

ACME UNITED CORP  
Form 10-Q  
November 12, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

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

OR

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

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

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Commission file number **001-07698**

**ACME UNITED CORPORATION**

(Exact name of registrant as specified in its charter)

\_\_\_\_\_

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

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

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

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

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

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

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

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

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

ACME UNITED CORPORATION

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**Part I - FINANCIAL INFORMATION**

## Item 1. Financial Statements (Unaudited)

## ACME UNITED CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(all amounts in thousands, except share amounts)

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

See notes to condensed consolidated financial statements.

**ACME UNITED CORPORATION**

## CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

(all amounts in thousands, except share amounts)

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

See notes to condensed consolidated financial statements.

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

(Unaudited)

(all amounts in thousands, except per share amounts)

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

See notes to condensed consolidated financial statements.



ACME UNITED CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(all amounts in thousands)

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

See notes to condensed consolidated financial statements.

## ACME UNITED CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(all amounts in thousands)

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

|  |         |         |
|--|---------|---------|
| Cash and cash equivalents at end of period | \$4,621 | \$5,814 |
|--|---------|---------|

See notes to condensed consolidated financial statements.

Notes to CONDENSED CONSOLIDATED Financial Statements

(UNAUDITED)

**Note 1 — Basis of Presentation**

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

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

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

**Note 2 — Contingencies**

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

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

factory which opened in 1887 and was closed in 1996.

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

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

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

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

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

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

### Note 3 — Pension

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

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2015 | Nine<br>Months<br>Ended<br>September<br>30,<br>2014 |
|--|--|---|
|  |  |   |

Components of net periodic benefit cost:

|                                     |      |      |      |      |
|-------------------------------------|------|------|------|------|
| Interest cost                       | \$15 | \$18 | \$44 | \$53 |
| Service cost                        | 6    | 6    | 19   | 19   |
| Expected return on plan assets      | (24) | (23) | (70) | (70) |
| Amortization of prior service costs | 2    | 2    | 7    | 7    |
| Amortization of actuarial loss      | 36   | 29   | 92   | 87   |
|                                     | \$35 | \$32 | \$92 | \$96 |

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. As of September 30, 2015 the Company had contributed approximately \$30,000 to the plan.

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

On April 25, 2013, the Company amended its revolving loan agreement with HSBC Bank N.A. dated April 5, 2012. The amendment increased the borrowing limit to \$40 million from \$30 million. The interest rate remained the same at LIBOR plus 1.75%. 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. During the fourth quarter of 2013, the Company and HSBC agreed to make certain technical amendments to a covenant of the amended loan agreement to accommodate the purchase of the Rocky Mount facility. Funds borrowed under the agreement may be used for working capital, general operating expenses, share repurchases, acquisitions and certain other purposes. Under the amended loan agreement, the Company continues to be required to maintain specific amounts of tangible net worth, a debt/net worth ratio, and a fixed charge coverage ratio. At September 30, 2015, the Company was in compliance with these covenants.

As of September 30, 2015 and December 31, 2014, the Company had outstanding borrowings of approximately \$28,551,000 and \$24,147,000, respectively, under the Company's revolving loan agreement with HSBC.

During the three months ended September 30, 2015, the Company issued a total of 39,599 shares of common stock and received aggregate proceeds of \$463,029 upon exercise of employee stock options.

During the nine months ended September 30, 2015, the Company issued a total of 87,194 shares of common stock and received aggregate proceeds of \$1,137,863 upon the exercise of employee stock options.

During the three and nine months ended September 30, 2015, the Company repurchased 9,682 shares of its Common Stock at an average price of \$16.69. As of September 30, 2015, there were 133,463 shares that may be purchased under the repurchase program announced in 2010. The Company's purchases in September 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 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 15% and 18% of the Company's total net sales for the three and nine months ended September 30, 2015 compared to 11% and 16% for the comparable periods in 2014.

