

ACME UNITED CORP
Form 10-Q
August 14, 2015

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, 2015

OR

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

For the transition period from _____ to _____

Commission file number 001-07698

ACME UNITED CORPORATION

(Exact name of registrant as specified in its charter)

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

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 August 3, 2015 the registrant had outstanding 3,346,103 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, 2015 (unaudited) | December 31, 2014 (Note 1) |
|---|---------------------------------|-------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,941 | \$ 2,286 |
| Accounts receivable, less allowance | 27,123 | 19,477 |
| Inventories: | | |
| Finished goods | 31,452 | 28,713 |
| Work in process | 295 | 522 |
| Raw materials and supplies | 4,469 | 4,436 |
| | 36,216 | 33,671 |
| Prepaid expenses and other current assets | 2,425 | 2,077 |
| Total current assets | 67,705 | 57,511 |
| Property, plant and equipment: | | |
| Land | 425 | 436 |
| Buildings | 5,499 | 5,126 |
| Machinery and equipment | 10,437 | 10,067 |
| | 16,361 | 15,629 |
| Less accumulated depreciation | 9,164 | 8,698 |
| | 7,197 | 6,931 |
| Goodwill | 1,375 | 1,375 |
| Intangible assets, less amortization | 12,173 | 12,555 |
| Other assets | 971 | 936 |
| Total assets | \$ 89,421 | \$ 79,308 |

See notes to condensed consolidated financial statements.

ACME UNITED CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

(all amounts in thousands, except share amounts)

| | June 30, 2015 (unaudited) | December 31, 2014 (Note 1) |
|---------------------------|---------------------------------|-------------------------------------|
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 9,332 | \$ 7,773 |
| Other accrued liabilities | 7,039 | 7,590 |
| Total current liabilities | 16,371 | 15,363 |
| Long-term debt | 30,179 | 24,147 |
| Other | 336 | 370 |
| Total liabilities | 46,886 | 39,880 |

Commitments and Contingencies

STOCKHOLDERS' EQUITY

| | | |
|---|-----------|-----------|
| Common stock, par value \$2.50: authorized 8,000,000 shares; issued - 4,700,719 shares in 2015 and 4,653,424 shares in 2014, including treasury stock | 11,752 | 11,633 |
| Additional paid-in capital | 8,801 | 7,941 |
| Retained earnings | 36,374 | 33,784 |
| Treasury stock, at cost - 1,362,072 shares | (12,283) | (12,283) |
| Accumulated other comprehensive (loss) income: | | |
| Minimum pension liability | (895) | (895) |
| Translation adjustment | (1,214) | (752) |
| | (2,109) | (1,647) |
| Total stockholders' equity | 42,535 | 39,428 |
| Total liabilities and stockholders' equity | \$ 89,421 | \$ 79,308 |

See notes to condensed consolidated financial statements.

ACME UNITED CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(all amounts in thousands)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|----------|------------------|----------|
| | June 30 | 2014 | June 30 | 2014 |
| Net sales | \$33,954 | \$33,396 | \$56,791 | \$52,548 |
| Cost of goods sold | 21,419 | 21,675 | 35,821 | 33,950 |
| Gross profit | 12,535 | 11,721 | 20,970 | 18,598 |
| Selling, general and administrative expenses | 8,660 | 7,983 | 16,269 | 14,235 |
| Operating income | 3,875 | 3,738 | 4,701 | 4,363 |
| Non-operating items: | | | | |
| Interest: | | | | |
| Interest expense | 142 | 108 | 274 | 197 |
| Interest income | (1) | (2) | (3) | (9) |
| Interest expense, net | 141 | 106 | 271 | 188 |
| Other (income) expense, net | (20) | (3) | 56 | 16 |
| Total other expense, net | 121 | 103 | 327 | 204 |
| Income before income taxes | 3,754 | 3,635 | 4,374 | 4,159 |
| Income tax expense | 1,044 | 1,093 | 1,228 | 1,248 |
| Net income | \$2,710 | \$2,542 | \$3,146 | \$2,911 |
| Basic earnings per share | \$0.82 | \$0.79 | \$0.95 | \$0.91 |
| Diluted earnings per share | \$0.74 | \$0.72 | \$0.85 | \$0.83 |
| Weighted average number of common shares outstanding- denominator used for basic per share computations | 3,300 | 3,210 | 3,315 | 3,206 |
| Weighted average number of dilutive stock options outstanding | 381 | 329 | 391 | 281 |
| Denominator used for diluted per share computations | 3,681 | 3,539 | 3,706 | 3,487 |
| Dividends declared per share | \$0.09 | \$0.08 | \$0.18 | \$0.16 |

See notes to condensed consolidated financial statements.

ACME UNITED CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(all amounts in thousands)

| | Three Months Ended June 30, 2014 | | Six Months Ended June 30, 2015 | |
|---------------------------------------|---|---------|---|---------|
| | 2014 | 2014 | 2015 | 2014 |
| Net income | \$2,710 | \$2,542 | \$3,146 | \$2,911 |
| Other comprehensive (loss) / income - | | | | |
| Foreign currency translation | 91 | 165 | (462) | (38) |
| Comprehensive income | \$2,801 | \$2,707 | \$2,684 | \$2,873 |

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, | |
|--|------------------------------|----------|
| | 2015 | 2014 |
| Operating Activities: | | |
| Net income | \$3,146 | \$2,911 |
| Adjustments to reconcile net income to net cash used by operating activities: | | |
| Depreciation | 641 | 541 |
| Amortization | 383 | 174 |
| Stock compensation expense | 304 | 300 |
| Gain on disposal/sale of assets | — | (200) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (7,698) | (12,796) |
| Inventories | (3,010) | (1,000) |
| Prepaid expenses and other assets | (508) | (357) |
| Accounts payable | 1,766 | 5,249 |
| Other accrued liabilities | (607) | 1,989 |
| Total adjustments | (8,729) | (6,100) |
| Net cash used by operating activities | (5,583) | (3,189) |
| Investing Activities: | | |
| Purchase of property, plant, and equipment | (867) | (1,022) |
| Purchase of patents and trademarks | (3) | (63) |
| Acquisition of certain assets of First Aid Only, Inc. | — | (13,806) |
| Proceeds from the sales of property, plant, and equipment | — | 773 |
| Net cash used by investing activities | (870) | (14,118) |
| Financing Activities: | | |
| Borrowing of long-term debt | 6,033 | 8,413 |
| Proceeds from issuance of common stock | 675 | 173 |
| Distributions to stockholders | (595) | (512) |
| Net cash provided by financing activities | 6,113 | 8,074 |
| Effect of exchange rate changes on cash | (5) | 17 |
| Net change in cash and cash equivalents | (345) | (9,218) |
| Cash and cash equivalents at beginning of period | 2,286 | 11,644 |

| | | |
|--|---------|---------|
| Cash and cash equivalents at end of period | \$1,941 | \$2,426 |
|--|---------|---------|

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 June 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 six months ended June 30, 2015 follows (amounts in thousands):

| | Balance at December 31, 2014 | Estimated Costs | Payments | Balance at June 30, 2015 |
|----------------|---|----------------------------|-----------------|---|
| Fremont, NC | \$ 260 | \$ — | \$ (14) | \$ 246 |
| Bridgeport, CT | 6 | — | (6) | — |
| Total | \$ 266 | \$ — | \$ (20) | \$ 246 |

Note 3 — Pension

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

| | |
|------------|----------|
| Three | Six |
| Months | Months |
| Ended June | Ended |
| 30, | June 30, |

2015 2014