

ACME UNITED CORP  
Form 10-Q  
August 05, 2011  
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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, 2011

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  
(State or other jurisdiction of incorporation or organization)

06-0236700  
(I.R.S. Employer Identification No.)

60 ROUND HILL ROAD, FAIRFIELD, CONNECTICUT  
(Address of principal executive offices)

06824  
(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 and post such files). Yes  No

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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 definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act (Check one).

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

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 5, 2011 the registrant had outstanding 3,101,587 shares of its \$2.50 par value Common Stock.

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## ACME UNITED CORPORATION

	Page	
Part I — FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010	3
	Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010	5
	Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	14
Item 4T.	Controls and Procedures	14
Part II — OTHER INFORMATION		
Item 1.	Legal Proceedings	15
Item 1A.	Risk Factors	15
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	15
Item 3.	Defaults Upon Senior Securities	15
Item 4.	Removed and reserved	15
Item 5.	Other Information	15
Item 6.	Exhibits	16
	Signatures	17

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

	June 30, 2011 (unaudited)	December 31, 2010 (Note 1)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,234	\$ 6,601
Accounts receivable, less allowance	23,481	12,331
Inventories:		
Finished goods	22,031	21,109
Work in process	96	172
Raw materials and supplies	1,448	1,012
	23,575	22,293
Prepaid expenses and other current assets	1,298	1,403
Total current assets	52,588	42,628
Property, plant and equipment:		
Land	173	160
Buildings	2,526	2,438
Machinery and equipment	9,554	8,905
	12,253	11,503
Less accumulated depreciation	9,950	9,287
	2,303	2,216
Note receivable	1,810	1,839
Intangible assets	3,331	1,866
Other assets	1,032	1,032
Total assets	\$ 61,064	\$ 49,581

See notes to condensed consolidated financial statements.

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

	June 30, 2011 (unaudited)	December 31, 2010 (Note 1)
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 8,210	\$ 5,679
Other accrued liabilities	5,145	3,539
<b>Total current liabilities</b>	<b>13,355</b>	<b>9,218</b>
Deferred income taxes		
Bank debt	18,601	13,522
Other	1,583	1,489
<b>Total liabilities</b>	<b>33,539</b>	<b>24,229</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$2.50: authorized 8,000,000 shares; issued - 4,416,824 shares in 2011 and 4,374,574 shares in 2010, including treasury stock		
	11,041	10,936
Additional paid-in capital	4,853	4,603
Retained earnings	23,884	22,399
Treasury stock, at cost - 1,315,237 shares in 2011 and 1,305,237 shares in 2010	(11,808 )	(11,711 )
Accumulated other comprehensive income:		
Translation adjustment	711	281
Unrecognized pension costs	(1,156 )	(1,156 )
	(445 )	(875 )
<b>Total stockholders' equity</b>	<b>27,525</b>	<b>25,352</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 61,064</b>	<b>\$ 49,581</b>

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 June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net sales	\$ 24,029	\$ 20,585	\$ 38,430	\$ 33,706
Cost of goods sold	15,346	13,034	24,439	21,042
Gross profit	8,683	7,551	13,991	12,664
Selling, general and administrative expenses	6,223	5,605	11,348	10,417
Operating income	2,460	1,946	2,643	2,247
Non-operating items:				
Interest:				
Interest expense	114	79	211	131
Interest income	(40 )	(41 )	(90 )	(73 )
Interest expense, net	74	38	121	58
Other expense (income), net	3	24	(22 )	39
Total other expense	77	62	99	97
Income before income taxes	2,383	1,884	2,544	2,150
Income tax expense	640	317	681	370
Net income	\$ 1,743	\$ 1,567	\$ 1,863	\$ 1,780
Basic earnings per share	\$ 0.56	\$ 0.50	\$ 0.60	\$ 0.56
Diluted earnings per share	\$ 0.56	\$ 0.48	\$ 0.60	\$ 0.54
Weighted average number of common shares outstanding-				
denominator used for basic per share computations	3,096	3,158	3,085	3,163
Weighted average number of dilutive stock options outstanding	21	131	26	107
Denominator used for diluted per share computations	3,117	3,289	3,111	3,270
Dividends declared per share	\$ 0.06	\$ 0.05	\$ 0.12	\$ 0.10

See notes to condensed consolidated financial statements.

