ACME UNITED CORP
Form 10-K
March 10, 2009

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

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

For the fiscal year ended December 31, 2008

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	06-0236700
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
60 Round Hill Road Fairfield, Connecticut	06824
(Address of principal executive offices)	(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	Name of each exchange on which registered
$2.50 par value Common Stock	NYSE AMEX

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 |X|

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 |X|

Indicate by check mark whether the registrant (l) 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 |X| 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 |X| NO |_|

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act. YES |_| NO |X|

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 |_|	Smaller Reporting Company |X|

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 $39,690,678. Registrant had 3,353,368 shares outstanding as of March 2, 2009 of its $2.50 par value Common Stock.

Documents Incorporated By Reference

(1) Proxy Statement for the annual meeting scheduled for April 20, 2009 is incorporated into the Company's 2008 Annual Report on Form 10-K, Part III.

(2)

(3)

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, hardware 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 operations in Asia consist of sourcing, quality control and sales activities. Net sales in 2008 were: United States (including Asia) - $53.5 million, Canada - $8.1 million, and Europe - $7.1 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. 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(TM), Clauss(TM) and PhysiciansCare(TM).

Principal Products

Cutting

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 2007 and 2008 included Westcott(TM) Ultra Soft Handle anti-microbial scissors, a new family of KleenEarth recycled scissors, proprietary titanium-bonded scissors and trimmers, mechanical-assisted scissors, a new line of Clauss(TM) hot forged scissors and high performance titanium shears, and electric and manual iPoint pencil sharpeners. Other new Clauss(TM) products sold in 2007 and 2008 included True Professional(TM) sewing shears, utility knives, chef shears, hobby knives and craft implements and the titanium-bonded spring-assisted pruner. Also in 2008 the Company began shipping the Clauss(TM) Speedpak utility knife with replaceable cartridges.

Measuring

Principal products within the measuring instrument category are rulers, math tools and tape measures. Products introduced in 2008 included Westcott(TM) anti-microbial rulers and math kits. Products introduced in 2007 included Westcott(TM) branded erasers, compasses and protractors.

Safety

Principal products within the safety product category are first aid kits, personal protection products and over-the-counter medication refills. Products introduced in 2008 included PhysiciansCare(TM) Ready Care Kits and Triage First Aid Stations. New PhysiciansCare(TM) products introduced in 2007 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(TM) First Aid Kit.

(4)

Product Development

Our strong commitment to understanding our consumers and defining products that fulfill their needs through innovation drives our product development strategy, which we believe is and will be a key contributor to our success. The Company incurred research and development costs of $254,685 in 2008 and $236,064 in 2007.

Intellectual Property

The Company has many patents and trademarks that are important to its business. The Company's success, to some extent, depends on its ability to maintain patent protection for its products, to preserve its proprietary technology and to operate without infringing upon the patents or proprietary rights of others. The Company generally files patent applications in the United States and foreign countries where patent protection for its technology is appropriate and available. The Company also considers its trademarks important to the success of its business. The more significant trademarks include Westcott, Clauss and PhysiciansCare.

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, mass market retailers and hardware chains. In 2008 the Company had three customers that individually exceeded 10%

of consolidated net sales and two customers that individually exceeded 10% of consolidated net sales in 2007 and 2006. Net sales to these customers amounted to approximately 19%, 15% and 10% in 2008, 17% and 10% in 2007 and 19% and 10%, in 2006. Sales to no other customer exceeded 10% of consolidated net sales in 2008, 2007 and 2006.

Competition

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.

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

Compliance with Environmental Laws - 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 that no major adverse financial impact is expected to result from compliance with current environmental rules and regulations. In December 2008, the Company sold property it owned in Bridgeport, CT. Under the terms of the sales agreement, the Company is responsible for the environmental remediation on the property in accordance with the Connecticut Transfer Act. Please refer to Note 17 of the Notes to Consolidated Financial Statements for additional information regarding the sale of the property.

Employment - As of December 31, 2008, the Company employed 137 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.

AVAILABLE INFORMATION

The Company files its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 with the SEC electronically. The public may read or copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is http://www.sec.gov.

You may obtain a free copy of the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports on the Company's website at http://www.acmeunited.com or by contacting the Investor Relations Department at the Company's corporate offices by calling (203) 254-6060. Such reports and other information are made available as soon as reasonably practicable after such material is filed with or furnished to the SEC.

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; and

- 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 end-user demand can be difficult to predict. Low end-user demand would negatively affect orders the Company receives from distributors and other principal customers which could, in turn adversely affect the Company's revenues in any fiscal period. 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 could 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 of such distributors or retailers will continue their relationships 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.

ADVERSE CONDITIONS IN THE GLOBAL ECONOMY AND DISRUPTION OF FINANCIAL MARKETS COULD NEGATIVELY IMPACT OUR ABILITY TO OBTAIN FINANCING.
Financial markets in the United States, Europe and Asia have experienced significant disruption in recent months, including, among other things, reduced consumer spending, fluctuations in foreign currency exchange rates significant volatility in security prices, severely diminished liquidity and credit availability, and declines in asset valuation. While currently these conditions have not impaired our ability to access credit markets and finance our operations, there can be no assurance that there will not be a further deterioration in financial markets in major economies.

THE CURRENT GLOBAL ECONOMIC CRISIS COULD NEGATIVELY IMPACT OUR BUSINESS.
The current global economic crisis could adversely affect our customers and our suppliers and businesses such as ours. In addition, they could have a variety of negative effects on the Company such as reduction in revenues, increased costs, lower gross margin percentages, increased allowances for doubtful accounts and/or write-offs of accounts receivable and could otherwise have material adverse effects on our business, results of operations, financial condition and cash flows.

LOSS OF A MAJOR CUSTOMER COULD RESULT IN A DECREASE IN THE COMPANY'S FUTURE SALES AND EARNINGS.
In 2008 the Company had three customers that individually exceeded 10% of consolidated net sales and two customers in 2007 and 2006 that individually exceeded 10% of consolidated net sales. Net sales to these customers amounted to approximately 19%, 15% and 10% in 2008, 17% and 10% in 2007 and 19% and 10%, in 2006. The Company anticipates that a limited number of customers may account for a substantial portion of its 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 the Company's future sales and earnings.

RELIANCE ON FOREIGN SUPPLIERS COULD ADVERSELY AFFECT THE COMPANY'S BUSINESS.
The Company purchases the majority of its products from foreign manufacturing partners and, as a result, its business is exposed to risks due to:

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

THE LOSS OF KEY MANAGEMENT COULD ADVERSELY AFFECT THE COMPANY'S ABILITY TO RUN ITS BUSINESS.
The Company's success depends, to a large extent, on the continued service of its 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 adversely affect its results of operations.

FAILURE TO PROTECT THE COMPANY'S PROPRIETARY RIGHTS OR THE COSTS OF PROTECTING THESE RIGHTS COULD ADVERSELY AFFECT 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 similar and/or compatible competing products. If other companies were to sell similar and/or 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 that, under current conditions, 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.

THE COMPANY 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 effect on its results of operations.

THE COMPANY IS SUBJECT TO INTENSE COMPETITION IN ALL OF THE MARKETS IN WHICH IT COMPETES.

