

ACME UNITED CORP  
Form 10-Q  
November 12, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended **September 30, 2015**

OR

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

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

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Commission file number **001-07698**

**ACME UNITED CORPORATION**

(Exact name of registrant as specified in its charter)

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

**55 WALLS DRIVE, Fairfield, Connecticut** 06824  
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

Yes  No

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As of November 3, 2015 the registrant had outstanding 3,370,591 shares of its \$2.50 par value Common Stock.

ACME UNITED CORPORATION

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**Part I - FINANCIAL INFORMATION**

## Item 1. Financial Statements (Unaudited)

## ACME UNITED CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(all amounts in thousands, except share amounts)

	September 30, 2015 (unaudited)	December 31, 2014 (Note 1)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,621	\$ 2,286
Accounts receivable, less allowance	23,587	19,477
Inventories:		
Finished goods	29,418	28,713
Work in process	535	522
Raw materials and supplies	4,545	4,436
	34,498	33,671
Prepaid expenses and other current assets	2,171	2,077
Total current assets	64,877	57,511
Property, plant and equipment:		
Land	420	436
Buildings	5,129	5,126
Machinery and equipment	11,226	10,067
	16,775	15,629
Less accumulated depreciation	9,432	8,698
	7,343	6,931
Goodwill	1,375	1,375
Intangible assets, less amortization	12,023	12,555
Other assets	967	936
Total assets	\$ 86,585	\$ 79,308

See notes to condensed consolidated financial statements.

**ACME UNITED CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS (continued)**

(all amounts in thousands, except share amounts)

	September 30, 2015 (unaudited)	December 31, 2014 (Note 1)
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 7,206	\$ 7,773
Other accrued liabilities	6,759	7,590
Total current liabilities	13,965	15,363
Long-term debt	28,551	24,147
Other	362	370
Total liabilities	42,878	39,880
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$2.50: authorized 8,000,000 shares; issued - 4,740,618 shares in 2015 and 4,653,424 shares in 2014, including treasury stock		
	11,851	11,633
Additional paid-in capital	9,304	7,941
Retained earnings	37,236	33,784
Treasury stock, at cost - 1,371,754 shares in 2015 and 1,362,072 shares in 2014	(12,445 )	(12,283 )
Accumulated other comprehensive income:		
Minimum pension liability	(895 )	(895 )
Translation adjustment	(1,343 )	(752 )
	(2,238 )	(1,647 )
Total stockholders' equity	43,707	39,428
Total liabilities and stockholders' equity	\$ 86,585	\$ 79,308

See notes to condensed consolidated financial statements.

**ACME UNITED CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(all amounts in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net sales	\$29,903	\$30,008	\$86,694	\$82,555
Cost of goods sold	19,578	19,393	55,398	53,346
Gross profit	10,325	10,615	31,296	29,209
Selling, general and administrative expenses	8,334	8,685	24,603	22,920
Operating income	1,991	1,930	6,693	6,289
Non-operating items:				
Interest:				
Interest expense	150	157	424	355
Interest income	(1 )	(4 )	(4 )	(12 )
Interest expense, net	149	153	420	343
Other expense , net	92	67	149	78
Total other expense	241	220	568	421
Income before income taxes	1,750	1,710	6,124	5,868
Income tax expense	542	521	1,771	1,769
Net income	\$1,208	\$1,189	\$4,353	\$4,099
Basic earnings per share	\$0.36	\$0.37	\$1.31	\$1.27
Diluted earnings per share	\$0.33	\$0.34	\$1.18	\$1.18
Weighted average number of common shares outstanding- denominator used for basic per share computations	3,354	3,250	3,328	3,224
Weighted average number of dilutive stock options outstanding	345	296	370	261
Denominator used for diluted per share computations	3,699	3,546	3,698	3,485
Dividends declared per share	\$0.09	\$0.09	\$0.27	\$0.25

See notes to condensed consolidated financial statements.





ACME UNITED CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(all amounts in thousands)

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
Net income	\$1,208	\$1,189	\$4,353	\$4,099
Other comprehensive loss -				
Foreign currency translation	(129 )	(447 )	(591 )	(485 )
Comprehensive income	\$1,079	\$742	\$3,762	\$3,614

See notes to condensed consolidated financial statements.

