

ACME UNITED CORP  
Form 10-Q  
August 15, 2016

**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 June 30, 2016

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  
(State or other jurisdiction of incorporation or organization)

06-0236700

(I.R.S. Employer Identification No.)

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

06824

(Zip Code)

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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

As of August 3, 2016 the registrant had outstanding 3,322,950 shares of its \$2.50 par value Common Stock.

ACME UNITED CORPORATION

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## Part I - FINANCIAL INFORMATION

## Item 1. Financial Statements

**ACME UNITED CORPORATION**

## CONDENSED CONSOLIDATED BALANCE SHEETS

(all amounts in thousands)

|   | June 30,<br>2016<br>(unaudited) | December<br>31,<br>2015<br>(Note 1) |
|---|---------------------------------|-------------------------------------|
| <b>ASSETS</b>                             |                                 |                                     |
| Current assets:                           |                                 |                                     |
| Cash and cash equivalents                 | \$ 2,087                        | \$ 2,426                            |
| Accounts receivable, less allowance       | 34,646                          | 19,565                              |
| Inventories:                              |                                 |                                     |
| Finished goods                            | 33,652                          | 29,803                              |
| Work in process                           | 295                             | 170                                 |
| Raw materials and supplies                | 4,469                           | 5,535                               |
|   | 38,416                          | 35,508                              |
| Prepaid expenses and other current assets | 2,424                           | 2,135                               |
| Total current assets                      | 77,573                          | 59,634                              |
| Property, plant and equipment:            |                                 |                                     |
| Land                                      | 419                             | 417                                 |
| Buildings                                 | 5,464                           | 5,418                               |
| Machinery and equipment                   | 12,737                          | 10,254                              |
|   | 18,620                          | 16,089                              |
| Less accumulated depreciation             | 10,916                          | 8,688                               |
|   | 7,704                           | 7,401                               |
| Goodwill                                  | 4,816                           | 1,406                               |
| Intangible assets, less amortization      | 13,596                          | 11,951                              |
| Other assets                              | 1,039                           | 1,029                               |
| Total assets                              | \$ 104,728                      | \$ 81,421                           |

See notes to condensed consolidated financial statements.



## ACME UNITED CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

(all amounts in thousands, except share amounts)

|   | June 30,<br>2016<br>(unaudited) | December<br>31,<br>2015<br>(Note 1) |
|---|---------------------------------|-------------------------------------|
| <b>LIABILITIES</b>  |                                 |                                     |
| Current liabilities:  |                                 |                                     |
| Accounts payable  | \$ 11,573                       | \$ 6,664                            |
| Other accrued liabilities   | 6,453                           | 5,273                               |
| Total current liabilities   | 18,026                          | 11,937                              |
| Long-term debt  | 40,822                          | 25,913                              |
| Other   | 355                             | 388                                 |
| Total liabilities   | 59,202                          | 38,238                              |
| Commitments and Contingencies   |                                 |                                     |
| <b>STOCKHOLDERS' EQUITY</b>   |                                 |                                     |
| Common stock, par value \$2.50:<br>authorized 8,000,000 shares;<br>issued - 4,786,960 shares in 2016<br>and 4,751,060 shares in 2015,<br>including treasury stock |                                 |                                     |
|   | 11,967                          | 11,877                              |
| Additional paid-in capital  | 9,262                           | 9,460                               |
| Retained earnings   | 40,504                          | 37,340                              |
| Treasury stock, at cost - 1,464,010 shares in 2016 and<br>1,402,517 shares in 2015  | (13,870 )                       | (12,963 )                           |
| Accumulated other comprehensive loss:   |                                 |                                     |
| Minimum pension liability   | (948 )                          | (948 )                              |
| Translation adjustment  | (1,389 )                        | (1,583 )                            |
|   | (2,337 )                        | (2,531 )                            |
| Total stockholders' equity  | 45,526                          | 43,183                              |
| Total liabilities and stockholders' equity  | \$ 104,728                      | \$ 81,421                           |

See notes to condensed consolidated financial statements.

