ACME UNITED CORP
Form 10-Q
August 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] 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 [X] 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 [X] 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 [X]

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

As of August 3, 2015 the registrant had outstanding 3,346,103 shares of its $2.50 par value Common Stock.

ACME UNITED CORPORATION

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
Committements 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		June 30	
	2015	2014	2015	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.

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ACME UNITED CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(all amounts in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	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.

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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 Months Ended June 30,	Six Months Ended June 30,

	2015	2014	2015	2014
Components of net periodic benefit cost:				
Interest cost	$15	$19	$29	$35
Service cost	6	3	13	13
Expected return on plan assets	(23)	(29)	(46)	(47)
Amortization of prior service costs	2	2	5	5
Amortization of actuarial loss	28	23	56	58
	$28	$18	$57	$64

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 June 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 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. 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 June 30, 2015, the Company was in compliance with these covenants.

As of June 30, 2015 and December 31, 2014, the Company had outstanding borrowings of $30,179,484 and $24,146,841, respectively, under the Company's revolving loan agreement with HSBC.

During the three months ended June 30, 2015, the Company issued a total of 25,595 shares of common stock and received aggregate proceeds of $354,000 upon exercise of employee stock options. During the six months ended June 30, 2015, the Company issued a total of 47,295 shares of common stock and received aggregate proceeds of $675,000 upon 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 first aid products for school, office, home, hardware, sporting and industrial markets.

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 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 20% of the Company's total net sales for the three and six months ended June 30, 2015 compared to 26% and 20% 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 June 30,		Six months ended June 30,	
Sales to external customers:	2015	2014	2015	2014
United States	$29,649	$27,870	$49,782	$43,974
Canada	2,813	3,673	4,054	5,184
Europe	1,492	1,853	2,955	3,390
Consolidated	$33,954	$33,396	$56,791	$52,548
Operating income (loss):				
United States	$3,552	$3,239	$4,522	$3,916
Canada	282	527	175	559
Europe	41	(28)	4	(112)
Consolidated	$3,875	$3,738	$4,701	$4,363
Interest expense, net	141	106	271	188
Other (income) expense , net	(20)	(3)	56	16
Consolidated income before taxes	$3,754	$3,635	$4,374	$4,159

Assets by segment:
(in thousands)

	June 30, 2015	December 31, 2014
United States	$79,605	$70,526
Canada	5,550	4,363
Europe	4,266	4,419
Consolidated	$89,421	$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 $174,763 and $174,000 for the quarters ended June 30, 2015 and 2014, respectively. Share-based compensation expenses were $303,515 and $300,000 for the six months ended June 30, 2015 and 2014, respectively. During the three months ended June 30, 2015, the Company issued 22,000 options with a weighted average fair value of $3.38 per share. During the six months ended June 30, 2015, the Company issued 37,000 options with a weighted average fair value of $3.50 per share.

As of June 30, 2015, there was a total of $885,305 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

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 three and six months ended June 30, 2014 for the Company would have been approximately $36.7 million and $59.6 million, respectively. Unaudited proforma combined net income for the three and six months ended June 30, 2014 for the Company would have been approximately $2.7 million and $3.1 million, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Information

The Company may from time to time make written or oral "forward-looking statements", including statements contained in this report and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements of the Company's plans, objectives, expectations, estimates and intentions, which are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, in addition to others not listed, could cause the Company's actual results to differ materially from those expressed in forward looking statements: the strength of the domestic and local economies in which the Company conducts operations, the impact of uncertainties in global economic conditions, 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. 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 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 June 30, 2015 were $33,954,000 compared with $33,396,000 in the same period in 2014, a 2% increase (4% in local currency). Consolidated net sales for the six months ended June 30, 2015 were $56,791,000, compared with $52,548,000 for the same period in 2014, an 8% increase (10% in local currency).

Net sales for the three months ended June 30, 2015 in the U.S. segment increased 6% compared with the same period in 2014. While purchases from office superstores declined in the second quarter due to store closings, our recent product and customer diversification efforts offset weakness in the office channel. In particular, sales of first aid items, Cuda fishing tools and Camillus knives have contributed to the growth in sales during the second quarter. Net sales for the six months ended June 30, 2015 in the U.S. segment increased 10% compared with the same period in 2014 primarily due to increased sales of first aid products, and Westcott scissors.

Net sales in Canada for the three months ended June 30, 2015 decreased 23% in U.S. dollars (13% in local currency) compared with the same period in 2014. Net sales in Canada for the six months ended June 30, 2015 decreased 22% in U.S. dollars (11% in local currency) compared with the same period in 2014. These decreases in sales in Canada for the three and six months ended June 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 June 30, 2015 decreased 19% in U.S. dollars (constant in local currency) compared with the same period in 2014. European net sales for the six months ended June 30, 2015 decreased 13% in U.S. dollars but increased 6% in local currency.