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 |          | Nine months ended |          |
|---|--------------------|----------|-------------------|----------|
|   | September 30,      |          | September 30,     |          |
|   | 2015               | 2014     | 2015              | 2014     |
| Sales to external customers:            |                    |          |                   |          |
| United States                           | \$26,160           | \$25,833 | \$75,943          | \$69,946 |
| Canada                                  | 1,669              | 2,190    | 5,726             | 7,372    |
| Europe                                  | 2,074              | 1,985    | 5,025             | 5,237    |
| Consolidated                            | \$29,903           | \$30,008 | \$86,694          | \$82,555 |
| Operating income (loss):                |                    |          |                   |          |
| United States                           | \$1,849            | \$1,819  | \$6,405           | \$5,752  |
| Canada                                  | 30                 | 94       | 202               | 652      |
| Europe                                  | 112                | 17       | 86                | (115 )   |
| Consolidated                            | \$1,991            | \$1,930  | \$6,693           | \$6,289  |
| Interest expense, net                   | 149                | 153      | 420               | 343      |
| Other expense (income), net             | 92                 | 67       | 148               | 78       |
| Consolidated income before income taxes | \$1,750            | \$1,710  | \$6,125           | \$5,868  |

## Assets by segment:

( in thousands )

|               | September 30, 2015 | December 31, 2014 |
|---------------|--------------------|-------------------|
| United States | \$ 78,458          | \$ 70,526         |
| Canada        | 4,102              | 4,363             |
| Europe        | 4,025              | 4,419             |
| Consolidated  | \$ 86,585          | \$ 79,308         |

**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 \$138,710 and \$151,193 for the quarters ended September 30, 2015 and 2014, respectively. Share-based compensation expenses were \$442,225 and \$451,193 for the nine months ended September 30, 2015 and 2014, respectively. During the three months ended September 30, 2015, the Company issued 10,000 options with a weighted average fair value of \$3.24 per share. During the nine months ended September 30, 2015 the Company issued 47,000 options with a weighted average fair value of \$3.44.

As of September 30, 2015, there was a total of \$804,378 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**

Due to its nature and associated interest rate, 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 June 2, 2014, the Company purchased certain assets of First Aid Only, Inc. (“First Aid Only”), a supplier of Smart Compliance® first aid kits, refills, and safety products that meet regulatory requirements for a broad range of industries. The Company purchased inventory, accounts receivable, equipment, patents, trademarks and other intellectual property for approximately \$13.8 million (including assumed liabilities) using funds borrowed under its revolving credit facility with HSBC.

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

## Assets:

|                         |          |
|-------------------------|----------|
| Accounts Receivable     | \$2,544  |
| Inventory               | 1,704    |
| Equipment               | 463      |
| Prepaid expenses        | 110      |
| Customer Relationships  | 5,430    |
| Trade Name              | 3,410    |
| Covenant Not-to-Compete | 70       |
| Goodwill                | 1,340    |
| Total assets            | \$15,071 |

## Liabilities

|                   |         |
|-------------------|---------|
| Accounts Payable  | \$1,019 |
| Accrued Expense   | 252     |
| Total liabilities | \$1,271 |

Assuming First Aid Only was acquired on January 1, 2014, unaudited proforma combined net sales for the nine months ended September 30, 2014 for the Company would have been approximately \$89.6 million. Unaudited proforma combined net income for nine months ended September 30, 2014 for the Company would have been approximately \$4.3 million.

## **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**

This report contains "forward-looking statements" (as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). These forward-looking statements may concern the Company's plans, goals, intentions, expectations, estimates, results of operations or financial condition, as well as future trends and events, or state other information relating to the Company, based on current beliefs of management as well as assumptions made by, and information currently available to, the Company. Forward-looking statements generally will be accompanied by words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "may," "might," "possible," "potential," "predict," "project," "scheduled," "should," or other similar words, phrases or expressions. These forward-looking statements are based upon a number of assumptions, which management believes to be reasonable, concerning future conditions, any or all of which may ultimately prove to be inaccurate. Forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those discussed in this report.

The following factors, in addition to others not listed, could cause the Company's actual results to differ materially from those expressed in any forward looking statements made by the Company: economic and political conditions in which the Company, its suppliers or its customers operate, 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, 2014. All forward-looking statements in this report are based upon information available to the Company on the date of this report and are expressly qualified in their entirety by the foregoing cautionary statements. 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, 2014.

## Results of Operations

On April 7, 2014, the Company sold its Fremont, NC distribution facility for \$850,000 in cash. The facility originally served as a manufacturing site for the Company's scissors and rulers. In connection with the sale and as part of the terms of the sale agreement, the Company is responsible to remediate any environmental contamination on the property. As a result, the Company recorded a \$300,000 liability for environmental remediation in the second quarter of 2014. For more information related to the sale of the Fremont, NC facility and the required remediation, see Note 2 – Contingencies in the Notes to Condensed Consolidated Financial Statements.