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

	2011	Six Months Ended June 30,	2010
<b>Operating Activities:</b>			
Net income	\$ 1,863		\$ 1,780
Adjustments to reconcile net income to net cash used by operating activities:			
Depreciation	396		394
Amortization	85		57
Stock compensation expense	209		189
Changes in operating assets and liabilities:			
Accounts receivable	(10,413 )		(10,025 )
Inventories	248		(974 )
Prepaid expenses and other current assets	153		(86 )
Accounts payable	2,119		2,794
Other accrued liabilities	1,636		1,071
Total adjustments	(5,567 )		(6,580 )
Net cash used by operating activities	(3,704 )		(4,800 )
<b>Investing Activities:</b>			
Purchase of property, plant, and equipment	(296 )		(346 )
Purchase of patents and trademarks	(50 )		(44 )
Acquisition of Pac-Kit Safety Company	(3,127 )		-
Net cash used by investing activities	(3,473 )		(390 )
<b>Financing Activities:</b>			
Borrowing of long-term debt	5,079		3,971
Proceeds from issuance of common stock	146		50
Distributions to stockholders	(370 )		(317 )
Purchase of treasury stock	(97 )		(718 )
Net cash provided by financing activities	4,758		2,986
Effect of exchange rate changes	52		(65 )
Net change in cash and cash equivalents	(2,367 )		(2,269 )
Cash and cash equivalents at beginning of period	6,601		6,519
Cash and cash equivalents at end of period	\$ 4,234		\$ 4,250

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, 2010 for such disclosures. The condensed consolidated balance sheet as of December 31, 2010 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 2010 Annual Report on Form 10-K.

The Company has evaluated events and transactions subsequent to June 30, 2011 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 new standard also requires presentation of adjustments for items that are reclassified from the other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. The Company is required to adopt this standard for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the impact of adopting this guidance, which may result in changes in the presentation of its financial statements.

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 consists 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 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 includes 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 a major portion of the work has been completed. At June 30, 2011, the Company had approximately \$301,000 remaining in its accrual for environmental remediation, of which approximately \$150,000 was classified as a current liability at that date. It is estimated that the remediation project will be completed within five years from the date of the sale.

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 six months ended June 30, 2011 follows (in thousands):

Balance at December 31, 2010	Payments	Balance at June 30, 2011
\$ 343	\$ (42)	\$ 301

Also, as part of the sale, the Company provided the buyer with a mortgage loan of \$2.0 million at six percent interest. 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. It is estimated that the remediation project will be completed within five years from the date of the sale.

Note 3 — Pension

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

	Three Months Ended June 30, 2011	2010	Six Months Ended June 30, 2011	2010
<b>Components of net periodic benefit cost:</b>				
Interest cost	\$ 26	\$ 31	\$ 52	\$ 61
Service cost	5	6	10	13
Expected return on plan assets	(26 )	(24 )	(53 )	(48 )
Amortization of prior service costs	3	2	5	5
Amortization of actuarial loss	38	39	76	77
	\$ 45	\$ 54	\$ 89	\$ 109

The Company's funding policy with respect to its qualified plan is to contribute at least the minimum amount required by applicable laws and regulations. In 2011, the Company is required to contribute approximately \$250,000. The Company expects to make contributions to the plan as required during the remainder of the year.

Note 4 —Debt and Shareholders Equity

The Company's revolving loan agreement, as amended, provides for borrowings up to \$20 million, with all principal amounts outstanding thereunder required to be repaid in a single amount on March 31, 2013. In addition, the Company's revolving loan agreement requires monthly interest payments. As of June 30, 2011 and December 31, 2010, the Company had outstanding borrowings of \$18,601,000 and \$13,522,000, respectively, under the revolving loan agreement.

During the three and six months ended June 30, 2011, the Company issued 13,000 and 42,250 shares of common stock upon the exercise of outstanding stock options and received total proceeds of \$41,100 and \$145,925, respectively.

