ACME UNITED CORP
Form 10-K
March 15, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2018

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: 01-07698

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.
55 Walls Drive, Fairfield, Connecticut Address of Principal Executive Offices	**06824** Zip Code

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered

$2.50 par value Common Stock   NYSE American

Securities registered pursuant to Section 12 (g) of the Act: None

(Title of Class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES [_]   NO [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES [_]   NO [X]

Indicate by check mark whether the registrant (l) 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 every Interactive Data File required to be submitted 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 such files). YES [X]   NO [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (sec. 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer [_]   Accelerated filer [X]

Non-accelerated filer [_]   Smaller Reporting Company [X]

Emerging growth company [_]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(s) of the Exchange Act [_]

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of the last business day of the registrant’s most recently completed second fiscal quarter was $61,417,386.

Registrant had 3,350,833 shares of its $2.50 par value Common Stock outstanding as of March 8, 2019.

DOCUMENTS INCORPORATE BY REFERENCE

(1) Certain portions of the Company’s Proxy Statement for the Annual Meeting scheduled for April 22, 2019 are incorporated into the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018, in Part III.

PART I

Item 1. Business

Overview

Acme United Corporation, a Connecticut corporation (together, with its subsidiaries, the "Company"), is a leading worldwide supplier of innovative safety solutions and cutting technology to the school, home, office, hardware, sporting goods and industrial markets. It's principal products sold across all segments are scissors, shears, knives, rulers, pencil sharpeners, first aid kits, and safety related products. The Company sells its products primarily to wholesale, contract and retail stationery distributors, office supply superstores, mass market and e-commerce retailers, industrial distributors, office supply super stores, sporting goods stores, hardware changes and wholesale florists.

The Company's operations are in the United States, Canada, Europe (located in Germany) and Asia (located in Hong Kong and China). The operations in the United States, Canada and Europe are primarily involved in product development, marketing, sales, administrative, manufacturing and distribution activities. The operations in Asia consist of sourcing, product development, production planning, quality control and sales activities. Total net sales in 2018 were $137.3 million. The Company was organized as a partnership in l867 and incorporated in l882 under the laws of the State of Connecticut.

The Company sources most of its products from suppliers located outside the United States, primarily in Asia. The Company assembles its first aid kits at its facilities in Vancouver, WA and Rocky Mount, NC. The components for the first aid kits are primarily sourced from U.S. suppliers.

Business Strategy

The Company's business strategy includes the following key elements:

· a commitment to technological innovation achieved through consumer insight, creativity and speed to market;

· a broad selection of products in both brand and private label;

· prompt response;

· superior customer service; and

· value pricing.

Purchase of Property

On October 26, 2017, the Company exercised its option to purchase its First Aid Only manufacturing and distribution center in Vancouver, WA for $4.0 million. The property consists of 53,000 square feet of office, manufacturing, and warehouse space on 2.86 acres. The purchase was financed by a variable rate mortgage with HSBC Bank, N.A. at an interest rate of LIBOR plus 2.5%. Commencing on December 1, 2017, principal payments of $22,222 are due monthly, with all amounts outstanding due on maturity on October 31, 2024.

Acquisitions

On February 1, 2017, the Company purchased the assets of Spill Magic, Inc., located in Santa Ana, CA and Smyrna, TN. The Spill Magic products are leaders in absorbents that encapsulate spills into dry powders that can be safely discarded. Customers, including many large retail chains, use Spill Magic products to remove liquids from broken glass containers, oil and gas spills, bodily fluids, and solvents. The Company purchased Spill Magic assets for $7.2 million in cash using funds borrowed under its revolving credit facility with HSBC. Additional information concerning the acquisition of Spill Magic assets is set forth in Note 17 – Business Combinations, in the notes to consolidated financial statements in this report.

Principal Products

The Company markets and sells under two main categories: i) Cutting, Sharpening and Measuring; and ii) First Aid and Safety. The Cutting, Sharpening and Measuring category includes school, home and office products (Westcott® brand), and Hardware, Industrial and Sporting Goods products (Clauss®, Camillus®, Cuda® and DMT® brands). The First Aid and Safety Category includes first aid and safety products (First Aid Only®, PhysiciansCare®, Pac-Kit® and Spill Magic® brands).

CUTTING, SHARPENING AND MEASURING

School, Home and Office

Westcott

Westcott, with a history of quality dating back to 1872, provides innovative cutting and measuring products for the school, home and office as well as industrial safety cutting. Principal products under the Westcott brand include scissors, rulers, pencil sharpeners, paper trimmers, lettering products, craft products and safety cutters. Westcott is one of the leading scissor and ruler brands in North America.

Many of the Westcott branded cutting products contain patented titanium bonding and proprietary non-stick coatings, making the blades more than three times harder than stainless steel as well as reducing friction and corrosion. In 2018, Westcott continued to build on its safety knife launch with the introduction of the Saber Safety Cutters as well as several new ceramic safety knives, allowing its customers to remain safer on the job. Westcott also began to expand its innovation of scissors with the patent pending anti-friction fully adjustable Glide scissor line. This new line allows the user to customize the scissor to the user's specific application or preference.

Hardware, Industrial and Sporting Goods

Clauss

Clauss, with its roots dating back to 1877, offers a line of quality cutting tools for professionals in the hardware & industrial, lawn & garden, food processing, sewing and housewares channels. Many of the Clauss products are enhanced with the Company's patented titanium and proprietary non-stick coatings.

Camillus

Since 1876 Camillus has been supplying innovative and high quality knives. The Camillus brand has a strong heritage in the hunting, sporting, survival and tactical markets. The Company acquired the brand in 2007 and re-launched it in 2009 with an updated and innovative line of fixed blade, folding knives, line of sight cutting tools and tactical tools. Many of the knives are enhanced with titanium carbonitride coatings to increase the hardness of the blade of up to 10 times that of untreated stainless steel.

Cuda

We launched the Cuda line of fishing tools and knives in 2014. Featuring titanium bonded German steels and alloys, Cuda tools provide world class hardness, corrosion and adhesive resistance. In July of 2014, Cuda won Best of Show in the “Fish Smart” category at the ICast show in Orlando, Florida. In January 2016, Cuda won six GOOD DESIGN awards from the Chicago Athenaeum, Museum of Architecture and Design. In 2017, Cuda launched a line of cut and puncture resistant gloves which feature quadruple layered Kevlar® and a line of telescopic landing nets featuring replaceable nets and a net containment system. In 2018, Cuda launched a Professional Series of knives, tools and fishing gaffs that are directed towards the commercial fishing segment.

DMT

DMT products are leaders in diamond sharpening tools for knives, scissors, chisels, skis, skates and many other edges that require sharpening. DMT was founded in 1976 by aerospace engineers. The DMT products use a proprietary process of finely dispersed diamonds bonded to the surfaces of sharpeners and are famous for providing diamond sharpeners with the flattest sharpening surface, greatest concentrated amount of diamonds and the highest quality diamonds per sharpener. In 2017, DMT launched 12 new diamond sharpeners that include a gear-driven sharpener, sonic sharpener and pull through sharpeners that provide a simple sharpening solution for beginners as well as sharpening experts.

FIRST AID AND SAFETY

First Aid & Safety

First Aid Only

The First Aid Only brand offers first aid kits, refills, and safety products that meet regulatory requirements for a broad range of industries. The Smart Compliance® first aid system is an effective tool for maintaining OSHA compliance. The Company’s SafetyHub App technology streamlines the inspection and replenishment process for a broad range of Safety products and provides data analytics to optimize costs.