On June 2, 2014, the Company purchased certain assets of First Aid Only, Inc. ("First Aid Only"), located in Vancouver, WA, a supplier of Smart Compliance® first aid kits, refills, and safety products that meet regulatory requirements for a broad range of industries. The Company purchased inventory, accounts receivable, equipment, patents, trademarks and other intellectual property for approximately \$13.8 million (including assumed liabilities) using funds borrowed under its revolving credit facility with HSBC. Additional information concerning the acquisition of First Aid Only assets is set forth in Note 2 – Contingencies, 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 September 30, 2015 were \$29,903,000 compared with \$30,008,000 in the same period in 2014, approximately even with the same period last year and up 3% in constant currency. Consolidated net sales for the nine months ended September 30, 2015 were \$86,694,000, compared with \$82,555,000 for the same period in 2014, a 5% increase or 8% in constant currency. Net sales for the three and nine months ended September 30, 2015 in the U.S. segment increased 1% and 9%, respectively, compared with the same periods in 2014. Sales in the U.S. for the three month period increased primarily due to higher sales of Westcott school and office products, particularly the iPoint pencil sharpener. Sales of first aid products were also higher in the period compared to the same period last year. The increase in sales in the U.S. for the nine months ended September 30, 2015 was primarily due to increased sales of first aid products.

Net sales in Canada for the three months ended September 30, 2015 decreased 24% in U.S. dollars (9% in local currency). Net sales in Canada for the nine months ended September 30, 2015 decreased 22% in U.S. dollars (11% in local currency) compared with the same period in 2014. The decreases in sales in Canada for the three and nine months ended September 30, 2015 were primarily due to a large retail chain exiting the Canadian market and weak economic conditions.

European net sales for the three months ended September 30, 2015 increased 5% in U.S. dollars (24% in local currency) compared with the same period in 2014. European net sales for the nine months ended September 30, 2015 decreased 4% in U.S. dollars but increased 13% in local currency. The increase in net sales for the three and nine months is primarily related to a special promotion to a large mass market customer in the third quarter.

*Gross profit*

Gross profit for the three months ended September 30, 2015 was \$10,325,000 (34.5% of net sales) compared to \$10,615,000 (35.4% of net sales) for the same period in 2014. The decline in gross profit in the third quarter is primarily related to approximately \$150,000 of one-time moving and severance costs as the Company began the process of consolidating its first aid operations into the Vancouver, Washington facility. Gross profit for the nine months ended September 30, 2015 was \$31,296,000 (36.1% of net sales) compared to \$29,209,000 (35.4% of net sales) in the same period in 2014. The increase in gross profit for the nine months ended September 30, 2015 was primarily due to a more favorable product mix.

*Selling, general and administrative expenses*

Selling, general and administrative ("SG&A") expenses for the three months ended September 30, 2015 were \$8,334,000 (27.9% of net sales) compared with \$8,685,000 (28.9% of net sales) for the same period of 2014, a decrease of \$351,000. SG&A expenses for the nine months ended September 30, 2015 were \$24,603,000 (28.4% of net sales) compared with \$22,920,000 (27.8% of net sales) in the comparable period of 2014, an increase of \$1,683,000. The increase in SG&A expenses for the nine months ended September 30, 2015, compared to the same period in 2014, was primarily the result of incremental expenses from the addition of First Aid Only, increases in shipping expense and sales commissions which resulted from higher sales.

*Operating income*

Operating income for the three months ended September 30, 2015 was \$1,991,000 compared with \$1,930,000 in the same period of 2014. Operating income for the nine months ended September 30, 2015 was \$6,693,000 compared to \$6,289,000 in the same period of 2014. Operating income in the U.S. segment increased by \$61,000 and \$404,000 for the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014. The increases in operating income were principally due to higher sales. Also, the lower SG&A expenses for the three months ended September 30, 2015 had a favorable impact on the operating income.

Operating income in the Canadian segment declined by \$64,000 for the three months ended September 30, 2015 compared to the same period in 2014. Operating income in the Canadian segment declined by \$450,000 for the nine months ended September 30, 2015 compared to the same period in 2014. The decrease in operating income in Canada for the three and nine months was principally due to the lower sales, as described above.

For the three months ended September 30, 2015, the operating income in the European segment increased by approximately \$95,000 compared to the comparable period in 2014. For the nine months ended September 30, 2015, the European segment had operating income of approximately \$86,000 compared to an operating loss of \$115,000 in the comparable period of 2014. The increases in operating income for the three and nine month periods were primarily due to higher sales as noted above.