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 shares. 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 AFFECT THE COMPANY'S FINANCIAL RESULTS AND REPUTATION.

Claims for losses or injuries allegedly 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 AFFECT ITS CASH FLOW, FINANCIAL CONDITION, OR RESULTS OF OPERATIONS.

The Company's business, historically, has experienced higher sales volume in the second and third quarters of the calendar year, when compared to the first and fourth quarters. The Company is a major supplier of products related to the "back-to-school" season, which occurs principally during the months of May, June, July and August. If this typical seasonal increase in sales of certain portions of the Company's product line does not materialize, the Company 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 the current competitive environment depends on its ability to develop and commercialize a continuing stream of innovative new products that create and maintain 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 provide 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 on 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. Please refer to Note 17 - Sale of Property for further discussion on the environmental costs related to the sale of property.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable to Smaller Reporting Companies.

ITEM 2. PROPERTIES

The Company 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, Arkansas. 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 facility owned by the Company in Solingen, Germany. The Company also leases 2,100 square feet of office space in Hong Kong, and 1,500 square feet of office space 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, 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

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

Year Ended December 31, 2008	High	Low	Dividends Declared
Fourth Quarter	$12.30	$ 5.33	$ .05
Third Quarter	14.10	12.10	.05
Second Quarter	14.87	12.92	.04
First Quarter	14.40	12.60	.04
Year Ended December 31, 2007			
Fourth Quarter	$16.84	$13.85	$ .04
Third Quarter	15.20	13.50	.04
Second Quarter	15.18	13.85	.04
First Quarter	15.69	13.30	.04

As of February 22, 2009 there were approximately 1,218 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 the following for the period 2003 to 2008: (a) the NYSE AMEX Index and (b) a peer group of companies that, like the Company, (i) are currently listed on the NYSE AMEX, and (ii) have a market capitalization of $30 million to $35 million.

The Company does not believe that 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 products or services not offered by the Company. 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 these 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.

(Printer: Insert Graph)

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN
AMONG ACME UNITED CORP.,
NYSE AMEX MARKET INDEX AND PEER GROUP INDEX

	FISCAL YEAR ENDING					
	2003	2004	2005	2006	2007	2008
ACME UNITED CORP.	100.00	292.21	261.53	272.18	271.90	136.35
PEER GROUP INDEX	100.00	106.04	97.10	97.81	59.50	16.56
NYSE AMEX MARKET INDEX	100.00	114.51	126.29	141.39	158.74	94.93

ASSUMES $100 INVESTED ON JAN. 1, 2004
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDING DEC. 31, 2008

ISSUER PURCHASES OF EQUITY SECURITIES

During 2008, the Company announced two stock repurchase programs of 150,000 shares each. These programs do not have expiration dates. During the twelve months ended December 31, 2008, the Company repurchased 235,265 shares of its common stock at an average price of $10.53, of which 89,600 were purchased under a previously announced plan and 145,665 were purchased under the plans announced in 2008. As of December 31, 2008, there were 154,335 shares that may be purchased under these stock repurchase programs.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of shares Purchased as Part of Publicly Announced Program	Maximum Numb Shares that m be Purchased the Prog
October	60,237	$10.49	60,237	105,88
November	80,304	$ 8.67	80,304	25,58
December	21,250	$ 6.95	21,250	154,33

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ITEM 6. SELECTED FINANCIAL DATA

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA
(All figures in thousands except per share data)

	2008	2007	2006	2005
Net sales	$ 68,719	$ 63,173	$ 56,863	$ 49,947
Net income	$ 4,467	$ 4,022	$ 3,886	$ 2,937
Total assets	$ 45,424	$ 42,222	$ 35,021	$ 28,194

Long-term debt, less current portion	$ 11,749	$ 10,187	$ 10,218	$ 5,577
Net income				
Per share (Basic)	$ 1.28	$ 1.14	$ 1.11	$ 0.84
Per share (Diluted)	$ 1.24	$ 1.09	$ 1.05	$ 0.78
Dividends per share	$ 0.18	$ 0.16	$ 0.12	$ 0.11

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING INFORMATION

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

These forward-looking statements include statements of the Company's plans, objectives, expectations, estimates and intentions, which are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, in addition to others not listed, could cause the Company's actual results to differ materially from those expressed in forward looking statements: the strength of the domestic and local economies in which the Company conducts operations, the impact of current uncertainties in global economic conditions and the ongoing financial crisis affecting the domestic and foreign banking system and financial markets, including the impact on the Company's suppliers and customers, changes in client needs and consumer spending habits, the impact of competition and technological change on the Company, the Company's ability to manage its growth effectively, including its ability to successfully integrate any business which it might acquire, and currency fluctuations. 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

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 the Notes to Consolidated Financial Statements. 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. Although the Company's management has used available information to make judgments on the appropriate estimates to account 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. However, historically, actual results have not been materially different than original estimates.

Revenue Recognition. The Company recognizes revenue from sales of its products when ownership transfers to the customers, which occurs either at the time of shipment or upon delivery based upon contractual terms with the customer. When the right of return exists, the Company recognizes revenue in accordance with FASB Statement No. 48, Revenue Recognition When Right of Return Exists. The Company recognizes customer program costs, including rebates, cooperative advertising, slotting fees and other sales related discounts, as a reduction to sales in accordance with EITF 01-09.

Allowance for doubtful accounts. The Company provides an allowance for doubtful accounts based upon a review of outstanding accounts receivable, historical collection information and existing economic conditions. The allowance for doubtful accounts represents estimated uncollectible accounts receivables associated with potential customer defaults on contractual obligations, usually due to potential insolvencies. The allowance includes amounts for certain customers where a risk of default has been specifically identified. In addition, the allowance includes a provision for customer defaults based on historical experience. The Company actively monitors its accounts receivable balances and its historical experience of annual accounts receivable write offs has been negligible.

Customer Rebates. Customer rebates and incentives are a common practice in the office products industry. We incur customer rebate costs to obtain favorable product placement, to promote sell-through of products and to maintain competitive pricing. Customer rebate costs and incentives, including volume rebates, promotional funds, catalog allowances and slotting fees, are accounted for as a reduction to gross sales. These costs are recorded at the time of sale and are based on individual customer contracts. Management periodically reviews accruals for these rebates and allowances, and adjusts accruals when appropriate.

Obsolete and Slow Moving Inventory. Inventories are stated at the lower of cost, determined on the first-in, first-out method, or market. A reserve is established to adjust the cost of inventory to its net realizable value. Inventory reserves are recorded for obsolete or slow moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions and specific identification of items, such as discontinued products. These estimates could vary significantly from actual requirements if future economic conditions, customer inventory levels or competitive conditions differ from expectations.

Income Taxes. Deferred tax liabilities or assets are established for temporary differences between financial and tax reporting bases and are subsequently adjusted to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is recorded to reduce deferred tax assets to an amount that is more likely than not to be realized.

