

ACME UNITED CORP
Form 10-Q
November 07, 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 September 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 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 (232.405

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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 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 November 2, 2011 the registrant had outstanding 3,127,587 shares of its \$2.50 par value Common Stock.

ACME UNITED CORPORATION

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

	September 30, 2011 (unaudited)	December 31, 2010 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,270	\$ 6,601
Accounts receivable, less allowance	16,661	12,331
Inventories:		
Finished goods	21,821	21,109
Work in process	71	172
Raw materials and supplies	912	1,012
	22,804	22,293
Prepaid expenses and other current assets	1,075	1,403
Total current assets	46,810	42,628
Property, plant and equipment:		
Land	295	160
Buildings	2,465	2,438
Machinery and equipment	9,546	8,905
	12,306	11,503
Less accumulated depreciation	9,925	9,287
	2,381	2,216
Note receivable	1,794	1,839
Intangible assets, net	3,326	1,866
Other assets	1,033	1,032
Total assets	\$ 55,344	\$ 49,581

See notes to condensed consolidated financial statements.

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

	September 30, 2011 (unaudited)	December 31, 2010 (Note 1)
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 4,435	\$ 5,679
Other accrued liabilities	3,869	3,539
Total current liabilities	8,304	9,218
Bank debt	18,106	13,522
Other	1,373	1,489
Total liabilities	27,783	24,229
STOCKHOLDERS' EQUITY		
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		
	11,040	10,936
Additional paid-in capital	4,962	4,603
Retained earnings	24,349	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:		
Foreign currency translation adjustment	174	281
Unrecognized pension costs	(1,156)	(1,156)
	(982)	(875)
Total stockholders' equity	27,561	25,352
Total liabilities and stockholders' equity	\$ 55,344	\$ 49,581

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 September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Net sales	\$ 19,036	\$ 16,083	\$ 57,466	\$ 49,789
Cost of goods sold	12,396	10,426	36,835	31,468
Gross profit	6,640	5,657	20,631	18,321
Selling, general and administrative expenses	5,520	5,000	16,868	15,418
Operating income	1,120	657	3,763	2,903
Non-operating items:				
Interest:				
Interest expense	112	86	323	217
Interest income	(42)	(39)	(132)	(112)
Interest expense, net	70	47	191	105
Other expense (income), net	20	(3)	(2)	36
Total other expense	90	44	189	141
Income before income taxes	1,030	613	3,574	2,762
Income tax expense	348	1	1,029	371
Net income	\$ 682	\$ 612	\$ 2,545	\$ 2,391
Basic earnings per share	\$ 0.22	\$ 0.20	\$ 0.82	\$ 0.76
Diluted earnings per share	\$ 0.22	\$ 0.19	\$ 0.82	\$ 0.74
Weighted average number of common shares outstanding- denominator used for basic per share computations	3,102	3,111	3,090	3,147
Weighted average number of dilutive stock options outstanding	18	80	15	71
Denominator used for diluted per share computations	3,120	3,192	3,105	3,218
Dividends declared per share	\$ 0.07	\$ 0.06	\$ 0.19	\$ 0.16

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2011	2010
Operating Activities:		
Net income	\$ 2,545	\$ 2,391
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	596	572
Amortization	122	86
Stock compensation expense	318	280
Changes in operating assets and liabilities:		
Accounts receivable	(3,817)	(4,302)
Inventories	693	(2,678)
Prepaid expenses and other current assets	364	(7)
Accounts payable	(1,579)	979
Other accrued liabilities	219	(315)
Total adjustments	(3,084)	(5,385)
Net cash used by operating activities	(539)	(2,994)
Investing Activities:		
Purchase of property, plant, and equipment	(599)	(644)
Purchase of patents and trademarks	(81)	(79)
Acquisition of Pac-Kit Safety Equipment Company	(3,127)	-
Net cash used by investing activities	(3,807)	(723)
Financing Activities:		
Borrowing of long-term debt	4,584	6,266
Proceeds from issuance of common stock	146	123
Distributions to stockholders	(555)	(472)
Purchase of treasury stock	(97)	(1,566)
Net cash provided by financing activities	4,078	4,350
Effect of exchange rate changes	(63)	80
Net change in cash and cash equivalents	(331)	713
Cash and cash equivalents at beginning of period	6,601	6,519
Cash and cash equivalents at end of period	\$ 6,270	\$ 7,232

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 — Basis of Presentation and Recent Accounting Pronouncements

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 September 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 September 30, 2011, the Company had approximately \$278,000 remaining in its accrual for environmental remediation, of which approximately \$125,000 was classified as a current liability at that date. The Company believes 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 nine months ended September 30, 2011 follows (in thousands):

Balance at December 31, 2010	Payments	Balance at September 30, 2011
\$ 343	\$ (65)	\$ 278

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 remaining 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 September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Components of net periodic benefit cost:				
Interest cost	\$ 26	\$ 16	\$ 77	\$ 92
Service cost	5	6	14	19
Expected return on plan assets	(26)	(24)	(79)	(72)
Amortization of prior service costs	3	2	8	7
Amortization of actuarial loss	38	32	113	116
	\$ 46	\$ 32	\$ 133	\$ 162

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. As of September 30, 2011, the Company has contributed approximately \$193,389 to the plan. 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 September 30, 2011 and December 31, 2010, the Company had outstanding borrowings of \$18,106,000 and \$13,522,000, respectively, under the revolving loan agreement.

