

ACME UNITED CORP  
Form 10-Q  
August 14, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-Q

---

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

For the quarterly period ended June 30, 2012

OR

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

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

---

Commission file number 001-07698

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

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

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

Edgar Filing: ACME UNITED CORP - Form 10-Q

and post such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "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 7, 2012 the registrant had outstanding 3,103,227 shares of its \$2.50 par value Common Stock.

---

ACME UNITED CORPORATION

|                                | Page                                                                                                                |
|--------------------------------|---------------------------------------------------------------------------------------------------------------------|
| Part I — FINANCIAL INFORMATION |                                                                                                                     |
| Item 1.                        | Financial Statements (Unaudited)                                                                                    |
|                                | Condensed Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011                                     |
|                                | 3                                                                                                                   |
|                                | Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011           |
|                                | 5                                                                                                                   |
|                                | Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2012 and 2011 |
|                                | 6                                                                                                                   |
|                                | Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011                     |
|                                | 7                                                                                                                   |
|                                | Notes to Condensed Consolidated Financial Statements                                                                |
|                                | 8                                                                                                                   |
| Item 2.                        | Management's Discussion and Analysis of Financial Condition and Results of Operations                               |
|                                | 12                                                                                                                  |
| Item 3.                        | Quantitative and Qualitative Disclosure About Market Risk                                                           |
|                                | 15                                                                                                                  |
| Item 4.                        | Controls and Procedures                                                                                             |
|                                | 15                                                                                                                  |
| Part II — OTHER INFORMATION    |                                                                                                                     |
| Item 1.                        | Legal Proceedings                                                                                                   |
|                                | 16                                                                                                                  |
| Item 1A.                       | Risk Factors                                                                                                        |
|                                | 16                                                                                                                  |
| Item 2.                        | Unregistered Sales of Equity Securities and Use of Proceeds                                                         |
|                                | 16                                                                                                                  |
| Item 3.                        | Defaults Upon Senior Securities                                                                                     |
|                                | 16                                                                                                                  |
| Item 4.                        | Mine Safety Disclosures                                                                                             |
|                                | 16                                                                                                                  |
| Item 5.                        | Other Information                                                                                                   |
|                                | 16                                                                                                                  |
| Item 6.                        | Exhibits                                                                                                            |
|                                | 17                                                                                                                  |
| Signatures                     | 18                                                                                                                  |

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

|                                           | June 30,<br>2012<br>(unaudited) | December 31,<br>2011<br>(Note 1) |
|-------------------------------------------|---------------------------------|----------------------------------|
| <b>ASSETS</b>                             |                                 |                                  |
| Current assets:                           |                                 |                                  |
| Cash and cash equivalents                 | \$ 7,141                        | \$ 7,853                         |
| Accounts receivable, less allowance       | 23,857                          | 12,904                           |
| Inventories:                              |                                 |                                  |
| Finished goods                            | 24,784                          | 22,887                           |
| Work in process                           | 21                              | 45                               |
| Raw materials and supplies                | 1,876                           | 1,563                            |
|                                           | 26,681                          | 24,495                           |
| Prepaid expenses and other current assets | 1,859                           | 1,270                            |
| Total current assets                      | 59,538                          | 46,522                           |
| Property, plant and equipment:            |                                 |                                  |
| Land                                      | 284                             | 288                              |
| Buildings                                 | 2,252                           | 2,277                            |
| Machinery and equipment                   | 7,855                           | 7,657                            |
|                                           | 10,391                          | 10,222                           |
| Less accumulated depreciation             | 8,014                           | 7,716                            |
|                                           | 2,377                           | 2,506                            |
| Note receivable                           | 1,734                           | 1,766                            |
| Intangible assets                         | 4,288                           | 3,285                            |
| Other assets                              | 1,217                           | 1,143                            |
| Total assets                              | \$ 69,154                       | \$ 55,222                        |

See notes to condensed consolidated financial statements.