Note 5— Segment Information

The Company reports financial information based on the organization 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. The activities of the Company's Asian operating segment are closely linked to those of the U.S. operating segment; accordingly, management reviews the financial results of both segments on a consolidated basis, and the results of the Asian operating segment have been aggregated with the results of the United States operating segment to form one reportable segment called the "United States operating 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.

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

8

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## Financial data by segment:

(in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Sales to external customers:				
United States	\$ 18,527	\$ 14,995	\$ 29,086	\$ 24,626
Canada	3,324	2,881	5,178	4,449
Europe	2,178	2,709	4,166	4,631
Consolidated	\$ 24,029	\$ 20,585	\$ 38,430	\$ 33,706
Operating income (loss):				
United States	\$ 1,862	\$ 1,502	\$ 1,983	\$ 1,880
Canada	599	455	749	517
Europe	(1 )	(10 )	(89 )	(150 )
Consolidated	\$ 2,460	\$ 1,946	\$ 2,643	\$ 2,247
Interest expense, net	74	38	121	58
Other expense (income), net	3	24	(22 )	39
Consolidated income before taxes	\$ 2,383	\$ 1,884	\$ 2,544	\$ 2,150

## Assets by segment:

(in thousands)

	June 30,	December 31,
	2011	2010
United States	\$ 47,073	\$ 37,685
Canada	7,137	6,205
Europe	6,854	5,691
Consolidated	\$ 61,064	\$ 49,581

## Note 6 – Stock Based Compensation

The Company recognizes share-based compensation at fair value of the equity instrument on the grant date. Compensation expense is recognized over the required service period. Share-based compensation expense was \$125,828 and \$112,100 for the quarters ended June 30, 2011 and June 30, 2010, respectively. Share-based compensation expense was \$209,438 and \$189,200 for the six months ended June 30, 2011 and June 30, 2010, respectively. During the three months ended June 30, 2011, the Company issued 18,500 options with a weighted average fair value of \$2.28 per share. During the six months ended June 30, 2011 the Company issued 78,500 options with a weighted average fair value of \$2.46.

As of June 30, 2011, there was a total of \$636,000 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 – Comprehensive Income

Comprehensive income for the three and six months ended June 30, 2011 and June 30, 2010 consisted of the following (in thousands):

9

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	\$ 1,743	\$ 1,567	\$ 1,863	\$ 1,780
Other comprehensive income / (loss) -				
Foreign currency translation	85	(479 )	423	(605 )
Comprehensive income	\$ 1,828	\$ 1,088	\$ 2,286	\$ 1,175

Note 8 – Fair Value Measurements

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and bank debt are a reasonable estimate of fair value because of their short term nature. The carrying value of the Company's note receivable approximates fair value. Fair value was determined using a discounted cash flow analysis.

Note 9 – Business Combination

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, using funds borrowed under the Company's revolving loan agreement with Wells Fargo.

The Company recorded \$1.9 million for assets acquired including accounts receivable, inventory and fixed assets, as well as \$1.5 million for intangible assets, consisting of customer relationships and the Pac-Kit trade name. During the three and six months ended June 30, 2011, the Company incurred approximately \$25,000 and \$125,000, respectively, of integration and transaction costs associated with the acquisition. These costs were recorded in selling, general and administrative expenses.

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

Assets:	
Accounts Receivable	\$ 592
Inventory	\$ 1,196
Equipment	\$ 150
Intangible Assets	\$ 1,500
Total assets	\$ 3,438

Liabilities

Accounts Payable	310
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Unaudited net sales for the three and six months ended June 30, 2011 attributable to Pac-Kit were approximately \$1.8 million and \$2.4 million, respectively. Unaudited proforma net sales attributable to Pac-Kit for the comparable period in 2010 were approximately \$1.6 million and \$2.1 million, respectively. The six month period ended June 30, 2010 represents a comparable period based on the acquisition date.