Pac-Kit

The Pac-Kit brand offers first aid kits, industrial stations and refills, emergency medical travel and recreational kits of the industrial, safety, transportation and marine markets. The brand has a long history dating back to the 19th century. Although Pac-Kit's products are similar to the PhysiciansCare brand, the Pac-Kit brand is especially known for its customized products which are designed to meet customer specifications.

PhysiciansCare

The PhysiciansCare brand offers a variety of portable eyewash solutions and over-the counter medications, including the active ingredients aspirin, acetaminophen and ibuprofen.

Spill Magic

The Spill Magic brand is a leader in absorbents that encapsulate spills into dry powders that can safely be discarded. The spill response system reduces slip & fall accidents in various venues, including grocery, retail, big box and other stores; food service & hotel chains; municipal facilities; and industry-specific distributors in the U.S. and Europe. Acquired in February 2017, we introduced additional Spill Magic products in 2017, including clean-up kits for bodily fluids and blood-borne pathogen kits.

Product Development

The Company's strong commitment to understanding our consumers and defining products that fulfill their needs through innovation drives our product development strategy, which we believe is and will be a key contributor to our success. The Company incurred research, development and related costs of $734,000 in 2018 and $752,000 in 2017.

Intellectual Property

The Company owns many patents and trademarks that are important to its business. The Company's success depends in part on its ability to maintain patent protection for its products, to preserve its proprietary technology and to operate without infringing upon the patents or proprietary rights of others. The Company generally files patent applications in the United States and foreign countries where patent protection for its technology is appropriate and available. The Company also considers its trademarks important to the success of its business. The more significant trademarks include Westcott, Clauss, Camillus, PhysiciansCare, First Aid Only, Cuda, DMT, Pac-Kit and Spill Magic. Patents and trademarks are amortized over their estimated useful lives. The weighted average amortization period remaining for intangible assets at December 31, 2018 was 10 years.

Product Distribution; Major Customers

Independent manufacturer representatives and direct sales are primarily used to sell the Company's line of consumer products to wholesale, contract and retail stationery distributors, office supply super stores, school supply distributors, industrial distributors, wholesale florists, mass market and ecommerce retailers and hardware chains (including through their websites). The Company also sells a limited selection of its products directly to consumers through its own websites. The Company had one customer in 2018 and two customers in 2017 that individually exceeded 10% of consolidated net sales. In 2018, net sales to this one customer were approximately 13%, of consolidated net sales. In 2017, net sales to the two customers were approximately 16% and 11%, respectively.

Competition

The Company competes with many companies in each market and geographic area. The Company believes that the principal points of competition in these markets are product innovation, quality, price, merchandising, design and engineering capabilities, product development, timeliness and completeness of delivery, conformity to customer specifications and post-sale support. The major competitors in the cutting category are 3M and Fiskars Corporation. The major competitors in the measuring category are Maped and Staedtler. The major competitor in the pencil sharpener category is Bostitch. The major competitors in the first aid & safety category are Honeywell, 3M and Johnson & Johnson.

Seasonality

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.

Compliance with Environmental Laws

The Company believes that it is in compliance with applicable environmental laws. The Company anticipates that no material adverse financial impact will result from compliance with current environmental rules and regulations.

Employees

As of December 31, 2018, the Company employed 435 people, all of whom are full time and none of whom is covered by union contracts. Employee relations are considered good and no foreseeable problems with the work force are evident.

Available Information

You may obtain at no charge, a copy of the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports on the Company's website at http://www.acmeunited.com or by contacting the Investor Relations Department at the Company's corporate offices by calling (203) 254-6060. Such reports and other information are made available as soon as reasonably practicable after such material is filed with or furnished to the SEC.

Item 1A. Risk Factors

The Company is subject to a number of significant operational risks that might cause the Company's actual results to vary materially from its forecasts, targets or projections, including:

- achieving planned revenue and profit growth in each of the Company's business segments;
- changes in customer requirements and in the volume of sales to principal customers;
- the ability of the Company to anticipate timing of orders and shipments particularly in the ecommerce area;
- emergence of new competitors or consolidation of existing competitors; and
- industry demand fluctuations.

The Company’s expectations for both short and long-term future net revenues are based on the Company’s estimates of future demand. Orders from the Company’s principal customers are ultimately based on demand from end-users and end-user demand can be difficult to predict. Low end-user demand would negatively affect orders the Company receives from distributors and other principal customers which could, in turn adversely affect the Company’s revenues in any fiscal period. If the Company’s estimates of sales are not accurate and the Company experiences unforeseen variability in its revenues and operating results, the Company may be unable to adjust its expense levels accordingly and its profit margins could be adversely affected.

Because our products are primarily sold by third parties, our financial results depend in part on the financial health of these parties and any loss of a third party distributor could adversely affect the Company’s revenues.

A large majority of the Company’s products are sold through third-party distributors and large retailers. Some of our distributors also market products that compete with our products. Changes in the financial or business conditions or the purchasing decisions of these third parties or their customers could affect our sales and profitability.

Additionally, no assurances can be given that any or all of such distributors or retailers will continue their relationships with the Company. Distributors and other significant retail customers cannot easily be replaced and the loss of revenues and the Company’s inability to reduce expenses to compensate for the loss of revenues could adversely affect the Company’s net revenues and profit margins.

The ability to deliver products to our customers in a timely manner and to satisfy our customers' fulfillment standards are subject to several factors, some of which are beyond our control.

Customers place great emphasis on timely delivery of our products for specific selling seasons, especially during our second and third fiscal quarters, and on the fulfillment of consumer demand throughout the year. We cannot control all of the various factors that might affect product delivery to customers. Vendor production delays, cybersecurity attacks on our vendors, difficulties encountered in shipping from overseas and customs clearance delays are on-going risks of our business. We also rely upon third-party carriers for our product shipments from our distribution centers to customers. Accordingly, we are subject to risks, including labor disputes, inclement weather, natural disasters, cybersecurity attacks, possible acts of terrorism, availability of shipping containers, and increased security restrictions associated with such carriers' ability to provide delivery services to meet our shipping needs. Failure to deliver products to our customers in a timely and effective manner, often under special vendor requirements to use specific carriers and delivery schedules, could damage our reputation and brands and result in loss of customers or reduced orders.

Reliance on foreign suppliers could adversely affect the Company's business.

The Company sources its products from suppliers located in Asia, Europe and the United States. The Company's Asia vendors are located primarily in China, which subjects the Company to various risks within the region including regulatory, political, economic and foreign currency changes. The Company's ability to select and retain reliable vendors and suppliers who provide timely deliveries of quality products efficiently will impact its success in meeting customer demand for timely delivery of quality products. The Company's sourcing operations and its vendors are impacted by labor costs in China. Labor historically has been readily available at low cost relative to labor costs in North America. However, as China is experiencing rapid social, political and economic changes, labor costs have risen in some regions and there can be no assurance that labor will continue to be available to the Company in China at costs consistent with historical levels or that changes in labor or other laws will not be enacted which would have a material adverse effect on the Company's operations in China. Interruption of supplies from any of the Company's vendors, or the loss of one or more key vendors, could have a negative effect on the Company's business and operating results.