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

|                                                                                                                                                                   | June 30,<br>2012<br>(unaudited) | December 31,<br>2011<br>(Note 1) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------------------|
| <b>LIABILITIES</b>                                                                                                                                                |                                 |                                  |
| Current liabilities:                                                                                                                                              |                                 |                                  |
| Accounts payable                                                                                                                                                  | \$ 9,968                        | \$ 4,935                         |
| Other accrued liabilities                                                                                                                                         | 5,611                           | 3,769                            |
| Total current liabilities                                                                                                                                         | 15,579                          | 8,704                            |
| Long-term debt                                                                                                                                                    | 23,005                          | 17,569                           |
| Other                                                                                                                                                             | 1,130                           | 1,174                            |
| Total liabilities                                                                                                                                                 | 39,714                          | 27,447                           |
| <b>STOCKHOLDERS' EQUITY</b>                                                                                                                                       |                                 |                                  |
| Common stock, par value \$2.50:<br>authorized 8,000,000 shares;<br>issued - 4,459,024 shares in 2012<br>and 4,454,024 shares in 2011,<br>including treasury stock | 11,147                          | 11,134                           |
| Additional paid-in capital                                                                                                                                        | 5,355                           | 5,120                            |
| Retained earnings                                                                                                                                                 | 26,288                          | 24,403                           |
| Treasury stock, at cost - 1,355,797 shares<br>in 2012 and 1,319,047 shares in 2011                                                                                | (12,214 )                       | (11,844 )                        |
| Accumulated other comprehensive income:                                                                                                                           |                                 |                                  |
| Minimum pension liability                                                                                                                                         | (1,089 )                        | (1,089 )                         |
| Translation adjustment                                                                                                                                            | (47 )                           | 51                               |
|                                                                                                                                                                   | (1,136 )                        | (1,038 )                         |
| Total stockholders' equity                                                                                                                                        | 29,440                          | 27,775                           |
| Total liabilities and stockholders' equity                                                                                                                        | \$ 69,154                       | \$ 55,222                        |

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<br>June 30 |           | Six Months Ended<br>June 30 |           |
|---------------------------------------------------------------------------------------------------------------|-------------------------------|-----------|-----------------------------|-----------|
|                                                                                                               | 2012                          | 2011      | 2012                        | 2011      |
| Net sales                                                                                                     | \$ 27,594                     | \$ 24,029 | \$ 44,472                   | \$ 38,430 |
| Cost of goods sold                                                                                            | 17,773                        | 15,346    | 28,707                      | 24,439    |
| Gross profit                                                                                                  | 9,821                         | 8,683     | 15,765                      | 13,991    |
| Selling, general and<br>administrative expenses                                                               | 6,743                         | 6,223     | 12,229                      | 11,348    |
| Operating income                                                                                              | 3,078                         | 2,460     | 3,536                       | 2,643     |
| Non-operating items:                                                                                          |                               |           |                             |           |
| Interest:                                                                                                     |                               |           |                             |           |
| Interest expense                                                                                              | 91                            | 114       | 193                         | 211       |
| Interest income                                                                                               | (29 )                         | (40 )     | (76 )                       | (90 )     |
| Interest expense, net                                                                                         | 62                            | 74        | 117                         | 121       |
| Other expense (income),<br>net                                                                                | 43                            | 3         | 86                          | (22 )     |
| Total other expense                                                                                           | 105                           | 77        | 203                         | 99        |
| Income before income<br>taxes                                                                                 | 2,973                         | 2,383     | 3,333                       | 2,544     |
| Income tax expense                                                                                            | 912                           | 640       | 1,013                       | 681       |
| Net income                                                                                                    | \$ 2,061                      | \$ 1,743  | \$ 2,320                    | \$ 1,863  |
| Basic earnings per share                                                                                      | \$ 0.66                       | \$ 0.56   | \$ 0.74                     | \$ 0.60   |
| Diluted earnings per share                                                                                    | \$ 0.66                       | \$ 0.56   | \$ 0.74                     | \$ 0.60   |
| Weighted average number of common shares outstanding-<br>denominator used for basic<br>per share computations | 3,103                         | 3,096     | 3,118                       | 3,085     |
| Weighted average number of dilutive stock options<br>outstanding                                              | 41                            | 21        | 24                          | 26        |
| Denominator used for<br>diluted per share<br>computations                                                     | 3,144                         | 3,117     | 3,142                       | 3,111     |
| Dividends declared per<br>share                                                                               | \$ 0.07                       | \$ 0.06   | \$ 0.14                     | \$ 0.12   |

See notes to condensed consolidated financial statements.

