                                                       | \$ 612                             | \$ 728    | \$ 2,391                          | \$ 2,111  |
| Basic earnings per share                                                                                         | \$ 0.20                            | \$ 0.22   | \$ 0.76                           | \$ 0.64   |
| Diluted earnings per share                                                                                       | \$ 0.19                            | \$ 0.22   | \$ 0.74                           | \$ 0.63   |
| Weighted average number of<br>common shares outstanding-<br>denominator used for basic per<br>share computations | 3,111                              | 3,290     | 3,147                             | 3,318     |
| Weighted average number of dilutive stock options<br>outstanding                                                 | 80                                 | 63        | 71                                | 45        |
| Denominator used for diluted<br>per share computations                                                           | 3,192                              | 3,353     | 3,218                             | 3,363     |
| Dividends declared per share                                                                                     | \$ 0.06                            | \$ 0.05   | \$ 0.16                           | \$ 0.15   |

See notes to condensed consolidated financial statements.

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

|                                                                                             | 2010     | Nine Months Ended<br>September 30, | 2009     |
|---------------------------------------------------------------------------------------------|----------|------------------------------------|----------|
| Operating Activities:                                                                       |          |                                    |          |
| Net income                                                                                  | \$ 2,391 |                                    | \$ 2,111 |
| Adjustments to reconcile net income<br>to net cash (used) provided by operating activities: |          |                                    |          |
| Depreciation                                                                                | 572      |                                    | 594      |
| Amortization                                                                                | 86       |                                    | 85       |
| Stock compensation expense                                                                  | 280      |                                    | 214      |
| Change in estimated cost of environmental<br>remediation                                    | -        |                                    | (460 )   |
| Changes in operating assets and liabilities:                                                |          |                                    |          |
| Accounts receivable                                                                         | (4,302 ) |                                    | (983 )   |
| Inventories                                                                                 | (2,678 ) |                                    | 4,275    |
| Prepaid expenses and other current assets                                                   | (7 )     |                                    | (18 )    |
| Accounts payable                                                                            | 979      |                                    | (400 )   |
| Other accrued liabilities                                                                   | (315 )   |                                    | (39 )    |
| Total adjustments                                                                           | (5,385 ) |                                    | 3,268    |
| Net cash (used) provided by operating activities                                            | (2,994 ) |                                    | 5,379    |
| Investing Activities:                                                                       |          |                                    |          |
| Purchase of property, plant, and equipment                                                  | (644 )   |                                    | (443 )   |
| Purchase of patents and trademarks                                                          | (79 )    |                                    | (81 )    |
| Net cash used by investing activities                                                       | (723 )   |                                    | (524 )   |
| Financing Activities:                                                                       |          |                                    |          |
| Net (repayment) borrowing of bank debt                                                      | 6,266    |                                    | (2,395 ) |
| Proceeds from issuance of common stock                                                      | 123      |                                    | 44       |
| Distributions to stockholders                                                               | (472 )   |                                    | (500 )   |
| Purchase of treasury stock                                                                  | (1,566 ) |                                    | (868 )   |
| Net cash provided (used) by financing activities                                            | 4,350    |                                    | (3,719 ) |
| Effect of exchange rate changes                                                             | 80       |                                    | 238      |
| Net change in cash and cash equivalents                                                     | 713      |                                    | 1,374    |
| Cash and cash equivalents at beginning of period                                            | 6,519    |                                    | 5,225    |
| Cash and cash equivalents at end of period                                                  | \$ 7,232 |                                    | \$ 6,599 |

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 — Basis of Presentation

In the opinion of management, the accompanying condensed consolidated financial statements include all adjustments necessary to present fairly the financial position, results of operations and cash flows of Acme United Corporation (the "Company"). These adjustments are of a normal, recurring nature. However, the financial statements do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the Company's Annual Report on Form 10-K. Please refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for such disclosures. The condensed consolidated balance sheet as of December 31, 2009 was derived from the audited consolidated balance sheet as of that date. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto, included in the Company's 2009 Annual Report on Form 10-K.

The Company has evaluated events and transactions subsequent to September 30, 2010 and through the date these consolidated financial statements were included in this Form 10-Q and filed with the SEC.