## ACME UNITED CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(all amounts in thousands)

|  | Three Months<br>Ended |          | Six Months Ended |          |
|--|-----------------------|----------|------------------|----------|
|  | June 30<br>2016       | 2015     | June 30<br>2016  | 2015     |
| Net sales  | \$40,997              | \$33,954 | \$66,285         | \$56,791 |
| Cost of goods sold   | 26,303                | 21,419   | 42,406           | 35,821   |
| Gross profit   | 14,694                | 12,535   | 23,879           | 20,970   |
| Selling, general and administrative expenses   | 10,054                | 8,660    | 18,284           | 16,269   |
| Operating income   | 4,640                 | 3,875    | 5,595            | 4,701    |
| Non-operating items:   |                       |          |                  |          |
| Interest expense, net  | 211                   | 141      | 395              | 271      |
| Other expense (income), net  | 11                    | (20 )    | (27 )            | 56       |
| Total other expense, net   | 222                   | 121      | 368              | 327      |
| Income before income taxes   | 4,418                 | 3,754    | 5,227            | 4,374    |
| Income tax expense   | 1,151                 | 1,044    | 1,395            | 1,228    |
| Net income   | \$3,267               | \$2,710  | \$3,832          | \$3,146  |
| Basic earnings per share   | \$0.98                | \$0.82   | \$1.15           | \$0.95   |
| Diluted earnings per share   | \$0.91                | \$0.74   | \$1.08           | \$0.85   |
| Weighted average number of common shares outstanding-<br>denominator used for basic per share computations | 3,323                 | 3,300    | 3,331            | 3,315    |
| Weighted average number of dilutive stock options<br>outstanding   | 260                   | 381      | 229              | 391      |
| Denominator used for diluted per share computations  | 3,583                 | 3,681    | 3,560            | 3,706    |
| Dividends declared per share   | \$0.10                | \$0.09   | \$0.20           | \$0.18   |

See notes to condensed consolidated financial statements.

ACME UNITED CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(all amounts in thousands)

|                                       | Three Months<br>Ended<br>June 30,<br>2016 |         | Six Months<br>Ended<br>June 30,<br>2015 |         |
|---------------------------------------|---|---------|---|---------|
| Net income                            | \$3,267                                   | \$2,710 | \$3,832                                 | \$3,146 |
| Other comprehensive (loss) / income - |   |         |   |         |
| Foreign currency translation          | (58 )                                     | 91      | 194                                     | (462 )  |
| Comprehensive income                  | \$3,209                                   | \$2,801 | \$4,026                                 | \$2,684 |

See notes to condensed consolidated financial statements.



## ACME UNITED CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(all amounts in thousands)

|  | Six Months Ended<br>June 30, |         |
|--|------------------------------|---------|
|  | 2016                         | 2015    |
| Operating Activities:  |                              |         |
| Net income   | \$3,832                      | \$3,146 |
| Adjustments to reconcile net income<br>to net cash used by operating activities: |                              |         |
| Depreciation   | 717                          | 641     |
| Amortization   | 455                          | 383     |
| Stock compensation expense   | 184                          | 304     |
| Changes in operating assets and liabilities:                                     |                              |         |
| Accounts receivable  | (13,898)                     | (7,698) |
| Inventories  | (2,432 )                     | (3,010) |
| Prepaid expenses and other assets  | (329 )                       | (508 )  |
| Accounts payable   | 4,856                        | 1,766   |
| Other accrued liabilities  | 993                          | (607 )  |
| Total adjustments  | (9,454 )                     | (8,729) |
| Net cash used by operating activities  | (5,622 )                     | (5,583) |
| Investing Activities:  |                              |         |
| Purchase of property, plant, and equipment                                       | (752 )                       | (867 )  |
| Purchase of patents and trademarks   | (29 )                        | (3 )    |
| Acquisition of certain assets of Diamond Machining Technology                    | (6,971 )                     | —       |
| Net cash used by investing activities  | (7,752 )                     | (870 )  |
| Financing Activities:  |                              |         |
| Borrowing of long-term debt  | 14,908                       | 6,033   |
| Cash settlement of stock options   | (681 )                       | —       |
| Proceeds from issuance of common stock   | 390                          | 675     |
| Distributions to stockholders  | (668 )                       | (595 )  |
| Purchase of treasury stock   | (907 )                       | —       |
| Net cash provided by financing activities  | 13,042                       | 6,113   |
| Effect of exchange rate changes on cash  | (7 )                         | (5 )    |
| Net change in cash and cash equivalents  | (339 )                       | (345 )  |
| Cash and cash equivalents at beginning of period                                 | 2,426                        | 2,286   |
| Cash and cash equivalents at end of period                                       | \$2,087                      | \$1,941 |

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, 2015 for such disclosures. The condensed consolidated balance sheet as of December 31, 2015 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 2015 Annual Report on Form 10-K.