ACME UNITED CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(all amounts in thousands)  
(Unaudited)

|                                          | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|------------------------------------------|--------------------------------|----------|------------------------------|----------|
|                                          | 2012                           | 2011     | 2012                         | 2011     |
| Net income                               | \$ 2,061                       | \$ 1,743 | \$ 2,320                     | \$ 1,863 |
| Other comprehensive (loss) /<br>income - |                                |          |                              |          |
| Foreign currency translation             | (323 )                         | 85       | (98 )                        | 423      |
| Comprehensive income                     | \$ 1,738                       | \$ 1,828 | \$ 2,222                     | \$ 2,286 |

See notes to condensed consolidated financial statements.

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

|                                                                                  | 2012      | Six Months Ended<br>June 30, | 2011      |
|----------------------------------------------------------------------------------|-----------|------------------------------|-----------|
| Operating Activities:                                                            |           |                              |           |
| Net income                                                                       | \$ 2,320  |                              | \$ 1,863  |
| Adjustments to reconcile net income<br>to net cash used by operating activities: |           |                              |           |
| Depreciation                                                                     | 421       |                              | 396       |
| Amortization                                                                     | 98        |                              | 85        |
| Stock compensation expense                                                       | 233       |                              | 209       |
| Changes in operating assets and liabilities:                                     |           |                              |           |
| Accounts receivable                                                              | (10,934 ) |                              | (10,413 ) |
| Inventories                                                                      | (1,914 )  |                              | 248       |
| Prepaid expenses and other assets                                                | (473 )    |                              | 153       |
| Accounts payable                                                                 | 5,048     |                              | 2,119     |
| Other accrued liabilities                                                        | 1,644     |                              | 1,636     |
| Total adjustments                                                                | (5,877 )  |                              | (5,567 )  |
| Net cash used by operating activities                                            | (3,557 )  |                              | (3,704 )  |
| Investing Activities:                                                            |           |                              |           |
| Purchase of property, plant, and equipment                                       | (233 )    |                              | (296 )    |
| Purchase of patents and trademarks                                               | (52 )     |                              | (50 )     |
| Acquisition of certain assets of The C-Thru<br>Ruler Company                     | (1,474 )  |                              | -         |
| Acquisition of Pac-Kit                                                           | -         |                              | (3,127 )  |
| Net cash used by investing activities                                            | (1,759 )  |                              | (3,473 )  |
| Financing Activities:                                                            |           |                              |           |
| Borrowing of long-term debt                                                      | 5,436     |                              | 5,079     |
| Proceeds from issuance of common stock                                           | 21        |                              | 146       |
| Distributions to stockholders                                                    | (437 )    |                              | (370 )    |
| Purchase of treasury stock                                                       | (370 )    |                              | (97 )     |
| Net cash provided by financing activities                                        | 4,650     |                              | 4,758     |
| Effect of exchange rate changes                                                  | (46 )     |                              | 52        |
| Net change in cash and cash equivalents                                          | (712 )    |                              | (2,367 )  |
| Cash and cash equivalents at beginning of<br>period                              | 7,853     |                              | 6,601     |
| Cash and cash equivalents at end of period                                       | \$ 7,141  |                              | \$ 4,234  |

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, 2011 for such disclosures. The condensed consolidated balance sheet as of December 31, 2011 was derived from the audited consolidated balance sheet as of that date. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto, included in the Company's 2011 Annual Report on Form 10-K.

The Company has evaluated events and transactions subsequent to June 30, 2012 and through the date these consolidated financial statements were included in this Form 10-Q and filed with the SEC.

Recent accounting pronouncements

In June 2011, the FASB issued a new accounting standard on the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The standard was effective for our quarter ended March 31, 2012. The adoption of this standard was limited to a change in the presentation of our results, which we have elected to include as a separate Condensed Consolidated Statement of Comprehensive Income.

Note 2 — Contingencies

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

In December 2008, the Company sold property it owned in Bridgeport, Connecticut to B&E Juices, Inc. for \$2.5 million, of which \$2.0 million is 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 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 is required to remediate any environmental contamination on the property. During 2008, the Company hired an independent environmental consulting firm to conduct environmental studies in order to identify the extent of the environmental contamination on the property and to develop a remediation plan. As a result of those studies and the estimates prepared by the independent environmental consulting firm, the Company recorded an undiscounted liability of approximately \$1.8 million related to the remediation of the property. This accrual included the estimated costs of required investigation, remedial activities, and post-remediation operating and maintenance.