Intangible Assets and Goodwill. Intangible assets with finite useful lives are recorded at cost upon acquisition and amortized over the term of the related contract, if any, or useful life, as applicable. Intangible assets held by the Company with finite useful lives include patents and trademarks. Patents and trademarks are amortized over their estimated useful life. The weighted average amortization period for intangible assets at December 31, 2008 was 14 years. The Company periodically reviews the values recorded for intangible assets to assess recoverability from future operations whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. During 2008, the net book value of the Company's intangible assets increased to $1,934,219 as of December 31, 2008, from $1,747,708 as of December 31, 2007.

Accounting for Stock-Based Compensation. The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R. Share Based Payments ("SFAS 123R"). The Company uses the Black-Scholes option - pricing model, which involves certain 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 for which vesting requirements will not be completed ("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 11 "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 2008 COMPARED WITH 2007

NET SALES

Net sales increased by $5,546,007 or 9% (8% in constant currency) in 2008 to $68,719,012 compared to $63,173,005 in 2007. The U.S. segment sales increased by $4,847,000 or 10% in 2008 compared to 2007. Sales in Canada remained relatively constant in U.S. dollars but declined 3% in local currency in 2008 compared to 2007. European sales increased by $733,000 or 12% (4% in local currency) in 2008 compared to 2007.

The increase in sales in the U.S. segment is principally the result of market share gains in all channels of distribution and market acceptance of new anti-microbial school scissors, rulers and math kits and iPoint pencil sharpeners. Sales of other new products included a new family of KleenEarth recycled scissors, the UltraSmooth(TM) spring-assisted scissors and the new Clauss(TM) high performance ExtemeEdge(TM) titanium shears. Net sales in Canada were negatively impacted by the soft demand in the overall office products market as a result of a slow down in the economy. The 4% sales increase in Europe was mainly due to higher sales of manicure items to a major European retailer and expansion in the office trade channel.

GROSS PROFIT

Gross profit was 40% of net sales in 2008 compared to 42% of net sales in 2007. The gross margin decline in 2008 was primarily due to strong growth in a highly competitive school market.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses were $20,778,093 in 2008 compared to $19,741,166 in 2007, an increase of $1,036,927. SG&A expenses were 30% of net sales in 2008 compared to 31% in 2007. Higher sales commission and freight costs associated with higher sales amounted to $200,000 of the increase. Other major contributors to the increase in SG&A expenses were the costs associated with the addition of sales, marketing and logistic personnel.

OPERATING INCOME

Operating income was $6,878,794 in 2008, compared to $6,751,764 in 2007, an increase of $127,030. Operating income in the U.S. segment declined by approximately $100,000 due to higher personnel related costs. Operating income increased in Canada by $52,000 or 7% due to improved gross margins mainly as the result of strong buying power of the Canadian dollar. The European operating loss decreased by approximately $175,000 mainly due to sales growth and improved gross margins as a result of a better product mix.

INTEREST EXPENSE, NET

Interest expense for 2008 was $395,548, compared to $655,466 for 2007, a decrease of $259,898. The decrease in interest expense was primarily the result of lower average interest rates under the Company's bank revolving loan agreement.

OTHER INCOME, NET

Net other income was $192,855 in 2008 compared to $206,357 in 2007. Net other income in 2008 included a gain on the sale of our Bridgeport property of approximately $265,000, offset by losses from foreign currency transactions.

INCOME TAX

The effective tax rate in 2008 was 33%, compared to 36% in 2007. The decrease in the effective tax rate for the year ended December 31, 2008 was primarily caused by a higher proportion of earnings in foreign tax jurisdictions with a lower tax rate.

RESULTS OF OPERATIONS 2007 COMPARED WITH 2006

NET SALES

Net sales increased by $6,310,013 or 11% (10% in constant currency) in 2007 to $63,173,005, compared to $56,862,992 in 2006. The U.S. segment sales increased by $4,419,000 or 10% in 2007 compared to 2006. Sales increased in Canada by $784,000 or 11% (5% in local currency). European sales increased by $1,107,000 or 21% (11% in local currency) in 2007 compared to 2006.

The increase in sales in the U.S. segment was principally the result of sales of new products, including the iPoint electric pencil sharpener and market share gains. Additionally, the Company expanded its product line, including rotary paper trimmers with a major office superstore. Sales of other new products included the UltraSmooth(TM) spring-assisted scissors and the new Clauss(TM) high performance ExtemeEdge(TM) titanium shears. The sales increase in Canada was mainly due to sales of the new iPoint electric pencil sharpeners, other new office products and further penetration into the Canadian retail segment. The 21% sales increase in Europe was mainly due to higher sales of manicure items to a major European retailer and expansion in the office trade channel.

GROSS PROFIT

Gross profit was 42% of net sales in 2007 compared to 43% of net sales in 2006. The gross margin decline in 2007 was due to greater sales of lower margin products, increased raw material and labor costs in China and higher costs as the result of the appreciation of the Chinese currency against the U.S. dollar. Costs also increased due to the reduction of an export tax credit in China.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses were $19,741,166 in 2007 compared with $17,869,753 in 2006, an increase of $1,871,413. SG&A expenses were 31% of net sales in both 2007 and 2006. Higher sales commission and freight costs associated with higher sales amounted to $420,000. Other major contributors to the increase in SG&A expenses were the costs associated with the addition of sales, marketing and logistic personnel and consulting costs associated with the Company's compliance with Section 404 of the Sarbanes Oxley Act. Additionally, in 2006, there was a one-time benefit related to settlement of a lawsuit.

OPERATING INCOME

Operating income was $6,751,764 in 2007, compared with $6,713,020 in 2006, an increase of $38,744. Operating income in the U.S. segment declined by approximately $500,000 due to higher personnel related costs, increased consulting costs associated with the Company's compliance with Section 404 of the Sarbanes Oxley Act (approximately $200,000) and a one time benefit related to settlement of a lawsuit in 2006 (approximately $200,000). Operating income increased in Canada by $147,000 or 25%. The European operating loss decreased by approximately $400,000 mainly due to sales growth and improved gross margins as a result of lower packaging and airfreight expenses.

INTEREST EXPENSE, NET

Interest expense for 2007 was $655,466, compared with $615,500 for 2006, a $39,966 increase. The increase in interest expense was primarily the result of higher borrowings under the Company's bank revolving loan agreement.

OTHER INCOME, NET

Net other income was $206,357 in 2007, compared to $251,557 in 2006.

INCOME TAX

The effective tax rate in 2007 was 36%, compared to 39% in 2006. The effective tax rate improved mainly due to the lower losses in Europe in 2007, as compared to 2006 for which there is no recorded tax benefit because losses in Europe cannot be utilized to offset earnings in other countries.

OFF-BALANCE SHEET TRANSACTIONS

The Company did not engage in any off-balance sheet transactions during 2008.

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LIQUIDITY AND CAPITAL RESOURCES

The recent global economic crisis has had a negative impact on all of the markets into which the Company sells its products. As demand has declined, our customers have been negatively affected, which, has negatively impacted the Company. Management believes that the recent slowdown in customer orders could continue as its customers take action, including adjusting inventory levels to match current demand, to deal with this economic crisis. Management also has taken necessary actions to adjust its cost structure as a response to the slow down in demand and in anticipation of future decline. To date, the Company does not believe that it has excess inventory issues, potentially unrecoverable accounts receivable balances or supply issues with its third party manufacturers as a result of the current economic crisis.