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Unaudited proforma net income, excluding one time transaction and integration costs of \$25,000 and \$125,000 respectively, for the three and six months ended June 30, 2011, attributable to Pac-Kit was approximately \$95,000 and \$125,000, respectively. Net income for the comparable period in 2010 was immaterial to the financial statements.

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. Net sales for the comparable period in 2010 were approximately \$2.9 million. Net income for the comparable period in 2010 was immaterial to the consolidated financial statements.

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, 2010. 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, 2010.

Results of Operations

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 are high quality, unitized first aid kits sold to a broad range of customers and distributors. These products are produced in a 40,000 square foot FDA approved facility in Norwalk, CT.

The Company recorded approximately \$1.9 million for assets acquired 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. In three and six months ended June 30, 2011, the Company incurred approximately \$25,000 and \$125,000, respectively, of integration and transaction costs associated with the acquisition. These costs were recorded in selling, general and administrative expenses.





## Net sales

Consolidated net sales for the three months ended June 30, 2011 were \$24,029,000 compared with \$20,585,000 in the same period in 2010, a 17% increase (14% in local currency). Consolidated net sales for the six months ended June 30, 2011 were \$38,430,000, compared with \$33,706,000 for the same period in 2010, a 14% increase (12% in local currency). Net sales for the three and six months ended June 30, 2011 in the U.S. segment increased 24% and 18%, respectively, compared with the same periods in 2010. Sales in the U.S. for both periods increased due to market share gains in the mass market channel and the addition of sales resulting from the acquisition of the Pac-Kit Company. Net sales in Canada for the three and six months ended June 30, 2011 increased by 15% and 16%, respectively, in U.S. dollars (8% and 9%, respectively in local currency) compared with the same periods in 2010. Sales in Canada increased primarily due to the introduction of new products. European net sales for the three and six months ended June 30, 2011 decreased 20% and 10% in U.S. dollars (30% and 17% in local currency) compared with the same periods in 2010. The decreases in net sales in Europe for the three and six month periods on a comparative basis are primarily due to the timing of sales to mass market customers which are expected to occur later in 2011 than they did in 2010.

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, 2011 was \$8,683,000 (36.1% of net sales) compared to \$7,551,000 (36.7% of net sales) for the same period in 2010. Gross profit for the six months ended June 30, 2011 was \$13,991,000 (36.4% of net sales) compared to \$12,664,000 (37.6% of net sales) in the same period in 2010. The gross margin as a percent of sales for the three and six months ended June 30, 2011 was negatively impacted by sale of the Pac-Kit line of products, 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, 2011 were \$6,223,000 (25.8% of net sales) compared with \$5,605,000 (27.2% of net sales) for the same period of 2010, an increase of \$618,000. SG&A expenses for the six months ended June 30, 2011 were \$11,348,000 (29.5% of net sales) compared with \$10,417,000 (30.9% of net sales) in the comparable period of 2010, an increase of \$931,000. The increases in SG&A expenses for the three and six months ended June 30, 2011, compared to the same periods in 2010, were primarily the result of incremental expenses from the addition of Pac-Kit, higher freight expense and sales commissions as a result of higher sales as well as higher personnel related expenses. Also included in SG&A expenses for the three and six months ended June 30, 2011 were approximately \$25,000 and \$125,000, respectively, of integration and transaction costs associated with the Pac-Kit asset acquisition.

## Operating income

Operating income for the three months ended June 30, 2011 was \$2,460,000 compared with \$1,946,000 in the same period of 2010. Operating income for the six months ended June 30, 2011 was \$2,643,000 compared to \$2,247,000 in the same period of 2010. Operating income in the U.S. segment increased by \$360,000 and \$102,000 for the three and six months, respectively, compared to the same periods in 2010. The increase in operating income is principally due to higher sales. Operating income in the Canadian segment increased by \$144,000 and \$232,000 for the three and six months, respectively, compared to the same periods in 2010. The increase in operating income in Canada is principally due to the higher sales and improved gross margins as a result of a stronger Canadian dollar which reduces the cost of goods. The operating losses in Europe decreased by \$10,000 and \$61,000 for the three and six months

ended June 30, 2011 respectively, compared to the same periods in 2010. The decreases in the operating losses for the three and six month periods were principally due to cost cutting initiatives implemented early in 2011.