The Company has evaluated events and transactions subsequent to June 30, 2016 and through the date these condensed consolidated financial statements were included in this Form 10-Q and filed with the SEC.

Recently Issued Accounting Guidance

In March, 2016 the Financial Accounting Standards Board (FASB) issued accounting standards update (ASU) 2016-09, *Compensation – Stock Compensation: Improvements to Employee Share Based Payment Accounting*. The guidance in this update addresses several aspects of the accounting for share-based payments, including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The new standard is effective for the Company beginning on January 1, 2017. The Company is evaluating the effect that ASU 2016-09 may have on its consolidated financial statements and related disclosures.

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 2014, the Company sold its Fremont, NC distribution facility for \$850,000 in cash. Under the terms of the sale agreement, the Company is responsible to remediate any environmental contamination on the property. 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 includes the total 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 2016, with a monitoring period expected to be completed by the end of 2020.

The change in the accrual for environmental remediation for the six months ended June 30, 2016 follows (in thousands):

Payments

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|             | Balance at<br>December<br>31, 2015 | Estimated<br>Costs |          | Balance<br>at<br>June<br>30,<br>2016 |
|-------------|------------------------------------|--------------------|----------|--------------------------------------|
| Fremont, NC | \$ 80                              | \$ —               | \$ (13 ) | \$ 67                                |
| Total       | \$ 80                              | \$ —               | \$ (13 ) | \$ 67                                |

**Note 3 — Pension**

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

|  | Three<br>Months<br>Ended June<br>30,<br>2016 |      | Six Months<br>Ended June<br>30,<br>2015 |      |
|--|--|------|---|------|
| Components of net periodic benefit cost: |  |      |   |      |
| Interest cost                            | \$15   | \$15 | \$29                                    | \$29 |
| Service cost                             | 6  | 6    | 13                                      | 13   |
| Expected return on plan assets           | (23)   | (23) | (46)                                    | (46) |
| Amortization of prior service costs      | 2  | 2    | 5                                       | 5    |
| Amortization of actuarial loss           | 28   | 28   | 56                                      | 56   |
|  | \$28   | \$28 | \$57                                    | \$57 |

The Company's funding policy with respect to its qualified plan is to contribute at least the minimum amount required by applicable laws and regulations. In 2016, the Company is not required to contribute to the plan. As of June 30, 2016, the Company did not make any contributions to the plan.

**Note 4 — Debt and Shareholders' Equity**

On May 6, 2016, the Company amended its revolving credit loan agreement with HSBC Bank, N.A. The amended facility provides for borrowings of up to an aggregate of \$50 million at an interest rate of LIBOR plus 2.0%. In addition, the Company must pay a facility fee, payable quarterly, in an amount equal to two tenths of one percent (.20%) per annum of the average daily unused portion of the revolving credit line. All principal amounts outstanding under the agreement are required to be repaid in a single amount on May 6, 2019, the date the agreement expires; interest is payable monthly. Funds borrowed under the agreement may be used for working capital, acquisitions, general operating expenses, share repurchases and certain other purposes. Under the revolving loan agreement, the Company is required to maintain specific amounts of tangible net worth, a specified debt service coverage ratio and a fixed charge coverage ratio and must have annual net income greater than \$0, measured as of the end of each fiscal year. At June 30, 2016, the Company was in compliance with the covenants then in effect under the loan agreement.

As of June 30, 2016 and December 31, 2015, the Company had outstanding borrowings of \$40,821,805 and \$25,912,652, respectively, under the Company's revolving loan agreement with HSBC.

