

ACME UNITED CORP
Form 10-Q
August 13, 2013

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, 2013

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)

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

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

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

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

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

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

As of August 7, 2013 the registrant had outstanding 3,179,777 shares of its \$2.50 par value Common Stock.

ACME UNITED CORPORATION

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2013 (unaudited)	December 31, 2012 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$8,458	\$9,750
Accounts receivable, less allowance	25,420	16,442
Inventories:		
Finished goods	27,553	28,819
Work in process	21	71
Raw materials and supplies	1,876	1,402
	29,450	30,292
Prepaid expenses and other current assets	2,115	1,925
Total current assets	65,443	58,409
Property, plant and equipment:		
Land	289	291
Buildings	2,281	2,294
Machinery and equipment	8,683	8,283
	11,253	10,868
Less accumulated depreciation	8,900	8,515
	2,353	2,353
Note receivable	1,669	1,702
Intangible assets	4,156	4,240
Other assets	1,115	1,124
Total assets	\$74,736	\$67,828

See notes to condensed consolidated financial statements.

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

	June 30, 2013 (unaudited)	December 31, 2012 (Note 1)	
LIABILITIES			
Current liabilities:			
Accounts payable	\$9,092	\$6,480	
Other accrued liabilities	5,401	5,250	
Total current liabilities	14,493	11,730	
Deferred income taxes			
Long-term debt	26,012	24,320	
Other	1,021	912	
Total liabilities	41,526	36,962	
STOCKHOLDERS' EQUITY			
Common stock, par value \$2.50: authorized 8,000,000 shares; issued - 4,541,849 shares in 2013 and 4,487,524 shares in 2012, including treasury stock			
	11,353	11,218	
Additional paid-in capital	6,096	5,636	
Retained earnings	29,128	27,082	
Treasury stock, at cost - 1,362,072 shares	(12,283) (12,283)
Accumulated other comprehensive (loss) income:			
Minimum pension liability	(1,032) (1,032)
Translation adjustment	(52) 245	
	(1,084) (787)
Total stockholders' equity	33,210	30,866	
Total liabilities and stockholders' equity	\$74,736	\$67,828	

See notes to condensed consolidated financial statements.

ACME UNITED CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (all amounts in thousands, except per share amounts)
 (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2013	2012	2013	2012
Net sales	\$28,412	\$27,594	\$46,063	\$44,472
Cost of goods sold	18,331	17,773	29,554	28,707
Gross profit	10,081	9,821	16,509	15,765
Selling, general and administrative expenses	6,889	6,743	12,803	12,229
Operating income	3,192	3,078	3,706	3,536
Non-operating items:				
Interest:				
Interest expense	122	91	249	193
Interest income	(48)	(29)	(106)	(76)
Interest expense, net	74	62	142	117
Other expense, net	25	43	28	86
Total other expense	99	105	171	203
Income before income taxes	3,093	2,973	3,536	3,333
Income tax expense	883	912	1,015	1,013
Net income	\$2,210	\$2,061	\$2,520	\$2,320
Basic earnings per share	\$0.70	\$0.66	\$0.80	\$0.74
Diluted earnings per share	\$0.68	\$0.66	\$0.78	\$0.74
Weighted average number of common shares outstanding- denominator used for basic per share computations	3,156	3,103	3,144	3,118
Weighted average number of dilutive stock options outstanding	110	41	90	24
Denominator used for diluted per share computations	3,266	3,144	3,234	3,142
Dividends declared per share	\$0.08	\$0.07	\$0.15	\$0.14

See notes to condensed consolidated financial statements.