Changes in currency exchange rates might negatively affect the profitability and business prospects of the Company and its overseas vendors. In particular, the Chinese Renminbi has recently fluctuated against the U.S. Dollar, if the Chinese Renminbi continues to fluctuate with respect to the U.S. Dollar in the future, the Company may experience cost increases on such purchases, and this can adversely impact profitability. Future interventions by China may result in further currency appreciation and increase our product costs over time. The Company may not be successful at implementing customer pricing or other actions in an effort to mitigate the related effects of the product cost increases.

Additional factors that could adversely affect the Company's business include increases in transportation costs, new or increased import duties, transportation delays, work stoppages, capacity constraints and poor quality.

The Company's operations are increasingly global in nature. Our business, financial condition and results of operations could be adversely affected by the political and economic conditions in the countries in which we conduct business, by fluctuations in currency exchange rates and other factors related to our international

operations.

As our international operations and activities expand, we face increasing exposure to the risks of operating in foreign countries. These factors include:

- Changes generally in political, regulatory or economic conditions in the countries in which we conduct business.
- Trade protection measures in favor of local producers of competing products, including government subsidies, tax benefits, changes in local tax rates, trade actions (such as anti-dumping proceedings) and other measures giving local producers a competitive advantage over the Company.
- Changes in foreign currency exchange rates which could adversely affect our competitive position, selling prices and manufacturing costs, and therefore the demand for our products in a particular market.

8

These risks could affect the cost of manufacturing and selling our products, our pricing, sales volume, and ultimately our financial performance. The likelihood of such occurrences and their potential effect on the Company vary from country to country and are unpredictable.

Continuing uncertainty in the global economy could negatively impact our business.

Uncertainty in the global economy could adversely affect our customers and our suppliers and businesses such as ours. In addition, any uncertainty could have a variety of negative effects on the Company, such as reduction in revenues, increased costs, lower gross margin percentages, increased allowances for doubtful accounts and/or write-offs of accounts receivable and could otherwise have material adverse effects on our business, results of operations, financial condition and cash flows.

Changes in trade policies, including the imposition of tariffs and their enforcement, may have a material adverse impact on our business, results of operations, and outlook.

On September 24, 2018, the United States levied a third round of tariffs on the import of some products from China, which is an important source of many of the Company's products. The first two rounds targeted $50 billion of Chinese goods and applied a 25% tariff; these rounds had no impact on the Company. The third round targeted an additional $200 billion of Chinese goods and applied a 10% tariff that was scheduled to increase to 25% at the start of 2019 but has been delayed. This latest round affects approximately 10% of the Company's product purchases and will increase our costs of procurement. These tariffs affect certain measuring products, folding knives and first aid components. In response to these tariffs, the Company has implemented a price increase on the affected products in order to offset their impact. Tariff levels may be further increased and the types of products subject to tariffs may be expanded. Although the Company intends to pass additional price increases on to our customers, such tariff-related developments could have a negative impact on customer demand and adversely affect our business, financial condition and results of operations. In addition, we might have to modify our current business practices, including potentially sourcing from alternative vendors.

The Company's business is subject to risks associated with seasonality which could adversely affect its cash flow, financial condition, or results of operations.

The Company's business, historically, has experienced higher sales volume in the second and third quarters of the calendar year, when compared to the first and fourth quarters. The Company is a major supplier of products related to the "back-to-school" season, which occurs principally during the months of May, June, July and August. If this typical seasonal increase in sales of certain portions of the Company's product line does not materialize in any year, the Company could experience a material adverse effect on its business, financial condition and results of operations.

Failure to manage growth and continue to expand our operations successfully could adversely affect our financial results.

Our business has experienced significant historical growth over the years, and we expect our business to continue to grow organically and through strategic acquisitions. This growth places significant demands on management and operational systems. If we cannot effectively manage our growth, it is likely to result in operational inefficiencies and ineffective management of our business thus negatively impacting our operating results. To the extent we grow through strategic acquisitions, our success will depend on selecting the appropriate targets, integrating such acquisitions quickly and effectively and realizing any expected synergies and cost savings related to such acquisitions.

Loss of a major customer could result in a decrease in the Company's future sales and earnings.

Sales of our products are primarily concentrated in a few major customers including office product superstores and mass market distributors. The Company had one customer in 2018 and two customers in 2017 that individually exceeded 10% of consolidated net sales. In 2018, net sales to this one customer were approximately 13%, of consolidated net sales. In 2017, net sales to the two customers were approximately 16% and 11%, respectively. The Company anticipates that a limited number of customers may account for a substantial portion of its total net revenues for the foreseeable future. The business risks associated with this concentration, including increased credit risks for these and other customers and the possibility of related bad debt write-offs, could negatively affect our margins and profits. Additionally, the loss of a major customer, whether through competition or consolidation, or a disruption in sales to such a customer, could result in a decrease of the Company's future sales and earnings.

The loss of key management could adversely affect the Company's ability to run its business.

The Company's success depends, to a large extent, on the continued service of its executive management team, operating officers and other key personnel. The Company must therefore continue to recruit, retain and motivate management and operating personnel sufficient to maintain its current business and support its projected growth. The Company's inability to meet its staffing requirements in the future could adversely affect its results of operations.

Execution or the lack thereof, of our e-commerce business may reduce our operating results.

Our e-commerce business constituted approximately 10% of our net sales in 2018 and has been our fastest growing distribution channel over the last several years. The continued successful growth of our e-commerce business depends, in part, on third parties and factors over which we have limited control, including difficulty forecasting demand, changing consumer preferences, and e-commerce buying trends, both domestically and abroad, as well as promotional or other advertising initiatives employed by our customers or other third parties on their e-commerce sites. Additionally, sales in our e-commerce distribution channel may also divert sales from our other customers.

Additionally, the success of our e-commerce business depends, in part, on the timely receipt of our products by our customers and their end users. The efficient flow of our products requires that our distribution facilities have adequate capacity to support increases in our e-commerce business. If we encounter difficulties with forecasting and supply to our distribution facilities, we could face shortages of inventory, resulting in "out of stock" conditions in the e-commerce sites operated by our customers or other third parties, and we could incur significantly higher costs and longer lead times associated with distributing our products to our customers.

Our failure to successfully respond to these risks and uncertainties might adversely affect the sales in our e-commerce business, as well as damage our brands.

Failure to protect the Company's proprietary rights or the costs of protecting these rights could adversely affect its business.

The Company's success depends in part on its ability to obtain patents and trademarks and to preserve other intellectual property rights covering its products and processes. The Company has obtained certain domestic and foreign patents and intends to continue to seek patents on its inventions when appropriate. The process of seeking patent protection can be time consuming and expensive. There can be no assurance that pending patents related to any of the Company's products will be issued, in which case the Company may not be able to legally prevent others from producing similar and/or compatible competing products. If other companies were to sell similar and/or compatible competing products, the Company's results of operations could be adversely affected. Furthermore, there can be no assurance that the Company's efforts to protect its intellectual property will be successful. Any infringement of the Company's intellectual property or legal defense of such action could have a material adverse effect on the Company.

The Company is subject to intense competition in all of the markets in which it competes.

The Company’s products are sold in highly competitive markets including at mass merchants, high volume office supply stores and online. The Company believes that the principal points of competition in these markets are product innovation, quality, price, merchandising, design and engineering capabilities, product development, timeliness and completeness of delivery, conformity to customer specifications and post-sale support. Competitive conditions may require the Company to match or better competitors’ prices to retain business or market shares. The Company believes that its competitive position will depend on continued investment in innovation and product development, manufacturing and sourcing, quality standards, marketing and customer service and support. The Company’s success will depend in part on its ability to anticipate and offer products that appeal to the changing needs and preferences of our customers in the various market categories in which it competes. The Company may not have sufficient resources to make the investments that may be necessary to anticipate those changing needs and the Company may not anticipate, identify, develop and market products successfully or otherwise be successful in maintaining its competitive position. In addition, there are numerous uncertainties inherent in successfully developing and commercializing innovative new products on a continuing basis, and new product launches may not provide expected growth results. There are no significant barriers to entry into the markets for most of the Company’s products.