## ACME UNITED CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(all amounts in thousands)

	Nine Months Ended September 30,	
	2015	2014
Operating Activities:		
Net income	\$4,353	\$4,099
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation	970	902
Amortization	584	345
Stock compensation expense	442	451
Gain on disposal/sale of assets	—	(200 )
Changes in operating assets and liabilities:		
Accounts receivable	(4,205)	(6,079 )
Inventories	(1,392)	(1,895 )
Prepaid expenses and other current assets	(226 )	(168 )
Accounts payable	(372 )	863
Other accrued liabilities	(844 )	3,018
Total adjustments	(5,042)	(2,763 )
Net cash (used) provided by operating activities	(689 )	1,336
Investing Activities:		
Purchase of property, plant, and equipment	(1,352)	(1,419 )
Purchase of patents and trademarks	(52 )	(119 )
Acquisition of certain assets of First Aid Only, Inc.	—	(13,806)
Proceeds from the sales of property, plant, and equipment	5	773
Net cash used by investing activities	(1,399)	(14,571)
Financing Activities:		
Borrowing of long-term debt, net of repayments	4,404	7,433
Proceeds from issuance of common stock	1,139	890
Distributions to stockholders	(895 )	(768 )
Purchase of common stock	(162 )	—
Net cash provided by financing activities	4,486	7,555
Effect of exchange rate changes on cash	(63 )	(150 )
Net change in cash and cash equivalents	2,335	(5,830 )
Cash and cash equivalents at beginning of period	2,286	11,644

Cash and cash equivalents at end of period	\$4,621	\$5,814
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See notes to condensed consolidated financial statements.

Notes to CONDENSED CONSOLIDATED Financial Statements

(UNAUDITED)

**Note 1 — Basis of Presentation**

In the opinion of management, the accompanying condensed consolidated financial statements include all adjustments necessary to present fairly the financial position, results of operations and cash flows of Acme United Corporation (the "Company"). These adjustments are of a normal, recurring nature. However, the financial statements do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the Company's Annual Report on Form 10-K. Please refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for such disclosures. The condensed consolidated balance sheet as of December 31, 2014 was derived from the audited consolidated balance sheet as of that date. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto, included in the Company's 2014 Annual Report on Form 10-K.

The Company has evaluated events and transactions subsequent to September 30, 2015 and through the date these condensed consolidated financial statements were included in this Form 10-Q and filed with the SEC.

As part of the process of preparing our financial statements on a quarterly basis, the Company estimates its income tax expense. This process involves the estimation of the Company's current tax exposure based on expected annual results of operations.

**Note 2 — Contingencies**

The Company is involved from time to time in disputes and other litigation in the ordinary course of business and may encounter other contingencies, which may include environmental and other matters. There are no pending material legal proceedings to which the registrant is a party, or, to the actual knowledge of the Company, contemplated by any governmental authority.

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

factory which opened in 1887 and was closed in 1996.

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

Remediation work on the project began in the third quarter of 2009 and was completed during the third quarter of 2012. In addition to the completed remediation work, the Company, with the assistance of its independent environmental consulting firm, was required to monitor contaminant levels on the property to ensure they comply with applicable governmental standards. During the first quarter of 2015, the Company received notice from the Connecticut Department of Energy & Environmental Protection that it had accepted and approved the Company's filing of its Form III Verification Report. As a result, the Company's remediation obligations have been satisfied.

On April 7, 2014, the Company sold its Fremont, NC distribution facility for \$850,000 in cash. The facility originally served as a manufacturing site for the Company's scissors and rulers. Under the terms of the sale agreement, the Company is responsible to remediate any environmental contamination on the property. The Company hired an independent environmental consulting firm to conduct environmental studies in order to identify the extent of the environmental contamination on the property and to develop a remediation plan. As a result of those studies and the estimates prepared by the independent environmental consulting firm, and in conjunction with the sale of the property, the Company recorded a liability of \$300,000 in the second quarter of 2014, related to the remediation of the property. The accrual included the total of then estimated costs of remedial activities and post-remediation monitoring costs.

Remediation work on the project began in the third quarter of 2014 and is expected to be completed in 2015. In addition to the remediation work, the Company, with the assistance of its independent environmental consulting firm, must continue to monitor contaminant levels on the property to ensure they comply with applicable North Carolina laws and regulations. The Company expects that the monitoring period will last a period of five years after the completion of the remediation and be completed by the end of 2020.

The change in the accrual for environmental remediation, included in other accrued liabilities and other liabilities on the condensed consolidated balance sheets for the nine months ended September 30, 2015 follows (amounts in thousands):

	<b>Balance at December 31, 2014</b>	<b>Payments</b>	<b>Balance at September 30, 2015</b>
Fremont, NC	\$ 260	\$ (180 )	\$ 80
Bridgeport, CT	6	(6 )	—
Total	\$ 266	\$ (186 )	\$