During 2008, working capital remained essentially constant compared to 2007 primarily due to a 15% increase in inventory offset by a 17% decrease in accounts receivables. The increase in inventory was in anticipation of product demand and an increase in customer specific inventory. Given the lengthy lead times associated with product availability and customer requirements for complete and on-time delivery, the Company's management decided to increase inventory levels. Inventory turnover, calculated using a twelve month average inventory balance, decreased to 2.0 in 2008 from 2.1 in 2007. Receivables decreased as a result of a sales decline in the fourth quarter of 2008. The average number of days sales outstanding in accounts receivable was 64 days in 2008 and 66 days in 2007.

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

	2008	2007
Working Capital	$29,819,680	$29,377,847
Current Ratio	4.38	4.46
Long-Term Debt to Equity Ratio	51.3%	44.2%

On June 23, 2008, the Company modified its revolving loan agreement (the "Modified Loan Agreement") with Wachovia Bank. The Modified Loan Agreement amended certain provisions of the original revolving loan agreement. The amendments include (a) an increase in the maximum borrowing amount from $15 million to $20 million; (b) an extension of the maturity date of the loan from June 30, 2009 to June 30, 2010; (c) a decrease in the interest rate to LIBOR plus 7/8% (from LIBOR plus 1.0%) and (d) modification of certain covenant restrictions. Funds borrowed under the Modified Loan Agreement are used for working capital, general operating expenses, share repurchases and certain other purposes.

As of December 31, 2008, $11,719,000 was outstanding and $8,281,000 was available for borrowing under the Modified Loan Agreement.

Total debt in 2008 increased by $1,563,097, compared to total debt at December 31, 2007.

Under the provisions of the Modified Loan Agreement, the Company, among other things, is restricted with respect to outside borrowings, investments and mergers. Further, the Modified Loan Agreement requires the Company 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 financial covenants under the Modified Loan Agreement as of and through December 31, 2008, and believes it will be able to continue to comply with these covenants for the remainder of the term of the credit facility.

Capital expenditures during 2008 and 2007 were $742,429 and $672,913, respectively, which were, in part, financed with debt. Capital expenditures in 2009 are not expected to differ materially from recent years.

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

RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements." This statement, which became effective January 1, 2008, defines fair value, establishes a framework for measuring fair value and expands disclosure requirements regarding fair value measurements. The FASB has provided a one-year deferral for the implementation of FASB 157 for other non-financial assets and liabilities. The adoption did not have an effect on the Company's financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities; Including an Amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 gives entities the option to measure eligible items at fair value at specified dates. Unrealized gains and losses on the eligible items for which the fair value option has been elected should be reported in earnings. SFAS 159 is effective for the Company's 2008 fiscal year beginning January 1, 2008. The adoption of SFAS 159 did not have a material effect on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations ("SFAS 141(R)"), and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements ("SFAS 160"). SFAS 141 (R) requires an acquirer to measure identifiable assets acquired, liabilities assumed and any noncontrolling interest an acquired business at their fair values on the acquisition date, with goodwill being measured and recorded at the excess of the amount paid over the net identifiable assets acquired. SFAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS 141 (R) and SFAS 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company expects that the adoption of SFAS 141(R) and SFAS 160 will not have a material effect on its financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable to Smaller Reporting Companies.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Acme United Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended December 31,		
	2008	2007	200
Net sales	$ 68,719,012	$ 63,173,005	$ 56,862,
Cost of goods sold	41,062,125	36,680,075	32,280,
Gross Profit	27,656,887	26,492,930	24,582,
Selling, general and administrative expenses	20,778,093	19,741,166	17,869,
Operating income	6,878,794	6,751,764	6,713,
Non operating items:			

Interest expense, net	395,548	655,446	615,
Other income, net	192,855	206,357	251,
Income before income taxes	6,676,101	6,302,675	6,349,
Income tax expense	2,209,030	2,280,417	2,463,
Net income	$ 4,467,071	$ 4,022,258	$ 3,885,
Earnings per share:			
Basic	$ 1.28	$ 1.14	$ 1
Diluted	$ 1.24	$ 1.09	$ 1

See accompanying Notes to Consolidated Financial Statements.

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Acme United Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,224,564	$ 4,987,991
Accounts receivable, less allowance	10,564,097	12,726,647
Inventories	21,769,304	18,934,977
Deferred income taxes	209,172	61,127
Prepaid expenses and other current assets	879,222	1,149,417
Total current assets	38,646,359	37,860,159
Property, plant and equipment:		
Land	167,003	174,840
Buildings	2,965,641	2,971,451
Machinery and equipment	7,454,662	8,050,383
Total property, plant and equipment	10,587,306	11,196,674
Less: accumulated depreciation	8,317,863	8,717,316
Net property, plant and equipment	2,269,443	2,479,358
Note receivable	2,000,000	-
Intangible assets, less accumulated amortization	1,934,219	1,747,708
Deferred income taxes	574,051	135,168
Total assets	$ 45,424,072	$ 42,222,393
LIABILITIES		
Current liabilities:		
Accounts payable	$ 3,668,689	$ 4,575,118
Other accrued liabilities	5,157,990	3,907,194
Total current liabilities	8,826,679	8,482,312
Long-term debt, less current portion	11,749,191	10,186,721
Other	1,960,539	506,617

Total liabilities	22,536,409	19,175,650
STOCKHOLDERS' EQUITY		
Common stock, par value $2.50: authorized 8,000,000 shares; issued - 4,293,024 shares in 2008 and 4,267,274 shares in 2007, including treasury stock	10,732,555	10,668,185
Treasury stock, at cost, 949,656 shares in 2008 and 714,391 shares in 2007	(8,406,722)	(5,929,999)
Additional paid-in capital	3,906,000	3,550,053
Accumulated other comprehensive (loss) income	(1,663,361)	285,842
Retained earnings	18,319,191	14,472,662
Total stockholders' equity	22,887,663	23,046,743
Total liabilities and stockholders' equity	$ 45,424,072	$ 42,222,393

See accompanying Notes to Consolidated Financial Statements.

Acme United Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Outstanding Shares of Common Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulate Other Comprehensi Income (Los
Balances, December 31, 2005	3,482,833	$ 10,404,560	$(5,438,776)	$ 2,623,887	$ (1,071,23
Net income					
Translation adjustment					52,43
Change in pension liability and the effect of the adoption of SFAS No. 158					125,41
Income taxes relating to pension liability liability					(47,65
Comprehensive income					
Stock compensation expense				275,539	
Tax benefit from exercise of employee stock options				82,986	
Distribution to shareholders					
Issuance of common stock	31,000	77,500		31,255	
Balances, December 31, 2006	3,513,833	10,482,060	(5,438,776)	3,013,667	(941,04
Net income					
Translation adjustment					1,049,44
Change in pension plan net prior service credit and actuarial losses, net of tax					177,44
Comprehensive income					
Stock compensation expense				330,859	

Tax benefit from exercise of employee stock options				22,825	
Distribution to shareholders					
Issuance of common stock	74,450	186,125		182,701	
Purchase of treasury stock	(35,400)		(491,223)		
Balances, December 31, 2007	3,552,883	10,668,185	(5,929,999)	3,550,053	285,84
Net income					
Translation adjustment					(1,309,01
Change in pension plan net prior service credit and actuarial losses, net of tax benefit of $373,575					(640,18
Comprehensive income					
Stock compensation expense				277,577	
Tax benefit from exercise of employee stock options				9,928	
Distribution to shareholders					
Issuance of common stock	25,750	64,370		68,443	
Purchase of treasury stock	(235,265)		(2,476,723)		
Balances, December 31, 2008	3,343,368	$ 10,732,555	$(8,406,722)	$ 3,906,000	$ (1,663,36

See accompanying Notes to Consolidated Financial Statements.