## Interest expense, net

Interest expense, net for the three months ended June 30, 2011 was \$74,000, compared with \$38,000 for the same period of 2010, a \$36,000 increase. Interest expense, net for the six months ended June 30, 2011, was \$121,000 as compared to \$58,000 for the same period in 2010, a \$63,000 increase. The increases in interest expense, net for both the three and six months ended June 30, 2011 were primarily the result of higher average borrowings under the Company's revolving loan agreement.

## Other expense (income), net

Net other expense was \$3,000 in the three months ended June 30, 2011 as compared to \$24,000 in the same period of 2010. Net other income was \$22,000 in the first six months of 2011 compared to net other expense of \$39,000 in the first six months of 2010. The decreases in other expense (income), net for the three and six months ended June 30, 2011 were primarily due to gains from foreign currency transactions.

## Income taxes

The effective tax rate for the three and six month periods ended June 30, 2011 was 27% compared to 17% in the same periods of 2010. The effective tax rate for the six months ended June 30, 2010, reflected approximately \$180,000 of tax benefits associated with the Company's donation of land to the City of Bridgeport, CT in the fourth quarter of 2009.

## Financial Condition

## Liquidity and Capital Resources

During the first six months of 2011, working capital increased approximately \$5.8 million compared to December 31, 2010. Inventory increased by approximately \$1.3 million at June 30, 2011 compared to December 31, 2010. The increase in inventory is principally due to the acquisition of Pac-Kit assets. Inventory turnover, calculated using a twelve month average inventory balance, was 2.0 at June 30, 2011 compared to 2.1 at December 31, 2010. Accounts receivable increased by approximately \$11.2 million at June 30, 2011 compared to December 31, 2010 primarily as a result of the seasonal nature of the back to school business where sales are typically higher in the second and third quarters as compared to the first and fourth quarters. The average number of days sales outstanding in accounts receivable was 65 days at June 30, 2011 compared to 61 days at December 31, 2010.

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

(in thousands)	June 30, 2011	December 31, 2010
Working capital	\$ 39,234	\$ 33,410
Current ratio	3.94	4.62
Long term debt to equity ratio	67.6%	53.3%

During the first six months of 2011, total debt outstanding under the Company's credit facility increased by \$5.1 million, compared to total debt at December 31, 2010. The increase in the debt outstanding is primarily related to the acquisition of substantially all of the assets of The Pac-Kit Company for \$3.4 million. As of June 30, 2011, \$18,601,000 was outstanding and \$1,399,000 was available for borrowing under the Company's credit facility.

On February 23, 2011, the Company modified its revolving loan agreement with Wells Fargo Bank; the amendments include an increase in the maximum borrowing amount from \$18 million to \$20 million and an extension of the maturity date of the loan from February 1, 2012 to March 31, 2013. Funds borrowed under the credit facility 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.

As discussed in Note 2, at June 30, 2011 the Company had approximately \$301,000 remaining in its accrual for environmental remediation relating to the sale of property in Bridgeport, CT in 2008, of which, approximately \$150,000 is classified as a current liability. The Company intends to use cash flow from operations or borrowings under its revolving credit facility to pay for these costs. The Company does not believe that payment of such remediation costs will have a material adverse affect on the Company's ability to implement its business plan. In addition, the Company has provided the buyer with a \$2.0 million mortgage loan at 6 percent interest. Payments of principal and interest on the mortgage are due monthly and will also help fund the remediation.

Management anticipates that cash generated from operating activities, together with funds available under the Company's 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 4T. 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, 2011, 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

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

Item 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, 2010.

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

None.

Item 3. — Defaults Upon Senior Securities

None.

Item 4 — Removed and Reserved

Item 5 — Other Information

None.

15

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Item 6 — Exhibits

Documents filed as part of this report.

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

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

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

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



SIGNATURES

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

ACME UNITED CORPORATION

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

Dated: August 5, 2011

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

Dated: August 5, 2011

17

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