During the three months ended June 30, 2016, the Company issued a total of 2,500 shares of common stock and received aggregate proceeds of \$37,025 upon exercise of employee stock options. During the six months ended June 30, 2016, the Company issued a total of 35,900 shares of common stock and received aggregate proceeds of approximately \$390,000 upon exercise of employee stock options.

During the three months ended June 30, 2016, the Company repurchased 3,621 shares of its Common Stock at an average price of \$16.74. During the six months ended June 30, 2016, the Company repurchased 61,491 shares of its Common Stock at an average price of \$14.76. As of June 30, 2016, there were 41,229 shares that may be purchased under the repurchase program announced in 2010. The Company's purchases during the six months ended June 30, 2016 were effected pursuant to a Rule 10b5-1 plan.

**Note 5— Segment Information**

The Company reports financial information based on the organizational structure used by management for making operating and investment decisions and for assessing performance. The Company's reportable business segments consist of: (1) United States; (2) Canada and (3) Europe. As described below, the activities of the Company's Asian operations are closely linked to those of the U.S. operations; accordingly, management reviews the financial results of both on a consolidated basis, and the results of the Asian operations have been aggregated with the results of the United States operations to form one reportable segment called the "United States segment" or "U.S. segment". Each reportable segment derives its revenue from the sales of cutting devices, measuring instruments and first aid products for school, office, home, hardware, sporting and industrial markets.

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

Direct import sales are products sold by the Company's Asian subsidiary, directly to major U.S. retailers, who take ownership of the products in Asia. These sales are completed by delivering product to the customers' common carriers at shipping points in Asia. Direct import sales are made in larger quantities than domestic sales, typically full containers. Direct import sales represented approximately 25% and 20% of the Company's total net sales for the three and six months ended June 30, 2016 compared to 27% and 20% for the comparable periods in 2015.

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

Financial data by segment:  
(in thousands)

|                                  | Three months ended June 30, |          | Six months ended June 30, |          |
|----------------------------------|-----------------------------|----------|---------------------------|----------|
|                                  | 2016                        | 2015     | 2016                      | 2015     |
| Sales to external customers:     |                             |          |                           |          |
| United States                    | \$36,296                    | \$29,649 | \$58,822                  | \$49,782 |
| Canada                           | 2,646                       | 2,813    | 4,039                     | 4,054    |
| Europe                           | 2,055                       | 1,492    | 3,425                     | 2,955    |
| Consolidated                     | \$40,997                    | \$33,954 | \$66,285                  | \$56,791 |
| Operating income (loss):         |                             |          |                           |          |
| United States                    | \$4,246                     | \$3,552  | \$5,190                   | \$4,522  |
| Canada                           | 377                         | 282      | 410                       | 175      |
| Europe                           | 17                          | 41       | (6)                       | 4        |
| Consolidated                     | \$4,640                     | \$3,875  | \$5,595                   | \$4,701  |
| Interest expense, net            | 211                         | 141      | 395                       | 271      |
| Other expense (income) , net     | 11                          | (20)     | (27)                      | 56       |
| Consolidated income before taxes | \$4,418                     | \$3,754  | \$5,227                   | \$4,374  |

Assets by segment:  
( in thousands )

|               | June 30,<br>2016 | December<br>31,<br>2015 |
|---------------|------------------|-------------------------|
| United States | \$95,643         | \$73,688                |
| Canada        | 5,130            | 3,709                   |
| Europe        | 3,955            | 4,024                   |
| Consolidated  | \$104,728        | \$81,421                |

**Note 6 – Stock Based Compensation**

The Company recognizes share-based compensation at the fair value of the equity instrument on the grant date. Compensation expense is recognized over the required service period. Share-based compensation expenses were \$81,338 and \$174,762 for the quarters ended June 30, 2016 and 2015, respectively. Share-based compensation expenses were \$183,535 and \$303,515 for the six months ended June 30, 2016 and 2015, respectively.



As of June 30, 2016, there was a total of \$506,101 of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested share –based payments granted to the Company’s employees. The remaining unamortized expense is expected to be recognized over a weighted average period of approximately 3 years.