During the nine months ended September 30, 2011, the Company issued 42,250 shares of common stock upon the exercise of outstanding stock options and received total proceeds of \$145,925. There were no stock options exercised during the three months ended September 30, 2011.

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.

Financial data by segment:

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Sales to external customers:				
United States	\$ 15,020	\$ 12,220	\$ 44,104	\$ 36,845
Canada	1,829	1,765	7,008	6,214
Europe	2,187	2,098	6,354	6,730
Consolidated	\$ 19,036	\$ 16,083	\$ 57,466	\$ 49,789
Operating income (loss):				
United States	\$ 923	\$ 583	\$ 2,904	\$ 2,462
Canada	114	185	863	703
Europe	83	(111)	(4)	(262)
Consolidated	\$ 1,120	\$ 657	\$ 3,763	\$ 2,903
Interest expense, net	70	47	191	105
Other expense (income), net	20	(3)	(2)	36
Consolidated income before taxes	\$ 1,030	\$ 613	\$ 3,574	\$ 2,762

Assets by segment:

(in thousands)

	September 30,	December 31,
	2011	2010
United States	\$ 43,319	\$ 37,685
Canada	5,899	6,205
Europe	6,126	5,691
Consolidated	\$ 55,344	\$ 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 \$108,766 and \$90,866 for the quarters ended September 30, 2011 and September 30, 2010, respectively. Share-based compensation expense was \$318,204 and \$280,066 for the nine months ended September 30, 2011 and September 30, 2010, respectively. During the three months ended September 30, 2011, the Company issued 107,000 options with a weighted average fair value of \$2.10 per share. During the nine months ended September 30, 2011, the Company issued 185,500 options with a weighted average fair value of \$2.20.

As of September 30, 2011, there was a total of \$766,000 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 nine months ended September 30, 2011 and September 30, 2010 consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 682	\$ 612	\$ 2,545	\$ 2,391
Other comprehensive (loss) income -				
Foreign currency translation	(530)	547	(107)	(58)
Comprehensive income	\$ 152	\$ 1,159	\$ 2,438	\$ 2,333

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 nine months ended September 30, 2011, the Company incurred approximately \$125,000, of integration and transaction costs associated with the acquisition. These costs were recorded in selling, general and administrative expenses. The Company did not incur any of these expenses during the three months ended September 30, 2011.

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 proforma net sales for the three and nine months ended September 30, 2011 attributable to Pac-Kit were approximately \$1.6 million and \$4.0 million, respectively. Unaudited proforma net sales attributable to Pac-Kit for the comparable period in 2010 were approximately \$1.3 million and \$3.4 million, respectively. The nine month period ended September 30, 2011 represents a comparable period based on the acquisition date.

Unaudited proforma net income, attributable to Pac-Kit, for the three months ended September 30, 2011 was approximately \$100,000. Unaudited proforma net income, excluding one time transaction and integration costs of \$125,000, for the nine months ended September 30, 2011, attributable to Pac-Kit was approximately \$225,000. Net income for the comparable periods in 2010 was immaterial to the Company's financial statements.