ACME UNITED CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF
 COMPREHENSIVE INCOME

(all amounts in thousands)

(Unaudited)

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income	\$2,210	\$2,061	\$2,520	\$2,320
Other comprehensive (loss) / income -				
Foreign currency translation	(38)	(323)	(297)	(98)
Comprehensive income	\$2,172	\$1,738	\$2,223	\$2,222

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2013	2012
Operating Activities:		
Net income	\$2,520	\$2,320
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	455	421
Amortization	135	98
Stock compensation expense	272	233
Changes in operating assets and liabilities:		
Accounts receivable	(9,181)	(10,934)
Inventories	667	(1,914)
Prepaid expenses and other assets	(150)	(473)
Accounts payable	2,637	5,048
Other accrued liabilities	69	1,644
Total adjustments	(5,096)	(5,877)
Net cash used by operating activities	(2,576)	(3,557)
Investing Activities:		
Purchase of property, plant, and equipment	(463)	(233)
Purchase of patents and trademarks	(50)	(52)
Acquisition of certain assets of The C-Thru Ruler Company	—	(1,474)
Net cash used by investing activities	(513)	(1,759)
Financing Activities:		
Borrowing of long-term debt	1,692	5,436
Proceeds from issuance of common stock	322	21
Distributions to stockholders	(219)	(437)
Purchase of treasury stock	—	(370)
Net cash provided by financing activities	1,794	4,650
Effect of exchange rate changes	3	(46)
Net change in cash and cash equivalents	(1,292)	(712)
Cash and cash equivalents at beginning of period	9,750	7,853
Cash and cash equivalents at end of period	\$8,458	\$7,141

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, 2012 for such disclosures. The condensed consolidated balance sheet as of December 31, 2012 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 the financial statements and notes thereto, included in the Company's 2012 Annual Report on Form 10-K.

The Company has evaluated events and transactions subsequent to June 30, 2013 and through the date these condensed consolidated financial statements were included in this Form 10-Q and filed with the SEC.

Recent accounting pronouncements

In February 2013, the Financial Accounting Standards Board (the “FASB”) issued a final rule related to the reporting of amounts reclassified out of accumulated other comprehensive income that requires entities to report, either on their income statement or in a footnote to their financial statements, the effects on earnings from items that are reclassified out of other comprehensive income. This standard update is effective for reporting periods beginning after December 15, 2012. The adoption of this accounting standard did not have an impact on our consolidated 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 has no matters other than the environmental remediation accrual described below.

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 included the costs of required investigation, remedial activities, and post-remediation operating and maintenance.

The remediation work, which began in the third quarter of 2009, was completed during the third quarter of 2012. 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 two years. At June 30, 2013, the Company had approximately \$81,000 remaining in its accrual for post-remediation monitoring and project closing costs, of which approximately \$22,000 was classified as a current liability.

The change in the accrual for environmental remediation for the six months ended June 30, 2013 follows (in thousands):

Balance at December 31, 2012	Payments	Balance at June 30, 2013
\$ 124	\$ (43)	\$ 81

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, 2013		Six Months Ended June 30, 2012	
Components of net periodic benefit cost:				
Interest cost	\$17	\$17	\$43	\$43
Service cost	12	12	17	18
Expected return on plan assets	(28)	(28)	(54)	(75)
Amortization of prior service costs	2	2	5	5
Amortization of actuarial loss	39	39	77	95
	\$43	\$43	\$87	\$85

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 2013, the Company is required to contribute approximately \$235,000.

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 remains 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. 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 is required to maintain specific amounts of tangible net worth, a debt/net worth ratio, and a fixed charge coverage ratio.

As of June 30, 2013 and December 31, 2012, the Company had outstanding borrowings of \$26,011,829 and \$24,319,829, respectively, under the Company's revolving loan agreement with HSBC. 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. At June 30, 2013 the Company was in compliance with these covenants.

During the first six months of 2013, the Company issued a total of 53,825 shares of common stock and received aggregate proceeds of \$321,992 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 27% and 21% of the Company's total net sales for the three and six months ended June 30, 2013 compared to 28% and 22% for the comparable periods in 2012.

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

Financial data by segment:

(in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Sales to external customers:				
United States	\$23,496	\$22,563	\$37,721	\$ 35,160
Canada	3,139	3,310	4,765	4,967
Europe	1,777	1,721	3,577	&nb