**Note 7 – Fair Value Measurements**

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

**Note 8 – Business Combination**

On February 1, 2016, the Company acquired the assets of Vogel Capital, Inc., d/b/a Diamond Machining Technology (DMT) for \$6.97 million in cash. DMT products are leaders in sharpening tools for knives, scissors, chisels, and other cutting tools. DMT was founded in 1976 by aerospace engineers. The DMT products use finely dispersed diamonds on the surfaces of sharpeners. The acquired assets include over 50 patents and trademarks. DMT, based in Marlborough, MA employed 28 people, all of whom were retained by Acme United.

The purchase price was allocated to assets acquired and liabilities assumed as follows (in thousands):

Assets:

|                     |          |
|---------------------|----------|
| Accounts Receivable | \$ 1,145 |
| Inventory           | 280      |
| Equipment           | 262      |
| Prepaid expenses    | 176      |
| Intangible Assets   | 5,481    |
| Total assets        | \$7,344  |

Liabilities

|                   |        |
|-------------------|--------|
| Accounts Payable  | \$ 192 |
| Accrued Expense   | 181    |
| Total liabilities | \$373  |

Management’s assessment of the valuation of intangible assets is preliminary and finalization of the Company’s purchase price accounting assessment may result in changes to the valuation of the identified intangible assets. The Company will finalize the purchase price allocation as soon as practicable within the measurement period in accordance with Accounting Standards Codification Topic 805 “Business Combinations”.

Net sales for the three months ended June 30, 2016 attributable to DMT products were approximately \$1.3 million. Net income for the three months ended June 30, 2016 attributable to DMT products was approximately \$200,000.

Net sales for the six months ended June 30, 2016 attributable to DMT products were approximately \$2.3 million. Net income for the six months ended June 30, 2016 attributable to DMT products was approximately \$300,000.

Assuming DMT was acquired on January 1, 2016, unaudited proforma combined net sales for the six months ended June 30, 2016 for the Company would have been approximately \$66.9 million. Unaudited proforma combined net income for the six months ended June 30, 2016 for the Company would have been approximately \$3.9 million.

Assuming DMT was acquired on January 1, 2015, unaudited proforma combined net sales for the three and six months months ended June 30, 2015, for the Company would have been approximately \$35.2 million and \$59.5 million, respectively. Unaudited proforma combined net income for the three and six months ended June 30, 2015 for the Company would have been approximately \$2.9 million and \$3.5 million, respectively.

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

**Forward-Looking Information**

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

These forward-looking statements include statements of the Company’s plans, objectives, expectations, estimates and intentions, which are subject to change based on various important factors (some of which are beyond the Company’s control). The following factors, in addition to others not listed, could cause the Company’s actual results to differ materially from those expressed in forward looking statements: the strength of the domestic and local economies in which the Company conducts operations, the impact of uncertainties in global economic conditions, changes in client needs and consumer spending habits, the impact of competition and technological change on the Company, the impact of any loss of a major customer, whether through consolidation or otherwise, the Company’s ability to manage its growth effectively, including its ability to successfully integrate any business or assets which it might acquire, and currency fluctuations. For a more detailed discussion of these and other factors affecting us, see the Risk Factors described in Item 1A included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015. All forward-looking statements in this report are based upon information available to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise, except as required by law.

**Critical Accounting Policies**

There have been no material changes to the Company’s critical accounting policies and estimates from the information provided in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

**Results of Operations**

On February 1, 2016, the Company purchased certain assets of Vogel Capital, Inc., d/b/a Diamond Machining Technology (DMT), located in Marlborough, MA. The DMT products are leaders in sharpening tools for knives, scissors, chisels and other cutting tools. The Company purchased inventory, accounts receivable, equipment, patents, trademarks and other intellectual property for \$6.97 million using funds borrowed under its revolving credit facility with HSBC. Additional information concerning the acquisition of DMT assets is set forth in Note 8 – Business

Combinations, in the Notes to Condensed Consolidated Financial Statements.

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

#### Net sales

Consolidated net sales for the three months ended June 30, 2016 were \$40,997,000 compared with \$33,954,000 in the same period in 2015, a 21% increase. Consolidated net sales for the six months ended June 30, 2016 were \$66,285,000, compared with \$56,791,000 for the same period in 2015, a 17% increase.