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Acme United Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOW

	For the years end	
	2008	2
Operating activities:		
Net income	$ 4,467,071	$ 4,02
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Depreciation	899,142	81
Amortization	108,828	5
Stock compensation expense	277,577	33
Deferred income taxes	(213,353)	10
(Gain) / loss on disposal of property, plant and equipment	(260,984)	
Tax benefit on stock options	9,928	2
Changes in operating assets and liabilities		
Accounts receivable	1,842,262	(1,81
Inventories	(3,473,436)	(2,64
Prepaid expenses and other current assets	254,127	(26
Accounts payable	(854,450)	2,10
Other accrued liabilities	208,919	(2
Total adjustments	(1,201,439)	(1,31
Net cash provided (used) by operating activities	3,265,632	2,70

Investing activities:

Purchase of property, plant and equipment	(742,429)	(67
Purchase of patents and trademarks	(295,339)	(84
Proceeds from sale of property, plant and equipment	-	
Net cash used by investing activities	(1,037,767)	(1,51
Financing activities:		
Net (repayments) borrowings of long-term debt	1,568,825	(3
Distributions to shareholders	(594,631)	(52
Purchase of treasury stock	(2,476,723)	(49
Issuance of common stock	132,813	36
Net cash (used) provided by financing activities	(1,369,716)	(68
Effect of exchange rate changes	(621,574)	64
Net change in cash and cash equivalents	236,573	1,14
Cash and cash equivalents at beginning of year	4,987,991	3,83
Cash and cash equivalents at end of year	$ 5,224,564	$ 4,98
Supplemental cash flow information		
Cash paid for income taxes	$ 1,700,324	$ 2,81
Cash paid for interest	$ 495,113	$ 74

See accompanying Notes to Consolidated Financial Statements.

Acme United Corporation and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. 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 Germany. Principal products across all segments are scissors, shears, knives, rulers, pencil sharpeners, 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, industrial distributors, wholesale florists, mass market retailers and hardware chains.

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, net, were ($101,355) in 2008, $159,877 in 2007 and $149,791, in 2006.

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 $64,105 in 2008 and $89,856 in 2007.

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.

Intangible Assets and Goodwill- Intangible assets with finite useful lives are recorded at cost upon acquisition, and amortized over the term of the related contract or useful life, as applicable. Intangible assets held by the Company with finite useful lives include patents and trademarks. Patents and trademarks are amortized over their estimated useful lives. The weighted average amortization period for intangible assets at December 31, 2008 is 14 years. The Company periodically reviews the values recorded for intangible assets to assess recoverability from future operations whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. At December 31, 2008 and 2007, the Company assessed the recoverability of its long-lived assets, including goodwill, and believed that there were no events or circumstances present that would that would require a test of recoverability on those assets. As a result, there was no impairment of the carrying amounts of such assets and no reduction in their estimated useful lives.

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Deferred Income Taxes - Deferred income taxes are provided for the differences between the financial statement and tax bases of assets and liabilities, and on operating loss carryovers, using 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 customers, which occurs either at the time of shipment or upon delivery based upon contractual terms with the customer. When the right of return exists, the Company recognizes revenue in accordance with FASB Statement No. 48, Revenue Recognition When Right of Return Exists. The Company recognizes customer program costs, including rebates, cooperative advertising, slotting fees and other sales related discounts, as a reduction to sales in accordance with EITF 01-09.

Research and Development - Research and development costs ($254,685 in 2008, $236,064 in 2007 and $306,422 in 2006) are expensed as incurred.

Shipping Costs - Shipping costs ($3,073,673 in 2008, $2,974,205 in 2007 and $2,496,981 in 2006) 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 ($1,159,462 in 2008, $1,060,523 in 2007 and $1,292,250 in 2006) are included in selling, general and administrative expenses.

Concentrations - The Company performs ongoing credit evaluations of its customers and generally does not require collateral for the extension of credit. Allowances for credit losses are provided and have been within management's expectations. In 2008 the Company had three customers with net sales exceeding 10% of consolidated net sales and two customers in 2007 and 2006 with net sales to each that exceeded 10% of consolidated sales in those years. Net sales to these customers amounted to approximately 19%, 15% and 10% in 2008, 17% and 10% in 2007 and 19% and 10%, in 2006.

3. INVENTORIES

Inventories consist of:	2008	2007
Finished goods	$ 20,824,717	$ 18,069,060
Work in process	21,151	112,727
Materials and supplies	923,436	753,190
	$ 21,769,304	$ 18,934,977

Inventories are stated net of valuation allowances for slow moving and obsolete inventory of $498,887 as of December 31, 2008 and $461,466 as of December 31, 2007.

4. INTANGIBLE ASSETS

Intangible assets consist of:	2008	2007
Patents	$ 1,577,580	$ 1,334,133
Trademarks	520,115	468,224
Goodwill	88,828	88,828
	2,186,523	1,891,185
Accumulated amortization	252,304	143,477
	$ 1,934,219	$ 1,747,708

Amortization expense for patents and trademarks for the years ended December 31, 2008, 2007 and 2006 were $108,828, $59,678 and $34,679, respectively. The estimated aggregate amortization expense for each of the next five succeeding years, calculated on a similar basis, is as follows: 2009 - $111,106; 2010 - $110,398; 2011 - $108,995; 2012 - $108,410; and 2013 - $96,852. Refer to Note 16 of the accompanying Notes to the Financial Statements for further information regarding the acquisition of intangible assets.

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5. OTHER ACCRUED LIABILITIES

Other current and long-term accrued liabilities consist of:

	2008	2007
Customer rebates	$ 2,506,807	$ 2,792,411
Remediation liability	1,724,000	-
Pension Liability	1,380,890	287,134
Other	1,506,832	1,334,266

	$ 7,118,529	$ 4,413,811

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 of this pension plan 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 that terminated 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 of Financial Accounting Standards 158 ("SFAS"). SFAS 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 plan asset weighted average allocation at December 31, 2008 and December 31, 2007, by asset category, are as follows:

Asset Category	2008	2007
Equity Securities	67%	69%
Fixed Income Securities	30%	28%
Other Securities / Investments	3%	3%
Total	100%	100%

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

As of each December 31, 2008 and 2007, equity securities in the pension plan included 10,000 shares of the Company's Common Stock, having a market value of $70,500 and $142,501, respectively.