Remediation work on the project began in the third quarter of 2009. The Company expects the remediation work to be completed during the second half of 2012. At June 30, 2012, the Company had approximately \$188,000 remaining in its accrual for environmental remediation and monitoring, of which approximately \$54,000 is classified as a current liability in the accompanying balance sheet.

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

The change in the accrual for environmental remediation for the three months ended June 30, 2012 follows (in thousands):

| Balance at<br>December 31, 2011 | Payments | Balance at<br>June 30, 2012 |
|---------------------------------|----------|-----------------------------|
| \$ 239                          | \$ (51)  | \$ 188                      |

Also, as part of the sale, the Company provided the buyer with a mortgage of \$2.0 million at six percent interest per year. The mortgage is payable in monthly installments of principal and interest with the outstanding balance due in full, one year after remediation and monitoring on the property have been completed.

### Note 3 — Pension

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

|                                          | Three Months Ended June 30, |       | Six Months Ended June 30, |       |
|------------------------------------------|-----------------------------|-------|---------------------------|-------|
|                                          | 2012                        | 2011  | 2012                      | 2011  |
| Components of net periodic benefit cost: |                             |       |                           |       |
| Interest cost                            | \$ 17                       | \$ 26 | \$ 43                     | \$ 52 |
| Service cost                             | 12                          | 5     | 17                        | 10    |
| Expected return on plan assets           | (28 )                       | (26 ) | (54 )                     | (53 ) |
| Amortization of prior service costs      | 2                           | 3     | 5                         | 5     |
| Amortization of actuarial loss           | 39                          | 38    | 77                        | 76    |
|                                          | \$ 43                       | \$ 45 | \$ 87                     | \$ 90 |

Under applicable laws and regulations, in 2012, the Company is required to contribute to its qualified plan approximately \$235,000. The Company expects to make contributions to the plan as required during the remainder of the year.

### Note 4 —Debt and Shareholders Equity

On April 5, 2012, the Company entered into a new revolving loan agreement with HSBC Bank, N.A. In conjunction with signing the new revolving loan agreement, the Company ended its agreement with Wells Fargo and used funds borrowed under the new loan agreement to pay all amounts then outstanding under the revolving loan agreement with Wells Fargo Bank.

The new five-year credit facility provides for increased borrowings of up to an aggregate of \$30 million at an interest rate of LIBOR plus 1.75%, which is 0.25% lower than the interest rate under the former loan agreement with Wells Fargo. All principal amounts outstanding under the agreement are required to be repaid in a single amount on April 5, 2017, the date the agreement expires; interest is payable monthly. Funds borrowed under the agreement may be used for working capital, 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. These financial covenants in the new loan agreement are similar to the covenants in the prior agreement with Wells Fargo. At June 30, 2012 the Company was in compliance with these covenants under the new agreement with HSBC Bank.

As of June 30, 2012 and December 31, 2011, the Company had outstanding borrowings of \$23,004,777 and \$17,568,484, respectively, under the respective revolving loan agreements.

During the first six months of 2012, the Company issued 5,000 shares of common stock and received proceeds of \$21,000 upon the exercise of employee stock options.

#### 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 safety products for school, office, home, hardware and industrial use.

Domestic sales orders are 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 the shipping points in Asia. Direct import sales are made in larger quantities than domestic sales, typically full containers. Direct import sales represented approximately 28% and 22% of the Company's total net sales for the three and six months ended June 30, 2012 compared to 23% and 18% for the comparable periods in 2011.

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<br>June 30, |           | Six months ended<br>June 30, |           |
|----------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                  | 2012                           | 2011      | 2012                         | 2011      |
| Sales to external customers:     |                                |           |                              |           |
| United States                    | \$ 22,563                      | \$ 18,527 | \$ 35,160                    | \$ 29,086 |
| Canada                           | 3,310                          | 3,324     | 4,967                        | 5,178     |
| Europe                           | 1,721                          | 2,178     | 4,345                        | 4,166     |
| Consolidated                     | \$ 27,594                      | \$ 24,029 | \$ 44,472                    | \$ 38,430 |
| Operating income (loss):         |                                |           |                              |           |
| United States                    | \$ 2,587                       | \$ 1,862  | \$ 2,753                     | \$ 1,983  |
| Canada                           | 521                            | 599       | 571                          | 749       |
| Europe                           | (30 )                          | (1 )      | 212                          | (89 )     |
| Consolidated                     | \$ 3,078                       | \$ 2,460  | \$ 3,536                     | \$ 2,643  |
| Interest expense, net            | 62                             | 74        | 117                          | 121       |
| Other expense (income), net      | 43                             | 3         | 86                           | (22 )     |
| Consolidated income before taxes | \$ 2,973                       | \$ 2,383  | \$ 3,333                     | \$ 2,544  |