Compromises of our information systems or unauthorized access to confidential information or our customers' or associates' personal information may materially harm our business or damage our reputation.

Through our sales and marketing activities and our business operations, we collect and store confidential information and certain personal information from our customers and associates. We also process payment card information and check information. In addition, in the normal course of business, we gather and retain personal information about our associates and generate and have access to confidential business information. Although we have taken steps designed to safeguard such information, there can be no assurance that such information will be protected against unauthorized access or disclosure. Computer hackers may attempt to penetrate our or our vendors' network security and, if successful, misappropriate such information. An Acme United associate, contractor or other third-party with whom we do business may also attempt to circumvent our security measures in order to obtain such information or inadvertently cause a breach involving such information. We could be subject to liability for failure to comply with privacy and information security laws, for failing to protect personal information, or for misusing personal information, such as use of such information for an unauthorized marketing purpose. Any compromise of our systems or data could disrupt our operations, damage our reputation, and expose us to claims from customers, financial institutions, regulators, payment card associations, employees and other persons, any of which could have an adverse effect on our business, financial condition and results of operations.

The Company may not be able to maintain or to raise prices in response to inflation and increasing costs.

Future market and competitive pressures may prohibit the Company from raising prices to offset increased product costs, freight costs and other inflationary items or to offset currency fluctuations. The inability to pass these costs through to the Company’s customers could have a negative effect on its results of operations.

The Company may need to raise additional capital to fund its operations.

The Company’s management believes that, under current conditions, the Company’s current cash and cash equivalents, cash generated by operations, together with the borrowing availability under its revolving loan agreement with HSBC Bank N.A., will be sufficient to fund planned operations for the next twelve months. However, if the Company is unable to generate sufficient cash from operations, it may be required to find additional funding sources. If adequate financing is unavailable or is unavailable on acceptable terms, the Company may be unable to maintain, develop or enhance its operations, products and services, take advantage of future opportunities or adequately respond to competitive pressures.

Changes in interest rates could adversely affect us.

We have exposure to increases in interest rates under our revolving credit loan agreement with HSBC, N.A. which presently bears interest at a rate of LIBOR plus 1.75%. In response to the last global economic recession, actions of the U.S. Federal Reserve and other central banking institutions, were taken to create and maintain a low interest rate environment. However, in 2018, the U.S. Federal Reserve raised its benchmark interest rate three times. Increases in interest rates would increase our interest costs on our variable-rate debt as well as any future fixed rate debt, we may incur at higher interest rates, and interest which we pay reduces our cash available for working capital, acquisitions, and other uses.

Product liability claims or regulatory actions could adversely affect the Company's financial results and reputation.

Claims for losses or injuries allegedly caused by some of the Company’s products arise in the ordinary course of its business. In addition to the risk of substantial monetary judgments, product liability claims or regulatory actions could result in negative publicity that could harm the Company’s reputation in the marketplace or the value of its brands. The Company also could be required to recall possible defective products, which could result in adverse publicity and significant expenses. Although the Company maintains product liability insurance coverage, potential product liability claims are subject to a deductible or could be excluded under the terms of the policy.

The Company is subject to environmental regulation and environmental risks.

The Company is subject to national, state, provincial and/or local environmental laws and regulations that impose limitations and prohibitions on the discharge and emission of, and establish standards for the use, disposal and management of, certain materials and waste. These environmental laws and regulations also impose liability for the costs of investigating and cleaning up sites, and certain damages resulting from present and past spills, disposals, or other releases of hazardous substances or materials. Environmental laws and regulations can be complex and may change often. Capital and operating expenses required to comply with environmental laws and regulations can be significant, and violations may result in substantial fines and penalties. In addition, environmental laws and regulations, such as the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, in the United States impose liability on several grounds for the investigation and cleanup of contaminated soil, ground water and buildings and for damages to natural resources on a wide range of properties. For example, contamination at properties formerly owned or operated by the Company, as well as at properties it will own and operate, and properties to which hazardous substances were sent by the Company, may result in liability for the Company under environmental laws and regulations. The costs of complying with environmental laws and regulations and any claims concerning noncompliance, or liability with respect to contamination in the future could have a material adverse effect on the Company’s financial condition or results of operations.

We cannot provide assurance that we will continue to pay dividends or purchase shares of our common stock under our stock repurchase program.

We continue to pay and declare dividends on a quarterly basis and we anticipate that we will continue to do so. However, there can be no assurance that we will have sufficient cash or surplus under the law to be able to continue to pay dividends at our current level or purchase shares of our common stock under our stock repurchase program. (At December 31, 2018, a total of 17,999 may be purchased in the future under the repurchase program which the Company announced in 2010.) This may result from extraordinary cash expenses, actual expenses exceeding contemplated costs, funding of capital expenditures, increases in reserves or lack of available capital. We may also suspend the payment of dividends or our stock repurchase program if the Board deems such action to be in the best interests of our shareholders. If we do not pay dividends or decrease the amount of dividends we pay, the price of our common stock would likely decrease.

Our shares of common stock are thinly traded and our stock price may be volatile.

Because our common stock is thinly traded, its market price may fluctuate significantly more than the stock market in general or the stock prices of other companies listed on major stock exchanges. There were approximately 2,910,112 shares of our common stock held by non-affiliates as of December 31, 2018. Thus, our common stock is less liquid than the stock of companies with broader public ownership, and, as a result, the trading price for shares of our common stock may be more volatile. Among other things, trading of a relatively small volume of our common stock may have a greater impact on the trading price for our stock than would be the case if our public float were larger.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Location	**Square Footage**	**Purpose**
Owned		
Rocky Mount, NC	340,000	Warehousing and distribution
Vancouver, WA	53,000	Warehousing and distribution
Solingen, Germany	35,000	Warehousing, distribution and administrative
	428,000	
Leased		
Fairfield, CT	15,400	Administrative
Bentonville, AK	1,500	Administrative
Marlborough, MA	28,000	Manufacturing, warehousing and distribution
Santa Ana, CA	10,000	Manufacturing, warehousing, distribution and administrative
Smyrna, TN	13,000	Manufacturing, warehousing and distribution
Mount Forest, Ontario, Canada	42,500	Warehousing and distribution
Orangeville, Ontario, Canada	2,850	Administrative
Hong Kong, China	2,750	Administrative
Guangzhou, China	3,500	Administrative
Ningbo, China	1,800	Administrative
	121,300	
Total:	**549,300**	

The Company’s facilities located in the United States and China are utilized by all of its segments. The Company’s facilities located in Canada and Germany are utilized by its Canadian segment and its European segment, respectively.

Management believes that the Company's facilities, whether leased or owned, are adequate to meet its current needs and should continue to be adequate for the foreseeable future.

Item 3. Legal Proceedings

There are no pending material legal proceedings to which the Company is a party or, to the actual knowledge of the Company, contemplated by any governmental agency.

Item 4. Mine Safety Disclosures

Not applicable.

13

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's Common Stock is traded on the NYSE American under the symbol "ACU".