Gross profit

Gross profit for the three months ended June 30, 2015 was $12,535,000 (36.9% of net sales) compared to $11,721,000 (35.0% of net sales) for the same period in 2014. Gross profit for the six months ended June 30, 2015 was $20,970,000 (36.9% of net sales) compared to $18,598,000 (35.4% of net sales) in the same period in 2014. The increase in gross profit for the three and six months ended June 30, 2015 was primarily due to a favorable product mix.

Selling, general and administrative expenses

Selling, general and administrative ("SG&A") expenses for the three months ended June 30, 2015 were $8,660,000 (25.5% of net sales) compared with $7,983,000 (24.0% of net sales) for the same period of 2014, an increase of $677,000. SG&A expenses for the six months ended June 30, 2015 were $16,269,000 (28.6% of net sales) compared with $14,235,000 (27.0% of net sales) in the comparable period of 2014, an increase of 2,034,000. The increases in SG&A expenses for the three and six months ended June 30, 2015, compared to the same periods in 2014, were primarily the result of incremental expenses from the acquisition of First Aid Only assets, increases in shipping expense and sales commissions which resulted from higher sales and higher personnel related costs which include compensation and recruiting costs.

Operating income

Operating income for the three months ended June 30, 2015 was $3,875,000 compared with $3,738,000 in the same period of 2014. Operating income for the six months ended June 30, 2015 was $4,701,000 compared to $4,363,000 in the same period of 2014. Operating income in the U.S. segment increased by $313,000 and $606,000 for the three and six months ended June 30, 2015, respectively, compared to the same periods in 2014. The increase in operating income is principally due to higher sales as described above.

Operating income in the Canadian segment decreased by $245,000 and $384,000 for the three and six months ended June 30, 2015, respectively, compared to the same periods in 2014. The decrease in operating income in Canada was principally due to the lower sales as described above.

For the three months ended June 30, 2015, the European operating segment had operating income of approximately $41,000 compared to an operating loss of $28,000 in the comparable period of 2014. For the six months ended June 30, 2015, the operating income in the European operating segment was approximately $4,000 compared to an operating loss of $112,000 in the comparable period in 2014.

Interest expense, net

Interest expense, net for the three months ended June 30, 2015 was $141,000, compared with $106,000 for the same period of 2014, a $35,000 increase. Interest expense, net for the six months ended June 30, 2015 was $271,000, compared with $188,000 for the same period of 2014, an $83,000 increase. The increase in interest expense resulted from higher average borrowings under the Company's bank revolving credit facility for the three and six months ended June 30, 2015. The higher borrowings are primarily the result of the acquisition of assets of First Aid Only.

Other expense, net

Net other income was $20,000 in the three months ended June 30, 2015 compared to $3,000 in the same period of 2014. Net other expense was $56,000 in the first six months of 2015 compared to $16,000 in the same period of 2014. The change in other (income) expense, net is primarily due to gains and losses from foreign currency transactions.

Income taxes

The Company's effective tax rates for the three and six months ended June 30, 2015 were 28% compared to 30% during the same periods in 2014.

Financial Condition

Liquidity and Capital Resources

During the first six months of 2015, working capital increased approximately $9,186,000 compared to December 31, 2014. Inventory increased by approximately $2.5 million at June 30, 2015 compared to December 31, 2014 primarily due to normal seasonal purchases. Inventory turnover, calculated using a twelve month average inventory balance, was 2.1 for the six months ended June 30, 2015 compared to 2.2 for the twelve months ended December 31, 2014. Receivables increased by approximately $7.6 million at June 30, 2015 compared to December 31, 2014. The average number of days sales outstanding in accounts receivable was 61 days at June 30, 2015 compared to 63 days at December 31, 2014. Accounts payable and other current liabilities increased by approximately $1.0 million primarily due to the timing of payments for inventory purchases.

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

(in thousands)	June 30, 2015	December 31, 2014
Working capital	$51,334	$42,148
Current ratio	4.14	3.74
Long term debt to equity ratio	71.0 %	61.2 %

During the first six months of 2015, total debt outstanding under the Company's revolving credit facility increased by approximately $6.0 million, compared to total debt thereunder at December 31, 2014 as described above. As of June 30, 2015, $30,179,484 was outstanding and $9,820,516 was available for borrowing under the Company's credit facility. The increase in the debt outstanding was primarily related to the increase in inventory and accounts receivable.

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 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. 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 June 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 June 30, 2015, the Company had a total of approximately $246,000 remaining in its accruals 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 will, under current conditions, be sufficient to finance the Company's planned operations over the next twelve months.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Not applicable.

Item 4. Controls and Procedures

(a) Evaluation of Internal Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

(b) Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 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

None.

Item 3. —Defaults Upon Senior Securities

None.

Item 4 — Mine Safety Disclosures

Not Applicable

Item 5 — Other Information

None.

Item 6 — Exhibits

Documents filed as part of this report.

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

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

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

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

SIGNATURES

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

ACME UNITED
CORPORATION

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

Dated: August 14, 2015

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

Dated: August 14, 2015

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