Net sales for the three and six months ended June 30, 2016 in the U.S. segment increased 22% and 18%, respectively, compared with the same periods in 2015. The increase in sales was primarily due to strong sales of Westcott school and office products, Camillus knives and first aid kits.

Net sales in Canada for the three months ended June 30, 2016 decreased 6% in U.S. dollars (2% in local currency) compared with the same period in 2015. Net sales in Canada for the six months ended June 30, 2016 were constant in U.S. dollars but increased 5% in local currency compared with the same period in 2015.

Net sales in Europe for the three months ended June 30, 2016 increased 38% in U.S. dollars (34% in local currency) compared with the same period in 2015. Net sales for the six months ended June 30, 2016 increased 15% in U.S. dollars (16% in local currency). The increases in sales for the three and six months ended June 30, 2016 were primarily due to market share gains in the office products channel.

#### *Gross profit*

Gross profit for the three months ended June 30, 2016 was \$14,694,000 (35.8% of net sales) compared to \$12,535,000 (36.9% of net sales) for the same period in 2015. Gross profit for the six months ended June 30, 2016 was \$23,879,000 (36.0% of net sales) compared to \$20,970,000 (36.9% of net sales) in the same period in 2015. The decrease in gross margin for the three and six months ended June 30, 2016 was primarily due to strong sales of back to school products, which typically have lower gross margins.

#### *Selling, general and administrative expenses*

Selling, general and administrative ("SG&A") expenses for the three months ended June 30, 2016 were \$10,054,000 (24.5% of net sales) compared with \$8,660,000 (25.5% of net sales) for the same period of 2015, an increase of \$1,394,000. SG&A expenses for the six months ended June 30, 2016 were \$18,284,000 (27.6% of net sales) compared with \$16,269,000 (28.6% of net sales) in the comparable period of 2015, an increase of \$2,015,000. The increases in SG&A expenses for the three and six months ended June 30, 2016, compared to the same periods in 2015, were primarily the result of incremental fixed costs resulting from the acquisition of DMT assets, and increases in delivery costs and sales commissions which resulted from higher sales and higher personnel related costs, which include compensation and recruiting costs.

#### *Operating income*

Operating income for the three months ended June 30, 2016 was \$4,640,000 compared with \$3,875,000 in the same period of 2015. Operating income for the six months ended June 30, 2016 was \$5,595,000 compared to \$4,701,000 in the same period of 2015. Operating income in the U.S. segment increased by \$694,000 and \$668,000 for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. The increase in operating income is principally due to higher sales as described above.

Operating income in the Canadian segment increased by \$95,000 and \$235,000 for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015.

Operating income in the European segment decreased by \$24,000 for the three months ended June 30, 2016, compared to the same period in 2015. In the six months ended June 30, 2016, the European operating segment had an operating loss of \$6,000 compared to operating income of \$4,000 in the same period of 2015.

#### *Interest expense, net*

Interest expense, net for the three months ended June 30, 2016 was \$211,000, compared with \$141,000 for the same period of 2015, a \$70,000 increase. Interest expense, net for the six months ended June 30, 2016 was \$395,000, compared with \$271,000 for the same period of 2015, a \$124,000 increase. The increase in interest expense resulted from higher average borrowings under the Company's bank revolving credit facility for the three and six months ended June 30, 2016. The higher borrowings were primarily the result of the acquisition of assets of DMT.

*Other (income) expense, net*

Net other expense was \$11,000 in the three months ended June 30, 2016 compared to net other income of \$20,000 in the same period of 2015. Net other income was \$27,000 in the first six months of 2016 compared to net other expense of \$56,000 in the same period of 2015. The change in other (income) expense, net is primarily due to gains and losses from foreign currency transactions.

*Income taxes*

The Company's effective tax rates for the three and six months ended June 30, 2016 were 26% and 27% compared to 28% during the same periods in 2015.