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Other disclosures related to the pension plan follow:

	2008	20
Assumptions used to determine benefit obligation:		
Discount rate	6.19%	5.7
Changes in benefit obligation:		
Benefit obligation at beginning of year	$ (2,919,276)	$ (3,327,7
Interest cost	(175,481)	(181,5
Service cost	(25,000)	(30,0
Amendment	(6,508)	1,3
Actuarial loss	(159,484)	85,0
Benefits and plan expenses paid	643,823	533,6

Benefit obligation at end of year	(2,641,926)	(2,919,2
Changes in plan assets:		
Fair value of plan assets at beginning of year	2,632,142	2,910,4
Actual return on plan assets	(727,283)	233,3
Employer Contribution	-	21,9
Benefits and plan expenses paid	(643,823)	(533,6
Fair value of plan assets at end of year	1,261,036	2,632,1
Funded status	$ (1,380,890)	$ (287,1
Amounts recognized in Accumulated Other Comprehensive Income:		
Net actuarial loss	$ 2,082,006	$ 1,063,9
Prior service cost	66,791	68,8
Total	$ 2,148,797	$ 1,132,8

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

	2008	2007	2006
Assumptions used to determine net periodic benefit cost:			
Discount rate	6.25%	5.75%	5.5
Expected return on plan assets	8.25%	8.25%	8.0
Components of net benefit expense:			
Interest cost	$ 175,481	$ 181,599	$ 187,2
Service cost	25,000	30,000	30,0
Expected return on plan assets	(202,570)	(225,913)	(230,8
Amortization of prior service costs	8,612	8,776	8,7
Amortization of actuarial gain	71,310	74,815	89,3
Net periodic benefit cost	$ 77,833	$ 69,277	$ 84,6

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 higher returns over the long run. Current market factors, such as inflation and interest rates, are evaluated before long-term capital market assumptions are determined.

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The following table discloses the change recorded in other comprehensive income related to benefit costs:

	2008	2007
Balance at beginning of the year	$ 1,132,874	$ 1,310,319
Net (gain) / loss	1,089,337	(92,541
Prior service cost / (credit)	6,508	(1,313
Amortization of net loss	(71,310)	(74,815
Amortization of prior service cost	(8,612)	(8,776
Change recognized in other comprehensive income	1,015,923	(177,445
Total recognized in other comprehensive income	$ 2,148,797	$ 1,132,874
Increase in Accumulated Other Comprehensive Income to reflect the Adoption of SFAS 158 in 2006, net of income tax effect	$ 78,984	

The following benefits are expected to be paid:

2009	$ 332,188
2010	317,310
2011	301,578
2012	287,469
2013	271,534
Years 2014 - 2018	1,134,658

The Company also has a qualified, non-contributory profit sharing plan covering substantially all of its United States employees. Annual Company contributions to this profit sharing plan are determined by the Company's Compensation Committee. For the years ended December 31, 2008, 2007 and 2006, the Company contributed 50% of employee's contributions, up to the first 6% of each employee's contribution. Total contribution expense under this profit sharing plan was $97,666 in 2008, $96,939 in 2007 and $77,673 in 2006.

7. INCOME TAXES

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

	2008	2007	2006
Current:			
Federal	$ 1,403,689	$ 1,450,808	$ 1,341,284
State	216,320	188,847	159,972
Foreign	813,298	543,730	540,103
	2,433,307	2,183,385	2,041,359
Deferred:			
Federal	(200,126)	93,798	401,738
State	(12,911)	11,109	40,892
Foreign	(11,240)	(7,875)	(20,574)
	(224,277)	97,032	422,056
	$ 2,209,030	$ 2,280,417	$ 2,463,415

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.

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

	2008	2007	2006
United States	$ 3,373,597	$ 4,593,844	$ 5,150,322
Foreign	3,302,504	1,708,828	1,198,756
	$ 6,676,101	$ 6,302,675	$ 6,349,077

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

	2008	2007	2006
Federal income taxes at 34% statutory rate	$ 2,269,874	$ 2,142,908	$ 2,158,687
State and local taxes, net of federal income tax effect	135,059	132,132	128,243
Permanent items	255,332	(2,621)	53,822
Foreign tax rate difference	(175,726)	(271,403)	(217,158)
(Recognition) Non-recognition of foreign tax loss carryforwards and credits	(275,509)	279,401	339,821
Provision for income taxes	$ 2,209,030	$ 2,280,417	$ 2,463,415

	2008	2007
Deferred income tax liabilities:		
Plant, property and equipment	$ 203,727	$ 133,177
	203,727	133,177
Deferred income tax assets:		
Asset valuations	209,172	61,127
Operating loss carryforwards and credits	1,617,114	2,034,623
Pension	561,964	158,735

Foreign Tax Credit	242,000	-
Other	115,814	109,610
	2,746,064	2,364,095
Net deferred income tax asset before valuation allowance	2,542,337	2,230,918
Valuation allowance	(1,759,114)	(2,034,623)
Net deferred income tax asset	$ 783,223	$ 196,295

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The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" ("FIN 48"), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109, "Accounting for Income Taxes", and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

In 2008, the Company evaluated its tax positions, for years which remain subject to examination by major tax jurisdictions, in accordance with the requirements of FIN 48 and as a result, there was no effect on the Company's financial statements. The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The Company's evaluation of FIN 48 was performed for the tax years ended December 31, 2005, 2006, 2007 and 2008, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2008.

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

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 $5,729,313 and $6,025,762 are considered permanently reinvested as of December 31, 2008 and 2007, respectively, and no deferred income taxes have been provided on these foreign earnings.

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, 2008, the Company has tax operating loss carry forwards aggregating $5,390,380, all of which are applicable to Germany, and can be carried forward indefinitely.

8. DEBT

Long term debt consists of:

	2008	2007
Notes payable:		
North American arrangements	$ 11,719,000	$ 10,150,175
Other	34,223	39,955
	11,753,223	10,190,130
Less current portion	4,032	3,410
	$ 11,749,191	$ 10,186,720

On June 23, 2008, the Company modified its revolving loan agreement (the "Modified Loan Agreement") with Wachovia Bank. The Modified Loan Agreement amended certain provisions of the original revolving loan agreement. The amendments include (a) an increase in the maximum borrowing amount from $15 million to $20 million; (b) an extension of the maturity date of the loan from June 30, 2009 to June 30, 2010; (c) a decrease in the interest rate to LIBOR plus 7/8% (from LIBOR plus 1.0%) and (d) modification of certain covenant restrictions. Funds borrowed under the Modified Loan Agreement are used for working capital, general operating expenses, share repurchases and certain other purposes. As of December 31, 2008, $11,719,000 was outstanding and $8,281,000 was available for borrowing under the Modified Loan Agreement.

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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, 2008.

Maturities of long-term debt for the next five years follow: 2009 - $4,032; 2010 - $11,723,193; 2011 - $4,193; 2012 - $4,193; and 2013 - $4,193.

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 $643,162 in 2008, $573,190 in 2007 and $527,208 in 2006. Minimum annual rental commitments under non-cancelable leases with remaining terms of one year or more as of December 31, 2008: 2009 - $553,937; 2010 - $435,614; 2011 - $24,800; and 2012 - $4,596;.