Issuer Purchases of Equity Securities

On November 22, 2010, the Company announced a Common Stock repurchase program of up to a total 200,000 shares. The program does not have an expiration date. During the twelve months ended December 31, 2018, the Company repurchased 23,228 shares of its Common Stock. As of December 31, 2018, a total of 17,999 shares may be purchased in the future under the repurchase program announced in 2010.

Item 6. Selected Financial Data

As a registered smaller reporting company, the Company is not required to provide this information.

Item 7. 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 pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such statements are based on our beliefs as well as assumptions made by and information currently available to us. When used in this document, words like "may," "might," "will," "except," "anticipate," "believe," "potential," and similar expressions are intended to identify forward-looking statemen
Actual results could differ materially from our current expectations.

Forward-looking statements in this report, including without limitation, statements related to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward-looking statements involve risks and uncertainties including, without limitation, the following: (i) changes in the Company's plans, strategies, objectives, expectations and intentions, which may be made at any time at the discretion of the Company; (ii) the impact of uncertainties in global economic conditions, including the impact on the Company's suppliers and customers; (iii) changes in client needs and consumer spending habits; (iv) the impact of competition and technological changes on the Company; (v) the Company's ability to manage its growth effectively, including its ability to successfully integrate any business it might acquire; (vi) currency fluctuations; (vii) increases in the cost of borrowings resulting from rising interest rates; (viii) international trade policies and their impact on demand for our products and our competitive position, including the imposition of new tariffs or changes in existing tariff rates; and (ix) other risks and uncertainties indicated from time to time in the Company’s filings with the Securities and Exchange Commission. For a more detailed discussion of these and other factors affecting the Company, see the Risk Factors set forth above in Item 1A of this Annual Report on Form 10-K.

Critical Accounting Policies

The following discussion and analysis of financial condition and results of operations are based upon the Company’s consolidated financial statements, which have been prepared in conformity with generally accepted accounting principles in the United States of America. The Company’s significant accounting policies are more fully described in Note 2 of the notes to consolidated financial statements. Certain accounting estimates are particularly important to the understanding of the Company’s financial position and results of operations and require the application of significant judgment by the Company’s management and can be materially affected by changes from period to period in economic factors or conditions that are outside the control of management. The Company’s management uses its judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on historical operations, future business plans and projected financial results, the terms of existing contracts, the observance of trends in the industry, information provided by customers and information available from other outside sources, as appropriate. The following discusses the Company’s critical accounting policies and estimates:

Estimates – Operating results may be affected by certain accounting estimates. The most sensitive and significant accounting estimates in the financial statements relate to customer rebates, valuation allowances for deferred income tax assets, obsolete and slow moving inventories, potentially uncollectible accounts receivable, pension liability and accruals for income taxes. Although the Company's management has used available information to make judgments on the appropriate estimates to account for the above matters, there can be no assurance that future events will not significantly affect the estimated amounts related to these areas where estimates are required. However, historically, actual results have not been materially different than original estimates.

Revenue Recognition – The Company recognizes revenues from the sale of products at a point in time, shipment or delivery, based on the terms of the underlying contract with the customer. Customer program costs, including rebates, cooperative advertising, slotting fees and other sales related discounts are recorded as a reduction to sales. Returns are also recognized as a reduction in sales and are immaterial in relation to total sales.

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which amended the existing accounting standards for revenue recognition. ASU 2014-09 established principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The Company adopted ASU 2014-09 in the first quarter of 2018 using the modified retrospective approach. Because the Company's primary source of revenues is from the sale of products which are recognized at a point in time, the impact on its consolidated financial statements was not material.

Allowance for Doubtful Accounts – The Company provides an allowance for doubtful accounts based upon a review of outstanding accounts receivable, historical collection information and existing economic conditions. The allowance for doubtful accounts represents estimated uncollectible accounts receivables associated with potential customer defaults on contractual obligations, usually due to potential insolvencies. The allowance includes amounts for certain customers where a risk of default has been specifically identified. In addition, the allowance includes a provision for customer defaults based on historical experience. The Company actively monitors its accounts receivable balances, and its historical experience of annual accounts receivable write-offs has been negligible.

Customer Rebates – Customer rebates and incentives are a common practice in the office products industry. We incur customer rebate costs to obtain favorable product placement, to promote sell-through of products and to maintain competitive pricing. Customer rebate costs and incentives, including volume rebates, promotional funds, catalog allowances and slotting fees, are accounted for as a reduction to gross sales. These costs are recorded at the time of sale and are based on individual customer contracts. Management periodically reviews accruals for these rebates and allowances, and adjusts accruals when appropriate.

Obsolete and Slow Moving Inventory – Inventories are stated at the lower of cost, determined on the first-in, first-out method, or net realizable value. An allowance is established to adjust the cost of inventory to its net realizable value. Inventory allowances are recorded for obsolete or slow moving inventory based on assumptions about future demand

and marketability of products, the impact of new product introductions and specific identification of items, such as discontinued products. These estimates could vary significantly from actual requirements if future economic conditions, customer inventory levels or competitive conditions differ from expectations.

Income Taxes – Deferred income tax liabilities or assets are established for temporary differences between financial and tax reporting bases and are subsequently adjusted to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is recorded to reduce deferred income tax assets to an amount that is more likely than not to be realized.

The Tax Act was signed into law in December 2017 and legislation represents a fundamental and dramatic shift in U.S. taxation, with many provisions of the Act differing significantly from previous U.S. tax law. With enactment occurring late in 2017, companies with calendar reporting years have not had extensive time to analyze the impacts of the legislation. Applying the effects of a lower corporate tax rate to deferred tax assets and liabilities, evaluating the one-time transition tax on undistributed earnings of foreign operations, examining the implications of changes to net operating loss and other credit carryforwards and considering other provisions of the Act in a relatively compressed time frame necessitates significant estimation and judgment. Following the guidance of the U.S. Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 118, we have made reasonable estimates of the Act's provisions and have recorded a non-cash charge to fourth quarter of 2017 tax expense of $1,245,000 to reflect these effects. As permitted by SAB 118, the Company has subsequently finalized its accounting analysis based on the guidance, interpretations and data available as of December 31, 2018. There were no material adjustments to the Company’s financial statements as a result.

Intangible Assets and Goodwill – Intangible assets with finite useful lives are recorded at cost upon acquisition and amortized over the term of the related contract, if any, or useful life, as applicable. Intangible assets held by the Company with finite useful lives include patents and trademarks. The weighted average amortization period for intangible assets at December 31, 2018 was 10 years. The Company periodically reviews the values recorded for intangible assets and goodwill to assess recoverability from future operations whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. At December 31, 2018 and 2017, the Company assessed the recoverability of its long-lived assets and goodwill and believed that there were no events or circumstances present that would that would require a test of recoverability on those assets. As a result, there was no impairment of the carrying amounts of such assets and no reduction in their estimated useful lives.

Pension Obligation – The pension benefit obligation is based on various assumptions used by third-party actuaries in calculating this amount. These assumptions include discount rates, expected return on plan assets, mortality rates and other factors. Revisions in assumptions and actual results that differ from the assumptions affect future expenses, cash funding requirements and obligations. Our funding policy is to fund the plan in accordance with applicable requirements of the Internal Revenue Code and regulations.

These assumptions are reviewed annually and updated as required. The Company has a frozen defined benefit pension plan. Two assumptions, the discount rate and the expected return on plan assets, are important elements of expense and liability measurement.