Note 2 — Contingencies

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

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

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

Remediation work on the project began in the third quarter of 2009 and a major portion of the work has been completed. At September 30, 2010, the Company had approximately \$470,000 remaining in its accrual for environmental remediation, of which approximately \$150,000 was classified as a current liability at that date.

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

In connection with the remediation work completed in the third quarter of 2009, the environmental study was updated by the independent environmental consulting firm. The results of this study produced a remedial action plan with a more narrow scope from the original plan, which allowed the Company, along with its environmental consulting firm, to refine the original project plan resulting in a new estimate of costs to complete the project. The change in estimated costs resulted in a benefit of approximately \$460,000, which the Company recorded as other non-operating income during the three months ended September 30, 2009.

The change in the accrual for environmental remediation for the nine months ended September 30, 2010 follows (in thousands):

| Balance<br>at<br>December<br>31, 2009 | Payments | Balance at<br>September<br>30, 2010 |
|---------------------------------------|----------|-------------------------------------|
| \$ 681                                | \$ (208) | \$ 473                              |

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

#### Note 3 — Pension

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

|                                          | Three Months Ended September 30, |          | Nine Months Ended September 30, |          |
|------------------------------------------|----------------------------------|----------|---------------------------------|----------|
|                                          | 2010                             | 2009     | 2010                            | 2009     |
| Components of net periodic benefit cost: |                                  |          |                                 |          |
| Interest cost                            | \$ 31                            | \$ 38    | \$ 92                           | \$ 114   |
| Service cost                             | 6                                | \$ 6     | 19                              | \$ 19    |
| Expected return on plan assets           | (24 )                            | \$ (24 ) | (72 )                           | \$ (71 ) |
| Amortization of prior service costs      | 2                                | \$ 2     | 7                               | \$ 7     |
| Amortization of actuarial loss           | 39                               | \$ 42    | 116                             | \$ 126   |
|                                          | \$ 54                            | \$ 65    | \$ 162                          | \$ 195   |

The Company's funding policy with respect to its qualified plan is to contribute at least the minimum amount required by applicable laws and regulations. In 2010, the Company is required to contribute approximately \$270,000. Through September 30, 2010, the Company has contributed approximately \$230,000 and expects to make additional contributions to the plan as required during the remainder of the year.

#### Note 4 —Debt and Shareholders Equity

The Company's revolving loan agreement, as amended, provides for borrowings up to \$18 million, with all principal amounts outstanding thereunder required to be repaid in a single amount on February 1, 2012. In addition, the Company's revolving loan agreement requires monthly interest payments. As of September 30, 2010 and December 31, 2009, the Company had outstanding borrowings of \$15,420,000 and \$9,154,000, respectively, under the revolving loan agreement.

During the three and nine months ended September 30, 2010, the Company issued 25,000 and 49,050 shares of common stock upon the exercise of outstanding stock options and received total proceeds of \$72,800 and \$122,925, respectively. During the three and nine months ended September 30, 2010, the Company repurchased 84,622 and 150,072 shares of common stock for its treasury. These shares were purchased at fair market value, with a total cost

to the Company of \$848,841 and \$1,566,290, respectively.

## Note 5— Segment Information

The Company reports 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 consist of (1) United States; (2) Canada and (3) Europe. The activities of the Company's Asian operating segment are closely linked to those of the U.S. operating segment; accordingly, management reviews the financial results of both segments on a consolidated basis, and the results of the Asian operating segment have been aggregated with the results of the United States operating segment to form one reportable segment called the "United States operating segment". Each reportable segment derives its revenue from the sales of cutting devices, measuring instruments and safety products for school, office, home and industrial use.

The chief operating decision maker evaluates the performance of each operating segment based on segment revenues and operating income. Segment amounts below are presented after converting to U.S. dollars and consolidating eliminations.