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

10. SEGMENT INFORMATION

The Company reports financial information based on the organizational structure used by management for making operating and investment decisions and for assessing performance. The Company's reportable business segments 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 called the "United States 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 2008 the Company had three customers that individually exceeded 10% of consolidated net sales and two customers in 2007 and 2006 that individually exceeded 10% of consolidated net sales. Net sales to these customers amounted to approximately 19%, 15% and 10% in 2008, 17% and 10% in 2007 and 19% and 10%, in 2006. Sales to no other customer exceeded 10% of consolidated net sales in 2008, 2007 and 2006.

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FINANCIAL DATA BY SEGMENT:

(000's omitted)	United States	Canada	Europe	Consolidated
2008				
Sales to unaffiliated customers	$ 53,548	$ 8,095	$ 7,076	$ 68,719
Operating income	6,648	787	(556)	6,879
Assets	33,719	5,890	5,815	45,424
Additions to property, plant and equipment	656	49	37	742
Depreciation and amortization	856	65	87	1,008
2007				
Sales to unaffiliated customers	$ 48,702	$ 8,128	$ 6,343	$ 63,173
Operating income	6,748	735	(731)	6,752
Assets	28,350	7,886	5,986	42,222
Additions to property, plant and equipment	575	31	67	673
Depreciation and amortization	724	59	88	871
2006				
Sales to unaffiliated customers	$ 44,283	$ 7,344	$ 5,236	$ 56,863
Operating income	7,262	588	(1,137)	6,713
Assets	24,516	6,286	4,219	35,021
Additions to property, plant and equipment	474	28	63	565
Depreciation and amortization	704	51	80	835

11. STOCK OPTION PLANS

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

The Employee 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 Plan. As of December 31, 2008, the number of shares available for grant under the Employee Plan was 40,438.

The Director Plan provides for the issuance of stock options for up to 50,000 shares of the Company's common stock to non-salaried directors. Under the Director Plan, Directors elected on April 25, 2005 and at subsequent Annual Meetings who have not received any prior grant under this or previous plans receive an initial grant of an option to purchase 5,000 shares of Common Stock (the "Initial Option"). Each year, 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% on the anniversary of the grant date in each of the following 3 years. Each Annual Option becomes fully exercisable one day after the date of grant. The exercise price of all options granted equals 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, 2008, the number of shares available for grant under the Director Plan was 42,500.

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

	2008	2007	2006
Options outstanding at the beginning of the year	565,750	543,950	471,450
Options granted	80,500	98,250	113,500
Options forfeited	(12,000)	(2,000)	(10,000)
Options exercised	(25,750)	(74,450)	(31,000)
Options outstanding at the end of the year	608,500	565,750	543,950
Options exercisable at the end of the year	439,688	396,125	407,888
Common stock available for future grants at the end of the year	82,938	151,438	47,688
Weighted average price of options:			
Granted	$ 13.24	$ 14.86	$ 14.42
Forfeited	14.64	15.15	14.24
Exercised	5.19	4.95	3.51
Outstanding	10.38	9.82	8.27
Exercisable	8.91	7.63	6.04

A summary of options outstanding at December 31, 2008 is as follows:

	Options Outstanding			Opt
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Nu Exerc
$1.25 to $2.49	40,300	1	$ 2.04	40
$2.50 to $3.65	125,200	3	3.10	125
$3.66 to $5.00	53,750	3	3.99	53
$5.01 to $7.25	8,000	5	5.40	8
$7.26 to $17.02	381,250	8	14.66	212
	608,500			439

The weighted average remaining contractual life of all outstanding stock options is 6 years.

STOCK BASED COMPENSATION

Effective January 1, 2006, the Company adopted the provisions of, and accounted for stock-based compensation in accordance with, FASB Statement of Financial Accounting Standards No. 123(R), Share-Based Payments ("SFAS 123R"), which replaced FASB Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS 123") and superseded APB Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"). 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 60 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 bond 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, 2008 and December 31, 2007 are as follows:

	2008	2007
Expected life in years	5	5
Interest rate	2.95 - 3.30%	4.50 - 5.18%
Volatility	.28-.31	.32
Dividend yield	1.17 - 1.20%	1.08 - 1.10%

Total stock-based compensation recognized in the Company's consolidated statement of operations for the years ended December 31, 2008 and 2007 was $277,577 and $330,859, respectively. As of December 31, 2008, there was approximately $483,691 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, 2008, the remaining unamortized expense is expected to be recognized over a weighted average period of 3 years.

The weighted average fair value at the date of grant for options granted during 2008, 2007 and 2006 was $3.66, $4.95 and $4.86 per option, respectively. The aggregate intrinsic value of outstanding options was $873,936 at December 31, 2008. The aggregate intrinsic value of exercisable options was $873,936 million at December 31, 2008.

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12. EARNINGS PER SHARE

The calculation of earnings per share follows:

	2008	2007
Numerator:		
Net income	$ 4,467,071	$ 4,022,25
Denominator:		

Denominator for basic earnings per share		
Weighted average shares outstanding	3,486,370	3,535,68
Effect of dilutive employee stock options	125,503	161,15
Denominator for dilutive earnings per share	3,611,873	3,696,84
Basic earnings per share	$ 1.28	$ 1.1
Dilutive earnings per share	$ 1.24	$ 1.0

For 2008, 2007 and 2006, respectively, 381,250, 284,250 and 190,000 stock options were excluded from diluted earnings per share calculations because they would have been anti-dilutive.

13. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The components of the accumulated other comprehensive (loss) income follow:

	Foreign Currency Translation Adjustment	Net prior service credit and actuarial losses	Total
Balances, December 31, 2006	$ (128,646)	$ (812,396)	$ (941,042)
Change in net prior service credit and actuarial losses,		177,441	177,441
Translation adjustment	1,049,444		1,049,444
Balances, December 31, 2007	920,798	(634,955)	285,842
Change in net prior service credit and actuarial losses, net of tax benefit of $373,575,		(640,185)	(640,185)
Translation adjustment	(1,309,018)		(1,309,018)
Balances, December 31, 2008	$ (388,220)	$ (1,275,140)	$ (1,663,361)

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.

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15. QUARTERLY DATA (UNAUDITED)

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

2008	First	Second	Third	Fourth	
Net sales	$ 14,269	$ 22,708	$ 19,158	$ 12,584	$
Cost of goods sold	8,283	13,790	11,288	7,701	
Net income	753	1,730	1,351	634	
Basic earnings per share	$ 0.21	$ 0.49	$ 0.38	$ 0.19	$
Diluted earnings per share	$ 0.21	$ 0.47	$ 0.37	$ 0.18	$
Dividends per share	$ 0.04	$ 0.04	$ 0.05	$ 0.05	$

2007	First	Second	Third	Fourth	
Net sales	$ 12,241	$ 18,999	$ 17,081	$ 14,852	$
Cost of goods sold	6,907	11,020	9,700	9,053	
Net income	650	1,522	1,305	545	
Basic earnings per share	$ 0.18	$ 0.43	$ 0.37	$ 0.15	$
Diluted earnings per share	$ 0.17	$ 0.41	$ 0.35	$ 0.15	$
Dividends per share	$ 0.04	$ 0.04	$ 0.04	$ 0.04	$

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

16. BUSINESS COMBINATION

On September 18, 2007, the Company purchased certain assets of the Camillus Cutlery Company ("Camillus Cutlery") for $246,000, consisting primarily of trademarks, brand names and patents. Camillus Cutlery, founded in 1873, is one of the oldest knife companies in the United States. Camillus Cutlery's products include many types of folding knives, as well as those for hunting and fishing.