Assuming Pac-Kit was acquired on January 1, 2011, unaudited proforma net sales and net income for the nine months ended September 30, 2011 attributable to Pac-Kit were approximately \$4.8 million and \$255,000, respectively. Assuming Pac-Kit was acquired on January 1, 2011, unaudited proforma net sales for the comparable period in 2010 were approximately \$4.2 million. Unaudited proforma net income for the comparable period in 2010 was immaterial to the Company's 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 consist of 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 the nine months ended September 30, 2011, the Company incurred approximately \$125,000 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 September 30, 2011 were \$19,036,000 compared with \$16,083,000 in the same period in 2010, an 18% increase (16% in local currency). Consolidated net sales for the nine months ended September 30, 2011 were \$57,466,000, compared with \$49,789,000 for the same period in 2010, a 15% increase (13% in local currency). Net sales for the three and nine months ended September 30, 2011 in the U.S. segment increased 23% and 20%, 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, the addition of sales resulting from the acquisition of the Pac-Kit Company and strong sales of first aid products. Net sales in Canada for the three months ended September 30, 2011 increased by 4% in U.S. dollars but declined 3% in local currency compared with the same period in 2010. Net sales in Canada for the nine months ended September 30, 2011 increased by 13% in U.S. dollars (6% in local currency) compared with the same period in 2010. Sales in Canada increased primarily due to the introduction of new products. European net sales for the three months ended September 30, 2011 increased 4% in U.S. dollars but declined 6% in local currency compared with the same period in 2010. European net sales for the nine months ended September 30, 2011 declined 6% in U.S. dollars (13% in local currency). The decrease in net sales in Europe for the nine month period on a comparative basis was 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 September 30, 2011 was \$6,640,000 (34.9% of net sales) compared to \$5,657,000 (35.2% of net sales) for the same period in 2010. Gross profit for the nine months ended September 30, 2011 was \$20,631,000 (35.9% of net sales) compared to \$18,321,000 (36.8% of net sales) in the same period in 2010. The gross margin as a percent of sales for the three and nine months ended September 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 September 30, 2011 were \$5,520,000 (29.0% of net sales) compared with \$5,000,000 (31.1% of net sales) for the same period of 2010, an increase of \$520,000. SG&A expenses for the nine months ended September 30, 2011 were \$16,868,000 (29.4% of net sales) compared with \$15,418,000 (31.0% of net sales) in the comparable period of 2010, an increase of \$1,450,000. The increases in SG&A expenses for the three and nine months ended September 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 nine months ended September 30, 2011 were a total of approximately \$125,000 of integration and transaction costs associated with the Pac-Kit asset acquisition.

Operating income

Operating income for the three months ended September 30, 2011 was \$1,120,000 compared with \$657,000 in the same period of 2010. Operating income for the nine months ended September 30, 2011 was \$3,763,000 compared to \$2,903,000 in the same period of 2010. Operating income in the U.S. segment increased by \$340,000 and \$442,000 for the three and nine 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 decreased by \$71,000 for the three months and increased \$160,000 for the nine months ended September 30, 2011, compared to the same periods in

2010. The increase in operating income in Canada for the nine month period 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 improvement in the operating income (loss) in Europe for the three and nine months ended September 30, 2011 respectively, compared to the same periods in 2010 was principally due to cost cutting initiatives implemented early in 2011.

Interest expense, net

Interest expense, net for the three months ended September 30, 2011 was \$70,000, compared with \$47,000 for the same period of 2010, a \$23,000 increase. Interest expense, net for the nine months ended September 30, 2011, was \$191,000 as compared to \$105,000 for the same period in 2010, an \$86,000 increase. The increases in interest expense, net for both the three and nine months ended September 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 \$20,000 in the three months ended September 30, 2011 compared to other income of \$3,000 in the same period of 2010. Net other income was \$2,000 in the first nine months of 2011 compared to net other expense of \$36,000 in the first nine months of 2010. The changes in other expense (income), net for the three and nine months ended September 30, 2011 were primarily due to gains/losses from foreign currency transactions.

Income taxes

The effective tax rate for the three and nine month periods ended September 30, 2011 was 34% and 29%, respectively compared to 0% and 13%, respectively, in the same periods of 2010. The effective tax rate for the nine months ended September 30, 2010, reflected approximately \$300,000 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 nine months of 2011, working capital increased approximately \$5.1 million compared to December 31, 2010. Inventory increased by approximately \$.5 million at September 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 September 30, 2011 compared to 2.1 at December 31, 2010. Accounts receivable increased by approximately \$4.3 million at September 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 September 30, 2011 and December 31, 2010.

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

	September 30, 2011	December 31, 2010
Working capital	\$ 38,507	\$ 33,410
Current ratio	5.64	4.62
Long term debt to equity ratio	65.8%	53.3%

During the first nine months of 2011, total debt outstanding under the Company's credit facility increased by \$4.6 million, compared to total debt at December 31, 2010. The increase in the debt outstanding is primarily related to the financing of the acquisition of substantially all of the assets of The Pac-Kit Company for \$3.4 million. As of September 30, 2011, \$18,106,000 was outstanding and \$1,894,000 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. At September 30, 2011 the Company was in compliance with these covenants.

As discussed in Note 2, at September 30, 2011 the Company had approximately \$278,000 remaining in its accrual for environmental remediation relating to the sale of property in Bridgeport, CT in 2008, of which, approximately \$125,000 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 currently on hand, together with cash generated from operating activities, along 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 4. Controls and Procedures

(a) Evaluation of Internal Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 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.

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

EX-101.INS - XBRL Instance Document

EX-101.SCH - XBRL Taxonomy Extension Schema

EX-101.CAL - XBRL Taxonomy Extension Calculation Linkbase

EX-101.DEF - XBRL Taxonomy Extension Definition Linkbase

EX-101.LAB - XBRL Taxonomy Extension Label Linkbase

EX-101.PRE - XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

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

ACME UNITED CORPORATION

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

Dated: November 7, 2011

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

Dated: November 7, 2011

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