## Financial Condition

## Liquidity and Capital Resources

During the first six months of 2016, working capital increased approximately \$11,850,000 compared to December 31, 2015. Inventory increased by approximately \$2.9 million, or 8%, at June 30, 2016 compared to December 31, 2015, primarily due to normal seasonal purchases as well as additional inventory resulting from the acquisition of the assets of DMT on February 1, 2016. Inventory turnover, calculated using a twelve month average inventory balance, was 2.1 at June 30, 2016, compared to 2.0 for the twelve months ended December 31, 2015. Receivables increased by approximately \$15.1 million at June 30, 2016 compared to December 31, 2015. The average number of days sales outstanding in accounts receivable was 63 days at June 30, 2016 compared to 64 days at December 31, 2015. The increase in accounts receivables is due to strong sales in the second quarter as well as the seasonal nature of the Company's back to school business. Sales are typically stronger in the second and third quarters compared to the first and fourth quarters. Accounts payable and other current liabilities increased by approximately \$6.1 million.

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

|                                | <b>June 30,<br/>2016</b> | <b>December<br/>31, 2015</b> |   |   |
|--------------------------------|--------------------------|------------------------------|---|---|
| (in thousands)                 |                          |                              |   |   |
| Working capital                | \$59,547                 | \$47,697                     |   |   |
| Current ratio                  | 4.30                     | 5.00                         |   |   |
| Long term debt to equity ratio | 89.7                     | 60.0                         | % | % |

During the first six months of 2016, total debt outstanding under the Company's revolving credit facility increased by approximately \$14.9 million, compared to total debt thereunder at December 31, 2015. As of June 30, 2016, \$40,821,805 was outstanding and \$9,178,195 was available for borrowing under the Company's credit facility. The increase in the debt outstanding was primarily due to borrowings to fund the acquisition of assets of DMT on February 1, 2016, as well as to fund the increase in working capital.

On May 6, 2016, the Company amended its revolving credit loan agreement with HSBC Bank, N.A. The amended facility provides for borrowings of up to an aggregate of \$50 million at an interest rate of LIBOR plus 2.0%. In addition, the Company must pay a facility fee, payable quarterly, in an amount equal to two tenths of one percent (.20%) per annum of the average daily unused portion of the revolving credit line. All principal amounts outstanding under the agreement are required to be repaid in a single amount on May 6, 2019, the date the agreement expires; interest is payable monthly. Funds borrowed under the agreement may be used for working capital, acquisitions, general operating expenses, share repurchases and certain other purposes. Under the revolving loan agreement, the Company is required to maintain specific amounts of tangible net worth, a specified debt service coverage ratio and a fixed charge coverage ratio and must have annual net income greater than \$0, measured as of the end of each fiscal year. At June 30, 2016, the Company was in compliance with the covenants then in effect under the loan agreement. At June 30, 2016 the Company was in compliance with the covenants then in effect under the loan agreement with HSBC.

As discussed in Note 2 to the Condensed Consolidated Financial Statements set forth in Item 1 above, at June 30, 2016 the Company had a total of approximately \$67,000 remaining in its accruals for environmental remediation and monitoring, related to property it had owned in Fremont, NC.

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



Item 3. Quantitative and Qualitative Disclosure About Market Risk

Not applicable.

Item 4. Controls and Procedures

(a) Evaluation of Internal Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 2016, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1 — Legal Proceedings

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

Item 1A – Risk Factors

See Risk Factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

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

(c) Set forth in the table below is certain information regarding the repurchase by the Company of shares of its Common Stock during the quarter ended June 30, 2016:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of shares Purchased as Part of Publicly Announced Programs | Maximum Number of Shares that may yet be Purchased Under the Programs |
|--------|----------------------------------|------------------------------|---|---|
| April  | 3,621                            | (1)\$ 16.74                  | 3,621   | 41,229  |
| May    | -                                | -                            | -   |   |
| June   | -                                | -                            | -   |   |
| Total  | 3,621                            | \$ 16.74                     | 3,621   | 41,229  |

1) Shares were repurchased under the program announced on November 22, 2010. The plan allows for the repurchase of up to a total of 200,000 shares. The plan does not have an expiration date.

Item 3. — Defaults Upon Senior Securities

None.

Item 4 — Mine Safety Disclosures

Not Applicable

Item 5 — Other Information

None.

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Item 6 — Exhibits

Documents filed as part of this report.

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

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

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

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

SIGNATURES

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

ACME UNITED  
CORPORATION

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

Dated: August 15, 2016

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

Dated: August 15, 2016