We determine the discount rate used to measure plan liabilities as of the December 31 measurement date. The discount rate reflects the current rate at which the associated liabilities could be effectively settled at the end of the year. In estimating this rate, we look at rates of return on fixed-income investments of similar duration to the liabilities in the plan that receive high, investment grade ratings by recognized ratings agencies. Using these methodologies, we determined a discount rate of 3.87% to be appropriate as of December 31, 2018, which is an increase of 0.73 percentage points from the rate used as of December 31, 2017.

The expected long-term rate of return on assets considers the Company’s historical results and projected returns for similar allocations among asset classes. In accordance with generally accepted accounting principles, actual results that differ from the Company’s assumptions are accumulated and amortized over future periods and, therefore, affect expense and obligation in future periods. For the U.S. pension plan, our assumption for the expected return on plan assets was 6.0% for 2018. For more information concerning these costs and obligations, see the discussion in Note 6 – Pension and Profit Sharing, in the notes to the Company’s consolidated financial statements in this report.

Accounting for Stock-Based Compensation – Stock based compensation cost is measured at the grant date fair value of the award and is recognized as expense over the requisite service period. The Company uses the Black-Scholes option - pricing model to determine fair value of the awards, which involves certain subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (“expected term”), the estimated volatility of the Company’s common stock price over the expected term (“volatility”) and the number of options for which vesting requirements will not be completed (“forfeitures”). Changes in the subjective assumptions can materially affect estimates of fair value stock-based compensation, and the related amount recognized on the consolidated statements of operations. Refer to Note 12 – Stock Option Plans, in the notes to consolidated financial statements in this report for a more detailed discussion.

Results of Operations 2018 Compared with 2017

On February 1, 2017, the Company purchased the assets of Spill Magic, Inc., located in Santa Ana, CA and Smyrna, TN. The Spill Magic products are leaders in absorbents that encapsulate spills into dry powders that can be safely disposed. Customers, including many large retail chains, use the Spill Magic products to remove liquids from broken glass containers, oil and gas spills, bodily fluids and solvents. The Company purchased Spill Magic assets for $7.2 million in cash using funds borrowed under its revolving credit facility with HSBC. Additional information concerning the acquisition of Spill Magic assets is set forth in Note 17 – Business Combinations, in the notes to consolidated financial statements in this report.

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

In 2018, sales increased by $6,771,000, or 5.2%, to $137,321,000 compared to $130,550,000 in 2017.

The U.S. segment sales increased by $5,586,000, or 5%, in 2018 compared to 2017 due to strong sales of first aid and safety products as well as Camillus knives.

Sales in Canada increased 2% in U.S. dollars and 1% in local currency compared to the same period in 2017.

Sales in Europe increased 13% in U.S. dollars and 9% in local currency compared to last year mainly due to new customers in the office products channel, growth in sales of DMT sharpening products, and strong e-commerce demand for these products.

Gross Profit

Gross profit was 36.9% of net sales in 2018 compared to 36.7% in 2017.

Selling, General and Administrative

Selling, general and administrative (“SG&A”) expenses were $43,192,000 in 2018 compared with $40,016,000 in 2017, an increase of $3,176,000, or 8%. SG&A expenses were 31.5% of net sales in 2018 compared to 30.7% in 2017. The increase in SG&A expenses was primarily due to costs relating to the addition of sales and marketing personnel, which include compensation and recruiting costs, and higher freight and commission expense due to higher sales.

Operating Income

Operating income was $7,457,000 in 2018, compared with $7,883,000 in 2017. The decrease in operating income was primarily from additions of sales and marketing personnel to support growth initiatives. Operating income in the U.S. decreased by approximately $685,000, primarily due to higher selling, general and administrative expenses. Operating income in Canada increased by approximately $109,000, primarily due to a better product mix and higher sales. Operating income in the European segment increased by approximately $150,000, primarily due to higher sales.

Interest Expense, Net

Net interest expense for 2018 was $1,858,000, compared with $1,327,000 for 2017, an increase of $531,000. The increase in interest expense, net for 2018, was primarily the result of a higher average interest rate during 2018.

Other Expense

Other expense was $67,000 in 2018 compared to $63,000 in 2017.

Income Tax Expense

Income tax expense was $933,000 in 2018, resulting in an effective tax rate of 17%. Excluding a special charge related to the Tax Act in December 2017 in the U.S of $1,245,000, income tax expense was $1,196,000 in 2017, resulting in an effective tax rate of 18%.

Off-Balance Sheet Transactions

The Company did not engage in any off-balance sheet transactions during 2018.

Liquidity and Capital Resources

During 2018, working capital decreased by approximately $1.0 million compared to December 31, 2017. Inventory increased by approximately $1.2 million, or 3%, which corresponds mostly to the increase in sales. The Company expects that changes in inventory levels will continue to be consistent with changes in sales, including the seasonal impact on the Company's revenue stream. Inventory turnover, calculated using a twelve month average inventory balance, remained constant at 2.1 at December 31, 2018 as compared to December 31, 2017. The reserve for slow moving and obsolete inventory was $538,354 at December 31, 2018 compared to $654,855 at December 31, 2017. We do not anticipate significant increases in the allowance for slow moving and obsolete inventory in the ordinary course of business during 2019.

Receivables decreased by approximately $0.9 million at December 31, 2018 compared to December 31, 2017. The average number of days sales outstanding in accounts receivable was 66 days in 2018 compared to 65 days in 2017. Accounts payable and other current liabilities decreased by approximately $3.2 million.

At December 31, 2018, total debt outstanding under the Company's revolving credit facility decreased by approximately $3.2 million compared to total debt at December 31, 2017. As of December 31, 2018, $40,283,000 was outstanding and $9,717,000 was available for borrowing under the Company's revolving credit facility.

On May 24, 2018, the Company amended its revolving loan agreement with HSBC Bank, N.A. The amendment lowered the interest rate to LIBOR plus 1.75%; interest is payable monthly. In addition, the expiration date of the credit facility was extended to May 24, 2023. The prior interest rate was LIBOR plus 2%. The amount available for borrowing remains unchanged at $50 million. The Company must pay a facility fee, payable quarterly, in an amount equal to two tenths of one percent (.20%) per annum of the average daily unused portion of the revolving credit line. The facility is intended to provide liquidity for growth, share repurchases, dividends, acquisitions, and other business activities. Under the revolving loan agreement, the Company is required to maintain specific amounts of tangible net worth, a specified debt to net worth ratio and a fixed charge coverage ratio and must have annual net income greater than zero, measured as of the end of each fiscal year. At December 31, 2018, the Company was in compliance with the covenants then in effect under the loan agreement.

On October 26, 2017, the Company exercised its option to purchase its First Aid Only manufacturing and distribution center in Vancouver, WA for $4.0 million. The property consists of 53,000 square feet of office, manufacturing, and warehouse space on 2.86 acres. The purchase was financed by a variable rate mortgage with HSBC Bank, N.A. at an interest rate of LIBOR plus 2.5%. Commencing on December 1, 2017, principal payments of $22,222 are due monthly, with all amounts outstanding due on maturity on October 31, 2024. The outstanding principal on December 31, 2018 was $3,711,112.

Capital expenditures during 2018 and 2017 were $2,850,993 and $3,146,194, respectively, which were, in part, financed with borrowings under the Company's revolving credit facility.