Financial data by segment:  
(in thousands)

|                                  | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |           |
|----------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                  | 2010                                | 2009      | 2010                               | 2009      |
| Sales to external customers:     |                                     |           |                                    |           |
| United States                    | \$ 12,220                           | \$ 11,145 | \$ 36,845                          | \$ 34,520 |
| Canada                           | 1,765                               | 1,770     | 6,214                              | 5,680     |
| Europe                           | 2,098                               | 2,354     | 6,730                              | 5,527     |
| Consolidated                     | \$ 16,083                           | \$ 15,269 | \$ 49,789                          | \$ 45,727 |
| Operating income (loss):         |                                     |           |                                    |           |
| United States                    | \$ 583                              | \$ 593    | \$ 2,462                           | \$ 2,833  |
| Canada                           | 185                                 | 80        | 703                                | 325       |
| Europe                           | (111 )                              | (39 )     | (262 )                             | (424 )    |
| Consolidated                     | \$ 657                              | \$ 634    | \$ 2,903                           | \$ 2,734  |
| Interest expense, net            | 47                                  | 7         | 105                                | 27        |
| Other (income) expense, net      | (3 )                                | (461 )    | 36                                 | (480 )    |
| Consolidated income before taxes | \$ 613                              | \$ 1,088  | \$ 2,761                           | \$ 3,187  |

Assets by segment:

|               | September 30,<br>2010 | December 31,<br>2009 |
|---------------|-----------------------|----------------------|
| United States | \$ 37,940             | \$ 31,377            |
| Canada        | 5,885                 | 5,606                |
| Europe        | 5,944                 | 5,326                |
| Consolidated  | \$ 49,769             | \$ 42,309            |

# Note 6 – Stock Based Compensation

The Company recognizes share-based compensation at fair value of the equity instrument on the grant date. Compensation expense is recognized over the required service period. Share-based compensation expense was \$90,866 and \$67,618 for the quarters ended September 30, 2010 and September 30, 2009, respectively. Share-based compensation expense was \$280,066 and \$214,006 for the nine months ended September 30, 2010 and September 30, 2009, respectively. During the three months ended September 30, 2010, the Company issued a total of 114,000 options with a weighted average fair value of \$2.52 per share. During the nine months ended September 30, 2010 the Company issued a total of 202,000 options with a weighted average fair value of \$2.71. The Company did not issue options during the three months ended September 30, 2009. During the nine months ended September 30, 2009, the Company issued 151,000 options with a weighted average fair value of \$2.34 per share. The assumptions used to value option grants for the three and nine months ended September 30, 2010 and September 30, 2009 are as follows:

|                        | Three months ended<br>September 30, |      |    | Nine months ended<br>September 30, |                  |   |
|------------------------|-------------------------------------|------|----|------------------------------------|------------------|---|
|                        | 2010                                | 2009 |    | 2010                               | 2009             |   |
| Expected life in years | 5                                   | NA   |    | 5                                  | 5                |   |
| Interest rate          | 1.55                                | %    | NA | 1.55% -<br>2.54                    | 1.82% -<br>2.95  | % |
| Volatility             | 0.335                               | NA   |    | 0.335 –<br>0.359                   | 0.384 –<br>0.386 |   |
| Dividend yield         | 2.3                                 | %    | NA | 1.8 - 2.3                          | 2.5              | % |

As of September 30, 2010, there was a total of \$741,000 of unrecognized compensation cost related to non-vested share –based payments granted to the Company’s employees. The remaining unamortized expense is expected to be recognized over a weighted average period of approximately 3 years.

# Note 7 – Comprehensive Income

Comprehensive income for the three and nine months ended September 30, 2010 and September 30, 2009 consisted of the following (in thousands):

|                                          | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                          | 2010                                | 2009     | 2010                               | 2009     |
| Net income                               | \$ 612                              | \$ 728   | \$ 2,391                           | \$ 2,111 |
| Other comprehensive income /<br>(loss) - |                                     |          |                                    |          |
| Foreign currency translation             | 547                                 | 530      | (58 )                              | 717      |
| Comprehensive income                     | \$ 1,160                            | \$ 1,258 | \$ 2,333                           | \$ 2,829 |

# Note 8 – Fair Value Measurements

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and bank debt are a reasonable estimate of fair value because of their short term nature. The carrying value of the Company’s note receivable approximates fair value. Fair value was determined using a discounted cash flow analysis.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF

### FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Item 2. – Management's Discussion and Analysis of Financial Condition and Results of Operations

##### Forward-Looking Information

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

These forward-looking statements include statements of the Company's plans, objectives, expectations, estimates and intentions, which are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, in addition to others not listed, could cause the Company's actual results to differ materially from those expressed in forward looking statements: the strength of the domestic and local economies in which the Company conducts operations, the impact of current uncertainties in global economic conditions and the ongoing financial crisis affecting the domestic and foreign banking systems and financial markets, including the impact on the Company's suppliers and customers, the continuing labor shortage in southeast China, currency fluctuations, changes in client needs and consumer spending habits, the impact of competition and technological change on the Company, and the Company's ability to manage its growth effectively, including its ability to successfully integrate any business which it might acquire. A more detailed discussion of risk factors is set forth in Item 1A, "Risk Factors", included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. All forward-looking statements in this report are based upon information available to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise, except as required by law.

##### Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

##### Results of Operations

###### Net sales

Consolidated net sales for the three months ended September 30, 2010 were \$16,083,000 compared with \$15,269,000 in the same period in 2009, a 5% increase (6% in local currency). Consolidated net sales for the nine months ended September 30, 2010 were \$49,789,000, compared with \$45,727,000 for the same period in 2009, a 9% increase (8% in local currency). Net sales for the three and nine months ended September 30, 2010 in the U.S. segment increased 10% and 7%, respectively, compared with the same periods in 2009. The increases in net sales for the three and nine months ended September 30, 2010 was primarily due to higher sales of the iPoint pencil sharpener, and growth with mass market customers. Net sales in Canada for the three months ended September 30, 2010 remained constant in U.S. dollars but declined 5% in local currency. Net sales in Canada for the nine months ended September 30, 2010 increased 9% in U.S. dollars but decreased approximately 2% in local currency compared with the same periods in 2009. The decline in net sales in Canada for the three and nine months was primarily due to soft demand for the Company's products in the commercial channel. Net sales in Europe for the three months ended September 30, 2010 decreased 11% in U.S. dollars (1% in local currency) compared with the same period in 2009. The decline in sales for the third quarter 2010 sales was primarily due to the timing of mass market promotional sales which took place in the

prior quarter. Net sales in Europe for the nine months ended September 30, 2010 increased 22% in U.S. dollars (29% in local currency) compared with the same period in 2009. The increase in net sales in Europe for the nine month period is primarily due to market share gains in the mass market and office channel.

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

### Gross profit

Gross profit for the three months ended September 30, 2010 was \$5,657,000 (35.2% of net sales) compared to \$5,498,000 (36.0% of net sales) for the same period in 2009. Gross profit for the nine months ended September 30, 2010 was \$18,321,000 (36.8% of net sales) compared to \$16,900,000 (36.9% of net sales) in the same period in 2009.

### Selling, general and administrative expenses

Selling, general and administrative ("SG&A") expenses for the three months ended September 30, 2010 were \$5,000,000 (31.1% of net sales) compared with \$4,864,000 (31.8% of net sales) for the same period of 2009, an increase of \$136,000. SG&A expenses for the nine months ended September 30, 2010 were \$15,418,000 (31.0% of net sales) compared with \$14,166,000 (31.0% of net sales) in the comparable period of 2009, an increase of \$1,252,000. The increase in SG&A expenses for the three and nine months ended September 30, 2010, compared to the same periods in 2009, was primarily the result of higher freight expense and sales commissions as a result of higher sales as well as higher personnel related expenses.

### Operating income

Operating income for the three months ended September 30, 2010 was \$657,000 compared with \$634,000 in the same period of 2009. Operating income for the nine months ended September 30, 2010 was \$2,903,000 compared to \$2,734,000 in the same period of 2009. Operating income in the U.S. segment remained relatively constant for the three months and declined by \$371,000 for the nine months, compared to the same periods in 2009. The decline in operating income for the nine months is principally due to higher SG&A expenses and higher air freight costs. Operating income in the Canadian segment increased by \$105,000 and \$378,000 for the three and nine months, respectively, compared to the same periods in 2009. The increase in operating income in Canada is principally due to the improved gross margins as a result of a stronger Canadian dollar which reduces the cost of goods. The operating loss in Europe increased by \$72,000 for the three months and decreased by \$162,000 for the nine months ended September 30, 2010 compared to the same periods in 2009. The improvement in the operating loss for the nine month period is principally due to the increased sales in Europe.