Assets by segment:  
( in thousands )

|               | June 30,<br>2012 | December 31,<br>2011 |
|---------------|------------------|----------------------|
| United States | \$ 57,236        | \$ 43,174            |
| Canada        | 6,326            | 6,033                |
| Europe        | 5,592            | 6,015                |
| Consolidated  | \$ 69,154        | \$ 55,222            |

#### 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 expense was \$145,237 and \$125,828 for the quarters ended June 30, 2012 and 2011, respectively. Share-based compensation expense was \$232,753 and \$209,438 for the six months ended June 30, 2012 and 2011, respectively. During the three months ended June 30, 2012, the Company issued 20,000 options with a weighted average fair value of \$2.44 per share. During the six months ended June 30, 2012 the Company issued 84,938 options with a weighted average fair value of \$2.28.

As of June 30, 2012, there was a total of \$645,000 of unrecognized compensation cost related to non-vested share-based payments granted to the Company's employees. The remaining unamortized expense is expected to be recognized over a weighted average period of approximately 3 years.

#### Note 7 – Fair Value Measurements

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

#### Note 8 – Business Combination

On June 7, 2012, the Company purchased certain assets of The C-Thru Ruler Company, a leading supplier of drafting, measuring, lettering and stencil products. The Company purchased inventory and intellectual property related to C-Thru's lettering and ruler business for approximately \$1.47 million using funds borrowed under its revolving loan agreement with HSBC. The Company recorded approximately \$0.42 million for inventory, as well as approximately \$1.05 million for intangible assets, consisting primarily of customer relationships.

Unaudited net sales and net income for the three and six months ended June 30, 2012 attributable to C-Thru were not material to the Company's financial statements for those periods.

Assuming C-Thru was acquired on January 1, 2012, unaudited proforma combined net sales for the three and six months ended June 30, 2012 for the Company were approximately \$28.2 million and \$45.6 million, respectively.

Assuming C-Thru was acquired on January 1, 2011, unaudited proforma combined net sales for the three and six months ended June 30, 2011, for the Company were approximately \$24.7 million and \$39.7 million, respectively.

On February 28, 2011, the Company purchased substantially all of the assets of The Pac-Kit Safety Equipment Company, a leading manufacturer of first aid kits for the industrial, safety, transportation and marine markets. The Company purchased the accounts receivable, inventory, equipment and intangible assets of Pac-Kit for approximately \$3.4 million, less liabilities assumed of \$310,000.

Assuming Pac-Kit was acquired on January 1, 2011, unaudited proforma net sales and net income for the six months ended June 30, 2011 attributable to Pac-Kit were approximately \$3.2 million and \$155,000, 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 current uncertainties in global economic conditions and the ongoing financial crisis affecting the domestic and foreign banking systems and financial markets, including the impact on the Company's suppliers and customers, the continuing labor shortage in southeast China, currency fluctuations, changes in client needs and consumer spending habits, the impact of competition and technological change on the Company, and the Company's ability to manage its growth effectively, including its ability to successfully integrate any business which it might acquire. A more detailed discussion of risk factors is set forth in Item 1A, "Risk Factors", included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. All forward-looking statements in this report are based upon information available to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise, except as required by law.

Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Results of Operations

On June 7, 2012, the Company purchased certain assets of The C-Thru Ruler Company, a leading supplier of drafting, measuring, lettering and stencil products. The Company purchased inventory and intellectual property related to C-Thru's lettering and ruler business for approximately \$1.47 million using funds borrowed under its revolving loan agreement with HSBC. The Company recorded approximately \$0.42 million for inventory, as well as approximately \$1.05 million for intangible assets, consisting of customer relationships.