As a result of the Tax Cuts and Jobs Act, we repatriated approximately $7.8 million in 2018. We used the proceeds to pay down debt and to finance expanded production at our DMT, Spill Magic, and First Aid facilities in the U.S., as well as make enhancements to our Rocky Mount distribution facility.

The Company believes that cash on hand, and cash generated from operating activities, together with funds available under its revolving credit facility, are expected, under current conditions, to be sufficient to finance the Company's planned operations for at least the next twelve months from the issuance of this Form 10-K.

Recently Issued and Adopted Accounting Standards

In August 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, by one year. ASU 2015-14 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. The Company has adopted the new guidance as of January 1, 2018 using the modified retrospective method. The adoption of the new guidance did not have a material effect on the consolidated financial position, results of operations or cash flows of the Company beyond the increase in the level of disclosures. Refer to Note 10 – Revenue from Contracts with Customers.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* ("ASU No. 2017-07"), which requires employers to disaggregate the service cost component from other components of net periodic benefit costs and to disclose the amounts of net periodic benefit costs that are included in each income statement line item. The standard requires employers to report the service cost component in the same line item as other compensation costs and to report the other components of net periodic benefit costs (which include interest costs, expected return on plan assets, amortization of prior service cost or credits and actuarial gains and losses) separately and outside a subtotal of operating income. The service cost component of net periodic pension cost is included in selling, general and administrative expenses in the accompanying consolidated statements of operations and the other components of net periodic pension cost are included in other expense. The income statement guidance requires application on a retrospective basis. The adoption of this ASU by the Company on January 1, 2018 did not have a material effect on the consolidated financial position, results of operations or cash flows of the Company. Refer to Note 6 – Pension and Profit Sharing.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842),* associated with lease accounting. There have been further amendments, including practical expedients, with the issuance of ASU 2018-11, *Leases (Topic 842) Targeted Improvements,* in July 2018, and ASU 2018-20, *Leases (Topic 842) Narrow Scope Improvements for Lessors,* in December 2018. The amended guidance requires the recognition of lease assets and lease liabilities on the balance sheet for those leases with terms in excess of 12 months and currently classified as operating leases. Disclosure of key information about leasing arrangements will also be required. We elected the optional transition method which allows entities to continue to apply historical accounting guidance in the comparative periods presented in the year of adoption.

At transition, lessees and lessors may elect to apply a package of practical expedients permitting entities not to reassess: (i) whether any expired or existing contracts are or contain leases; (ii) lease classification for any expired or existing leases; and (iii) whether initial direct costs for any expired or existing leases qualify for capitalization under the amended guidance. These practical expedients must be elected as a package and consistently applied. We have elected to apply the package of practical expedients upon adoption.

Upon adoption of the amended guidance, the Company expects to record operating lease right-of-use assets and related liabilities of approximately $2.9 million, primarily related to real estate leases. We currently do not expect the amended guidance to have any other material impacts on our consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. ASU No. 2018-02 provides companies with an option to reclassify stranded tax effects within accumulated other comprehensive income ("AOCI") to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. ASU No. 2018-02 also requires disclosure of a description of the accounting policy for releasing income tax effects from AOCI and whether an election was made to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act. ASU No. 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Companies can adopt the provisions of ASU No. 2018-02 in either the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. For Acme, this ASU will be adopted effective January 1, 2019 and will result in a reclassification between retained earnings and AOCI. The Company estimates that the impact from this ASU will increase retained earnings by approximately $0.1 million, with an offsetting increase to accumulated other comprehensive loss for the same amount.

In June 2018, the FASB issued ASU 2018-07, *Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. ASU 2018-07 aligns the accounting for share-based payment awards issued to employees and non-employees. ASU 2018-07 is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. The Company does not expect the adoption of ASU 2018-07 to have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20), Disclosure Framework - Changes to the Disclosures Requirements for Defined Benefit Plans Income Statement - Reporting Comprehensive Income (Topic 220)*. This ASU removes disclosures that no longer are considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. ASU 2018-14 is effective for fiscal years ending after December 15, 2020. The Company does not expect the adoption of ASU 2018-14 to have a material impact on its consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As a smaller reporting company, the Company is not required to provide this information.

Item 8. Financial Statements and Supplementary Data

Acme United Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended December 31,	
	2018	2017
Net sales	$137,321,395	$130,550,349
Cost of goods sold	86,672,413	82,651,076
Gross profit	50,648,982	47,899,273
Selling, general and administrative expenses	43,192,076	40,016,220
Operating income	7,456,906	7,883,053
Non operating items:		
Interest:		
Interest expense	(1,891,042)	(1,356,536)
Interest income	32,818	29,376
Interest expense, net	(1,858,224)	(1,327,160)
Other expense	(67,458)	(62,596)
Total other expense, net	(1,925,682)	(1,389,756)
Income before income tax expense	5,531,224	6,493,297
Income tax expense	932,874	2,440,818
Net income	$4,598,350	$4,052,479
Earnings per share:		
Basic	$1.36	$1.21
Diluted	$1.30	$1.09

See accompanying Notes to Consolidated Financial Statements.

Acme United Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended December 31,	
	2018	2017
Net income	$4,598,350	$4,052,479
Other comprehensive (loss) gain -		
Foreign currency translation	(461,374)	614,741
Change in net prior service credit and actuarial gains, net of income tax expense	37,388	87,461
Total other comprehensive (loss) income	(423,986)	702,202
Comprehensive income	$4,174,364	$4,754,681

See accompanying Notes to Consolidated Financial Statements.

Acme United Corporation and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$4,409,042	$9,338,269
Accounts receivable, less allowance	25,101,663	26,012,368
Inventories, net	41,332,137	40,086,871
Prepaid expenses and other current assets	2,149,295	2,380,137
Total current assets	72,992,137	77,817,645
Property, plant and equipment:		
Land	1,422,785	1,428,597
Buildings	10,143,678	9,561,692
Machinery and equipment	18,244,038	16,242,764
Total property, plant and equipment	29,810,501	27,233,053
Less: accumulated depreciation	15,267,877	13,504,914
Net plant, property and equipment	14,542,624	13,728,139
Intangible assets, less accumulated amortization	17,044,400	17,882,005
Goodwill	4,696,370	4,696,370
Deferred income taxes	113,353	509,646
Other assets	88,902	96,001
Total assets	$109,477,786	$114,729,806
LIABILITIES		
Current liabilities:		
Accounts payable	$7,982,620	$11,150,960
Current portion of mortgage payable	266,667	266,667
Other accrued liabilities	5,115,400	5,365,344
Total current liabilities	13,364,687	16,782,971
Long-term debt	40,283,115	43,450,348
Mortgage payable, net of current portion	3,444,445	3,711,111
Other accrued liabilities - non current	53,128	847,383
Total liabilities	57,145,375	64,791,813
STOCKHOLDERS' EQUITY		
Common stock, par value $2.50: authorized 8,000,000 shares; issued - 4,838,071 shares in 2018 and in 2017, including treasury stock	12,094,413	12,094,413
Treasury stock, at cost, 1,487,238 shares in 2018 and 1,464,010 shares in 2017	(14,235,190)	(13,870,041)
Additional paid-in capital	8,981,523	8,880,543

Accumulated other comprehensive loss	(2,057,985)	(1,633,999)
Retained earnings	47,549,650	44,467,077
Total stockholders' equity	52,332,411	49,937,993
Total liabilities and stockholders' equity	$109,477,786	$114,729,806

See accompanying Notes to Consolidated Financial Statements.