### Interest expense, net

Interest expense, net for the three months ended September 30, 2010 was \$47,000, compared with \$7,000 for the same period of 2009, a \$40,000 increase. Interest expense, net for the nine months ended September 30, 2010 was \$105,000 compared to \$27,000 for the same period in 2009, a \$78,000 increase. The increase in interest expense, net for both the three and nine months ended September 30, 2010 was primarily the result of higher interest rates on the Company's debt outstanding under its revolving loan agreement as well as higher average borrowings during those periods.

### Other expense (income), net

Net other income was \$3,000 in the three months ended September 30, 2010 compared to net other income of \$461,000 in the same period of 2009. Net other expense was \$36,000 in the first nine months of 2010 compared to net other income of \$480,000 in the first nine months of 2009. The decreases in other expense (income), net for the three and nine months ended September 30, 2010 was primarily due to the one time gain recorded in the third quarter of 2009 of approximately \$460,000 which resulted from completion below estimated costs of a major portion of the remediation of the Bridgeport property which was sold in December 2008.

### Income taxes

The effective tax rate for the three and nine month periods ended September 30, 2010 was 0% and 13%, respectively, compared to 33% and 34%, respectively, in the same periods of 2009. The decrease in the effective tax rate for the three and nine months ended September 30, 2010 were the result of tax credits of approximately \$120,000 for the three months and approximately \$300,000 for the nine months ended September 30, 2010 related to the donation of land to the city of Bridgeport, CT. The decrease in the effective tax rate was also caused in part by a higher proportion of earnings in foreign jurisdictions with a lower tax rate.

## Financial Condition

## Liquidity and Capital Resources

During the first nine months of 2010, working capital increased approximately \$7.0 million compared to December 31, 2009. Inventory increased by approximately \$2.6 million at September 30, 2010 compared to December 31, 2009. Inventory turnover, calculated using a twelve month average inventory balance, was 2.2 at September 30, 2010 compared to 1.9 at December 31, 2009. Accounts receivable increased by approximately \$4.2 million at September 30, 2010 compared to December 31, 2009. The increase in accounts receivable was related to the increase in sales as well as the timing of customer payments. The average number of days sales outstanding in accounts receivable was 63 days at September 30, 2010 compared to 61 days at December 31, 2009.

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

|                                | September 30, 2010 | December 31, 2009 |
|--------------------------------|--------------------|-------------------|
| Working capital                | \$ 35,907          | \$ 28,953         |
| Current ratio                  | 5.84               | 5.26              |
| Long term debt to equity ratio | 61.2               | % 37.2 %          |

During the first nine months of 2010, total debt outstanding under the Company's revolving credit facility, increased by \$6.3 million compared to total debt at December 31, 2009. As of September 30, 2010, \$15,420,000 was outstanding and \$2,580,000 was available for borrowing under the credit facility. The increase in borrowings under the credit facility was primarily related to the increase in working capital and the repurchase of common shares for treasury.

On January 26, 2010, the Company modified its revolving loan agreement with Wachovia Bank; the amendments include (a) a decrease in the maximum borrowing amount from \$20 million to \$18 million; (b) an extension of the maturity date of the loan from September 30, 2010 to February 1, 2012; (c) an increase in the interest rate to LIBOR plus 2% (from LIBOR plus 7/8%) and (d) modification of certain covenant restrictions. Funds borrowed under the credit facility may be used for working capital, general operating expenses, share repurchases and certain other purposes.

As discussed in Note 2, at September 30, 2010 the Company had approximately \$473,000 remaining in its accrual for environmental remediation, with approximately \$150,000 classified as a current liability. The Company intends to use cash flow from operations or borrowings under its revolving credit facility to pay for these costs. The Company does not believe that payment of such remediation costs will have a material adverse affect on the Company's ability to implement its business plan. In addition, the Company has provided the buyer with a \$2.0 million mortgage loan at 6 percent interest. Payments of principal and interest on the mortgage are due monthly and will also be used fund the remediation.

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Not applicable.

Item 4T. Controls and Procedures

(a) Evaluation of Internal Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2010, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1 — Legal Proceedings

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

Item 1A – Risk Factors

See Risk Factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

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

None.

Item 3. — Defaults Upon Senior Securities

None.

Item 4 — Removed and Reserved

Item 5 — Other Information

None.

Item 6 — Exhibits

Documents filed as part of this report.

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

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

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

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

SIGNATURES

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

ACME UNITED CORPORATION

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

Dated: November 12, 2010

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

Dated: November 12, 2010