On February 28, 2011, the Company purchased substantially all of the assets of The Pac-Kit Safety Equipment Company, a leading manufacturer of first aid kits for the industrial, safety, transportation and marine markets. The Company purchased the accounts receivable, inventory, equipment and intangible assets of Pac-Kit for approximately \$3.4 million using funds borrowed under its revolving loan agreement with Wells Fargo. The Pac-Kit line of products consists of high quality, unitized first aid kits sold to a broad range of customers and distributors. The Company recorded approximately \$1.9 million for assets acquired from Pac-Kit, including accounts receivable, inventory and fixed assets, as well as approximately \$1.5 million for intangible assets, consisting of customer relationships and the Pac-Kit trade name.

Net sales

Consolidated net sales for the three months ended June 30, 2012 were \$27,594,000 compared with \$24,029,000 in the same period in 2011, a 15% increase (16% in local currency). Consolidated net sales for the six months ended June 30, 2012 were \$44,472,000, compared with \$38,430,000 for the same period in 2011, a 16% increase (17% in local currency). Net sales for the three and six months ended June 30, 2012 in the U.S. segment increased 22% and 21%, respectively, compared with the same periods in 2011. Sales in the U.S. for both periods increased primarily due to initial shipments for new distribution of the Company's Camillus brand knives. Also contributing to the increase were higher sales of iPoint pencil sharpeners, paper trimmers and first aid products. Net sales in Canada for the three months ended June 30, 2012 remained constant in U.S. dollars but increased 4% in local currency. Net sales in Canada for the six months ended June 30, 2012 decreased 4% in U.S. dollars and 1% in local currency compared with the same period in 2011.

European net sales for the three months ended June 30, 2012 decreased 21% U.S. dollars (11% in local currency) compared with the same period in 2011. The decrease in net sales in Europe for the three month period on a comparative basis was primarily due to the loss of a large customer, Schlecker, as a result of their financial troubles. Schlecker, once one of Germany's largest drug store chains, filed for bankruptcy and is in the process of liquidating a majority of its business. European net sales for the six months ended June 30, 2012 increased 4% in U.S. dollars and 13% in local currency. The increase in sales was primarily due to market share gains with mass market customers which were partially offset by lower sales as result of the loss of the large customer.

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

#### Gross profit

Gross profit for the three months ended June 30, 2012 was \$9,821,000 (35.6% of net sales) compared to \$8,683,000 (36.1% of net sales) for the same period in 2011. Gross profit for the six months ended June 30, 2012 was \$15,765,000 (35.5% of net sales) compared to \$13,991,000 (36.4% of net sales) in the same period in 2011. The gross margin as a percent of sales for the three and six months ended June 30, 2012 was negatively impacted by the mix of customers and products sold during the three and six month periods. The mix included a higher proportion of first aid products, pencil sharpeners and paper trimmers, which in general, yield a lower gross margin than the Company's historical average gross margins.

#### Selling, general and administrative expenses

Selling, general and administrative ("SG&A") expenses for the three months ended June 30, 2012 were \$6,743,000 (24.4% of net sales) compared with \$6,223,000 (25.8% of net sales) for the same period of 2011, an increase of \$520,000. SG&A expenses for the six months ended June 30, 2012 were \$12,229,000 (27.5% of net sales) compared with \$11,348,000 (29.5% of net sales) in the comparable period of 2011, an increase of \$881,000. The increases in SG&A expenses for the three and six months ended June 30, 2012, compared to the same periods in 2011, were primarily the result of, an increase in shipping expense and sales commissions as a result of higher sales, personnel related expenses as well as an increase in spending on new product development.

#### Operating income

Operating income for the three months ended June 30, 2012 was \$3,078,000 compared with \$2,460,000 in the same period of 2011. Operating income for the six months ended June 30, 2012 was \$3,536,000 compared to \$2,643,000 in the same period of 2011. Operating income in the U.S. segment increased by \$725,000 and \$770,000 for the three and six months, respectively, compared to the same periods in 2011. The increase in operating income is principally due to higher sales. Operating income in the Canadian segment decreased by \$78,000 and \$178,000 for the three and six months, respectively, compared to the same periods in 2011. The decrease in operating income in Canada is principally due to the decline in sales.

The operating loss in Europe increased by \$29,000 for the three months ended June 30, 2012 compared to the same period in 2011. The increase in the operating loss is primarily related to the loss of a major German customer due to their financial troubles which resulted in the liquidation of a majority of their business. Europe had operating income of \$212,000 for the six months ended June 30, 2012 compared to an operating loss of \$89,000 for the comparable period in 2011. The increase in operating income is principally due to increased sales to mass market customers which were partially offset by the losses incurred due to the loss of the major customer.