Acme United Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Outstanding Shares of Common Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balances, December 31, 2016	3,324,955	$11,971,657	$(13,870,041)	$8,493,256	$(2,336,201)	$41,861,675	$46,120,346
Net income						4,052,479	4,052,479
Total other comprehensive income					702,202		702,202
Stock compensation expense				684,351			684,351
Distribution to shareholders						(1,447,077)	(1,447,077)
Issuance of common stock	49,106	122,756		526,466			649,222
Cash settlement of stock options				(823,530)			(823,530)
Balances, December 31, 2017	3,374,061	$12,094,413	$(13,870,041)	$8,880,543	$(1,633,999)	$44,467,077	$49,937,993
Net income						4,598,350	4,598,350
Total other comprehensive loss					(423,986)		(423,986)
Stock compensation expense				869,055			869,055
Distribution to shareholders						(1,515,777)	(1,515,777)
Cash settlement of stock options				(768,075)			(768,075)
Purchase of treasury stock	(23,228)		(365,149)				(365,149)
Balances, December 31, 2018	3,350,833	$12,094,413	$(14,235,190)	$8,981,523	$(2,057,985)	$47,549,650	$52,332,411

See accompanying Notes to Consolidated Financial Statements.

Acme United Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	2018	2017
Operating activities:		
Net income	$4,598,350	$4,052,479
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	2,011,675	1,722,568
Amortization	1,217,525	1,172,292
Stock compensation expense	869,055	684,351
Deferred income taxes	396,233	660,703
Changes in operating assets and liabilities		
Accounts receivable	807,988	(5,230,159)
Inventories	(1,580,151)	(1,846,765)
Prepaid expenses and other current assets	573,604	82,679
Accounts payable	(3,066,106)	3,733,667
Other accrued liabilities	(1,352,904)	(220,939)
Total adjustments	(123,081)	758,397
Net cash provided by operating activities	4,475,269	4,810,876
Investing activities:		
Purchase of property, plant and equipment	(2,850,993)	(3,146,194)
Purchase of intellectual property	(379,921)	—
Purchase of building	—	(4,000,000)
Acquisitions	—	(7,233,114)
Net cash used by investing activities	(3,230,914)	(14,379,308)
Financing activities:		
Net (repayments) borrowings of long-term debt	(3,167,233)	10,514,417
Borrowings on mortgage	—	4,000,000
Repayments on mortgage	(266,667)	(22,222)
Distributions to shareholders	(1,484,829)	(1,408,428)
Cash settlement of stock options	(768,075)	(823,530)
Purchase of treasury stock	(365,149)	—
Issuance of common stock	—	649,231
Net cash (used) provided by financing activities	(6,051,953)	12,909,468
Effect of exchange rate changes	(121,629)	86,463
Net (decrease) increase in cash and cash equivalents	(4,929,227)	3,427,499
Cash and cash equivalents at beginning of year	9,338,269	5,910,770
Cash and cash equivalents at end of year	$4,409,042	$9,338,269
Supplemental cash flow information:		
Cash paid for income taxes	$887,592	$1,570,370

Cash paid for interest expense	$1,855,356	$1,255,190

See accompanying Notes to Consolidated Financial Statements.

25

Acme United Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Operations

The operations of Acme United Corporation (the “Company”) consist of three reportable segments. The operations of the Company are structured and evaluated based on geographic location. The three reportable segments operate in the United States (including Asian operations), Canada and Europe. Principal products across all segments are scissors, shears, knives, rulers, pencil sharpeners, first aid safety kits, and related products which are sold primarily to wholesale, contract and retail stationery distributors, office supply super stores, mass market retailers, industrial distributors, school supply distributors, drug store retailers, sporting goods stores, hardware chains and wholesale florists.

2. Accounting Policies

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most sensitive and significant accounting estimates relate to customer rebates, valuation allowances for deferred income tax assets, obsolete and slow-moving inventories, potentially uncollectible accounts receivable, pension liability and accruals for income taxes. Actual results could differ from those estimates.

Principles of Consolidation – The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned by the Company. All significant intercompany accounts and transactions are eliminated in consolidation.

Translation of Foreign Currency – For foreign operations whose functional currencies are not U.S. dollars, assets and liabilities are translated at rates in effect at the end of the year; revenues and expenses are translated at average rates in effect during the year. Resulting translation adjustments are made directly to accumulated other comprehensive income. Foreign currency transaction gains and losses are recognized in operating results. Included in other expense were foreign currency transaction losses of $7,458 in 2018 and foreign currency transaction gains of $24,404 in 2017.

Cash Equivalents – Investments with an original maturity of three months or less, as well as time deposits and certificates of deposit that are readily redeemable at the date of purchase, are considered cash equivalents.

Accounts Receivable – Accounts receivable are shown less an allowance for doubtful accounts of $462,132 at December 31, 2018 and $166,907 at December 31, 2017.

Inventories – Inventories are stated at the lower of cost, or net realizable value, determined by the first-in, first-out method.

Property, Plant and Equipment, and Depreciation – Property, plant and equipment is recorded at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from 3 to 30 years.

Intangible Assets – Intangible assets with finite useful lives are recorded at cost upon acquisition, and amortized over the term of the related contract or useful life, as applicable. Intangible assets held by the Company with finite useful lives include patents and trademarks. Patents and trademarks are amortized over their estimated useful lives. The weighted average amortization period for intangible assets at December 31, 2018 was 10 years. The Company periodically reviews the values recorded for intangible assets to assess recoverability from future operations whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. At December 31, 2018 and 2017, the Company assessed the recoverability of its long-lived assets and believed that there were no events or circumstances present that would that would require a test of recoverability on those assets. As a result, there was no impairment of the carrying amounts of such assets and no reduction in their estimated useful lives.

Deferred Income Taxes – Deferred income taxes are provided for the differences between the financial statement and tax bases of assets and liabilities, and on operating loss carryovers, using tax rates in effect in years in which the differences are expected to reverse.

Revenue Recognition – Revenue is recognized when the price is fixed, the title and risks and rewards of ownership have passed to the customer, and when collection is reasonably assured. Depending on the contractual terms of each customer, revenue is recognized either at the time of shipment or upon delivery. When revenue is recorded, estimates of returns are made and recorded as a reduction of revenue. Customer rebates and incentives earned based on promotional programs in place, volume of purchases or other factors are also estimated at the time of revenue recognition and recorded as a reduction of that revenue. Refer to Note 10 – Revenue from Contracts with Customers.

Research and Development – Research and development costs ($734,000 in 2018 and $752,000 in 2017) are expensed as incurred.

Shipping Costs – The costs of shipping product to our customers ($7,553,410 in 2018 and $6,595,544 in 2017) are included in selling, general and administrative expenses.

Advertising Costs – The Company expenses the production costs of advertising the first time that the related advertising takes place. Advertising costs ($1,935,267 in 2018 and $1,997,113 in 2017) are included in selling, general and administrative expenses.

Subsequent Events – The Company has evaluated events and transactions subsequent to December 31, 2018 through the date the consolidated financial statements were included in this Form 10-K and filed with the SEC.

Concentration – The Company performs ongoing credit evaluations of its customers and generally does not require collateral for the extension of credit. Allowances for credit losses are provided and have been within management's expectations. The Company had one customer in 2018 and two customers in 2017 that individually exceeded 10% of consolidated net sales. In 2018, net sales to this one customer were approximately 13%, of consolidated net sales. In 2017, net sales to the two customers were approximately 16% and 11%, respectively.

Recently Issued and A