#### *Interest expense, net*

Interest expense, net for the three months ended September 30, 2015 was \$149,000, compared with \$153,000 for the same period of 2014, a \$4,000 decline. Interest expense, net for the nine months ended September 30, 2015, was \$420,000 compared to \$343,000 for the same period in 2014, an increase of \$77,000. The increase in interest expense resulted from higher average borrowings under the Company's bank revolving credit facility for the nine months ended September 30, 2015. The higher borrowings are primarily the result of the acquisition of assets of First Aid Only.

#### *Other expense*

Net other expense was \$92,000 in the three months ended September 30, 2015 compared to other expense of \$67,000 in the same period of 2014. Net other expense was \$149,000 in the first nine months of 2015 compared to \$78,000 in the same period of 2014. The increase in other expense for the three and nine months ended September 30, 2014 was primarily due to losses from foreign currency transactions.

#### *Income taxes*

The Company's effective tax rates for both the three and nine month periods ended September 30, 2015 were 31% and 29%, respectively compared to 30% in the same periods of 2014. The decrease in the effective tax rate for the nine months ended September 30, 2015 was due to the Company generating a higher proportion of earnings in jurisdictions with lower tax rates.

**Financial Condition***Liquidity and Capital Resources*

During the first nine months of 2015, working capital increased approximately \$8,756,000 compared to December 31, 2014. Inventory increased by approximately \$826,000 at September 30, 2015 compared to December 31, 2014. Inventory turnover, calculated using a twelve month average inventory balance, was 2.0 for the period ended September 30, 2015, compared to 2.2 for the twelve months ended December 31, 2014. Receivables increased by approximately \$4.1 million at September 30, 2015 compared to December 31, 2014. The increase in accounts receivables occurred primarily due to the higher sales in the third quarter of 2015 compared to the fourth quarter of 2014. The average number of days sales outstanding in accounts receivable was 64 days at September 30, 2015 compared to 63 days at December 31, 2014.

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

|                                | <b>September<br/>30, 2015</b> | <b>December<br/>31, 2014</b> |   |   |
|--------------------------------|-------------------------------|------------------------------|---|---|
| Working capital                | \$ 50,913                     | \$42,148                     |   |   |
| Current ratio                  | 4.65                          | 3.74                         |   |   |
| Long term debt to equity ratio | 65.3                          | 61.2                         | % | % |

During the first nine months of 2015, total debt outstanding under the Company's revolving credit facility increased by approximately \$4.4 million, compared to total debt thereunder at December 31, 2014. As of September 30, 2015, \$28,550,507 was outstanding and \$11,449,493 was available for borrowing under the Company's credit facility. The increase in the debt outstanding was primarily related to the increase in accounts receivable and inventory. Increases in accounts receivable, inventory and debt outstanding under the Company's revolving credit facility are typical at this point in the year due to the seasonal nature of the business.

On April 25, 2013, the Company amended its loan agreement with HSBC Bank, N.A. dated April 5, 2012. The amendment increased the borrowing limit to \$40 million from \$30 million. The interest rate remained the same at LIBOR plus 1.75%. 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. During the fourth quarter of 2013, the Company and HSBC agreed to make certain technical amendments to a covenant of the amended loan agreement to accommodate the purchase of the Rocky Mount facility. Funds borrowed under the agreement may be used for working capital, general operating expenses, share repurchases, acquisitions and certain other purposes. Under the amended loan agreement, the Company continues to be required to maintain specific amounts of tangible net worth, a debt/net worth ratio, and a fixed charge coverage ratio. At September 30, 2015 the Company was in compliance with the covenants then in effect under the amended agreement with HSBC.

As discussed in Note 2 to the Condensed Consolidated Financial Statements set forth in Item 1 above, at September 30, 2015, the Company had a total of approximately \$80,000 remaining in its accrual for environmental remediation and monitoring, related to property it 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 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 September 30, 2015, 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, 2014.

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

Issuer purchases of equity securities

| Period           | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that may yet be Purchased Under the Programs |
|------------------|----------------------------------|------------------------------|--|---|
| July 1 - 31      | —                                | \$—                          | —  | 143,145   |
| August 1 - 31    | —                                | —                            | —  | 143,145   |
| September 1 - 30 | 9,682                            | \$ 16.69                     | 9,682  | 133,463   |
| Total            | 9,682                            | \$ 16.69                     | 9,682  | 133,463   |

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

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

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

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

**SIGNATURES**

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

ACME UNITED  
CORPORATION

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

Dated: November 12, 2015

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

Dated: November 12, 2015