#### Interest expense, net

Interest expense, net for the three months ended June 30, 2012 was \$62,000, compared with \$74,000 for the same period of 2011, a \$12,000 decrease. Interest expense, net for the six months ended June 30, 2012, was \$117,000 as compared to \$121,000 for the same period in 2011.

## Other expense (income), net

Net other expense was \$43,000 in the three months ended June 30, 2012 as compared to \$3,000 in the same period of 2011. Net other expense was \$86,000 in the first six months of 2012 compared to net other income of \$22,000 in the first six months of 2011. The increase in other expense (income), net for the three and six months ended June 30, 2012, was primarily due to losses from foreign currency transactions.

## Income taxes

The effective tax rates for the three and six month periods ended June 30, 2012 were 31% and 30% respectively, compared to 27% in the same periods of 2011. The increase in the effective tax rate for the three and six months ended June 30, 2012 was due to a higher proportion of earnings in jurisdictions with higher tax rates.

## Financial Condition

## Liquidity and Capital Resources

During the first six months of 2012, working capital increased approximately \$6,141,000 compared to December 31, 2011. Inventory increased by approximately \$2,186,000 at June 30, 2012 compared to December 31, 2011. Inventory turnover, calculated using a twelve month average inventory balance, was 2.2 at June 30, 2012 compared to 2.0 at December 31, 2011. Receivables increased by approximately \$10,953,000 at June 30, 2012 compared to December 31, 2011. The increase in accounts receivables occurred primarily due to the higher sales in the second quarter of 2012 compared to the fourth quarter of 2011. The average number of days sales outstanding in accounts receivable was 62 days at June 30, 2012 and December 31, 2011.

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

|                                | June 30, 2012 | December 31, 2011 |
|--------------------------------|---------------|-------------------|
| (in thousands)                 |               |                   |
| Working capital                | \$ 43,959     | \$ 37,818         |
| Current ratio                  | 3.82          | 5.34              |
| Long term debt to equity ratio | 78.1%         | 63.3%             |

During the first six months of 2012, total debt outstanding under the Company's credit facility increased by approximately \$5,437,000 compared to total debt thereunder at December 31, 2011. As of June 30, 2012, \$23,004,777 was outstanding and \$6,995,223 was available for borrowing under the Company's credit facility.

On April 5, 2012, the Company entered into a new revolving loan agreement with HSBC Bank, N.A. In conjunction with signing the new agreement, the Company ended its agreement with Wells Fargo and used funds borrowed under the new loan agreement to pay all amounts then outstanding under the revolving loan agreement with Wells Fargo Bank. The new five-year credit facility provides for increased borrowings of up to an aggregate of \$30 million at an interest rate of LIBOR plus 1.75%, which is 0.25% lower than the interest rate under our former loan agreement. All principal amounts outstanding under the agreement are required to be repaid in a single amount on April 5, 2017, the date the agreement expires; interest is payable monthly. Funds borrowed under the agreement may be used for working capital, 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. These financial covenants in the new loan agreement are similar to the covenants in the prior agreement with Wells Fargo. At June 30, 2012, the Company was in compliance with these financial covenants.

As discussed above, the Company lost the business of a large European customer due to its financial troubles. Schlecker, once one of Germany's largest drug store chains, filed for bankruptcy and is in the process of liquidating a majority of its business. Sales to Schlecker represented approximately 2% of the Company's total net sales in 2011. The Company has not incurred and does not expect to incur any future material charges related to the write-off of receivables or inventory related to the loss of the Schlecker business.

As discussed in Note 2, at June 30, 2012 the Company had approximately \$188,000 remaining in its accrual for environmental remediation and monitoring, with approximately \$54,000 classified as a current liability. The Company intends to use cash flow from operations , borrowings under its revolving credit facility and/or payments made to the company under the 2008 mortgage to pay for these costs.

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

### Item 3. Quantitative and Qualitative Disclosure About Market Risk

Not applicable.

### Item 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, 2012, 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.

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, 2011.

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

None.

Item 3. —Defaults Upon Senior Securities

None.

Item 4 — Mine Safety Disclosures

Not Applicable

Item 5 — Other Information

None.

Item 6 — Exhibits

Documents filed as part of this report.

Exhibit 10.1 Acme United Corporation 2012 Employee Stock Option Plan

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 14, 2012

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

Dated: August 14, 2012