On September 25, 2007, the Company purchased certain assets of Tiger Sharp Technologies Inc. ("Tiger Sharp") for $355,000, consisting primarily of trademarks, brand names and patents. The purchase agreement also included a royalty arrangement whereby the Company will, for a period of three years, pay Tiger Sharp a 5% royalty on the Company's sales of Tiger Sharp patented products and a 1% royalty on the Company's sales of a certain product which is currently in development. Tiger Sharp was founded in 2002 in Dallas, Texas to commercialize its unique replaceable blade technology. The Company has pioneered many extremely sharp replaceable blade folding knives.

Proforma operating information for the periods prior to these acquisitions is not provided because of the immateriality of these transactions on a proforma basis.

17. SALE OF PROPERTY

In December 2008, the Company sold property it owned in Bridgeport, Connecticut to B&E Juices, Inc. (the "buyer") for $2.5 million. The property consists of approximately four acres of land and 48,000 sq. feet of warehouse space. The property was the site of the original Acme United scissor factory which opened in 1887 and was closed in 1996.

Under the terms of the sale agreement, and as required by the Connecticut Transfer Act, the Company will be responsible to remediate any environmental contamination on the property. During 2008, the Company hired an independent environmental consulting firm and incurred costs of approximately $200,000 related to environmental studies to identify the extent of the environmental contamination to the property and develop a remediation plan. As a result of those studies and the estimates prepared by an independent environmental consulting firm, the Company has recorded an undiscounted liability of approximately $1.8 million related to the remediation of the property. The accrual includes estimated costs of required investigation, remedial activities, and post-remediation operating and maintenance. At December 31, 2008, $1.4 million was classified as current and is expected to be paid in 2009. The remaining balance is expected to be paid over the two years following. Based on currently available information, we believe that our accrual for environmental remediation costs is adequate, although our accrual could be adjusted in the future due to new information or changed circumstances. However, we do not expect these items to materially affect our results of operations, financial condition or liquidity.

Also, as part of the sale, the Company has provided the buyer with a mortgage of $2.0 million at six percent interest The mortgage is 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 in five years.

The Company also recorded legal, transaction and other expenses of approximately $235,000 resulting in a gain on the sale of approximately $265,000.

Report of UHY LLP, Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Acme United Corporation

We have audited the accompanying consolidated balance sheet of Acme United Corporation and subsidiaries (the "Company") as of December 31, 2008, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended. Our audit also included the 2008 financial statement schedule listed in the Index at Item 15(a)(2). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit.

We conducted our audit 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 controls over financial reporting. Our audit 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 audit provides 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 the Company as of December 31, 2008, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related 2008 financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ UHY LLP

Hartford, Connecticut
March 10, 2009

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Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Acme United Corporation

We have audited the accompanying consolidated balance sheet of Acme United Corporation and subsidiaries as of December 31, 2007, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). 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, 2007, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2007, 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 11 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 6, 2008

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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 2008.

Item 9A(T). CONTROLS AND PROCEDURES

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.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected in a timely manner. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework." Based on management's assessment using the COSO criteria, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2008.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this Annual Report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the quarter ended December 31, 2008, there were no changes in the Company's internal control over financial reporting that materially affected, or was reasonably likely to materially affect, this control.

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Item 9B. OTHER INFORMATION
None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
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.

Name	Age	Position Held with Company
Walter C. Johnsen	58	Chairman of the Board and Chief Executive Officer
Brian S. Olschan	52	President, Chief Operating Officer and Director
Paul G. Driscoll	48	Vice President, Chief Financial Officer, Secretary and Treasurer
Rex L. Davidson	59	Director
Richmond Y. Holden, Jr.	55	Director
Susan H. Murphy	57	Director
Stevenson E. Ward III	63	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. He formerly served as Vice Chairman and a principal of Marshall Products, Inc., a medical supply distributor.

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 and Research Foundation and also serves on the Stony Brook University MBA Advisory Board. .

RICHMOND Y. HOLDEN, JR. has served as director since 1998. Since 2007, President of Educators Publishing Service, a supplementary publisher of education materials and a subsidiary of School Specialty Inc. Previously, President and Chief Executive Officer of J.L. Hammett Co. from 1992 to 2006, a reseller, of educational products.

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

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 with assignments in Purchasing, Corporate Audit and Financial Management.

The Company has adopted a Code of Conduct that is applicable to its 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

If the Company makes any substantive amendments to the Code of Conduct which apply to its Chief Executive Officer, Chief Financial Officer or Controller, or grants any waiver, including any implicit waiver, from a provision of the Code of Conduct to the Company's executive officers, the Company will disclose the nature of the amendment or waiver on its 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 the Company's 2009 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 the Company's Proxy Statement to be filed with the Securities and Exchange Commission in connection with its 2009 Annual Meeting of Shareholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

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 2009 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 UHY LLP, Independent Registered Public Accounting Firm
- Report of Ernst & Young LLP, 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
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)

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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)
10.8	Deferred Compensation Plan dated October 2, 2007
21	Subsidiaries of the Registrant
23.1	Consent of UHY LLP, Independent Registered Public Accounting Firm
23.2	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
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.

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(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, 2008, 2007 and 2006

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductio and Oth Adjustme
2008			
Allowance for doubtful accounts	$ 89,856	$ 6,033	$ 31,78
Allowance for inventory obsolescence	461,467	76,909	39,48
Deferred income tax asset valuation allowance	2,034,623	142,000	417,50
2007			
Allowance for doubtful accounts	$ 116,811	$ 54,182	$ 81,13
Allowance for inventory obsolescence	405,963	106,938	51,43
Deferred income tax asset valuation allowance	1,755,222	279,401	
2006			
Allowance for doubtful accounts	$ 136,050	$ 51,256	$ 70,49
Allowance for inventory obsolescence	453,369	99,234	146,64

Deferred income tax asset valuation allowance	1,415,401	339,821

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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, 2009.

ACME UNITED CORPORATION
(Registrant)

Signatures	Titles
/s/ Walter C. Johnsen Walter C. Johnsen	Chairman and Chief Executive Officer
/s/ Brian S. Olschan Brian S. Olschan	President, Chief Operating Officer and Director
/s/ Paul G. Driscoll Paul G. Driscoll	Vice President, Chief Financial Officer, Secretary and Treasurer
/s/ Rex L. Davidson Rex L. Davidson	Director
/s/ Richmond Y. Holden, Jr. Richmond Y. Holden, Jr.	Director
/s/ Susan H. Murphy Susan H. Murphy	Director
/s/ Stevenson E. Ward III Stevenson E. Ward III	Director

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