

Edgar Filing: ACME UNITED CORP - Form 10-Q

ACME UNITED CORP
Form 10-Q
August 03, 2006

=====

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from _____ to _____

Commission file number 001-07698

ACME UNITED CORPORATION
(Exact name of registrant as specified in its charter)

CONNECTICUT (State or other jurisdiction of incorporation or organization)	06-0236700 (I.R.S. Employer Identification No.)
60 ROUND HILL ROAD, FAIRFIELD, CONNECTICUT (Address of principal executive offices)	06824 (Zip Code)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer Accelerated filer Non-accelerated filer

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 July 18, 2006 the registrant had outstanding 3,495,333 shares of its \$2.50 par value Common Stock.

Edgar Filing: ACME UNITED CORP - Form 10-Q

ACME UNITED CORPORATION

	Page ----
Part I -- FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets as of June 30, 2006 and December 31, 2005	3
Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2006 and 2005.....	5
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2006 and 2005.....	6
Notes to Condensed Consolidated Financial Statements.....	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	11
Item 3. Quantitative and Qualitative Disclosure About Market Risk.....	14
Item 4. Controls and Procedures.....	14
Part II -- OTHER INFORMATION	
Item 1. Legal Proceedings.....	15
Item 1A. Risk Factors.....	15
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds....	15
Item 3. Defaults Upon Senior Securities.....	15
Item 4. Submission of Matters to a Vote of Security Holders.....	15
Item 5. Other Information.....	15
Item 6. Exhibits.....	16
Signatures.....	17

(2)

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

	June 30 2006 (unaudited)	December 31 2005 (Note 1)
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,053	\$ 1,076
Accounts receivable, less allowance	14,960	9,392
Inventories:		
Finished goods	14,061	11,691
Work in process	80	116
Raw materials and supplies	849	723
	-----	-----
	14,990	12,530
Prepaid expenses and other current assets	897	542
Deferred income taxes	325	325
	-----	-----
Total current assets	32,225	23,865
	-----	-----
Property, plant and equipment:		
Land	163	152
Buildings	2,985	2,954
Machinery and equipment	6,866	6,525
	-----	-----

Edgar Filing: ACME UNITED CORP - Form 10-Q

	10,014	9,631
Less accumulated depreciation	7,448	6,845
	-----	-----
	2,566	2,786
Other assets	1,502	1,454
Goodwill	89	89
	-----	-----
Total assets	\$ 36,382	\$ 28,194
	=====	=====

See notes to condensed consolidated financial statements.

(3)

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

	June 30 2006 (unaudited)	December 31 2005 (Note 1)
	-----	-----
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 3,715	\$ 2,174
Other accrued liabilities	4,768	5,356
Current portion of long-term debt	-	10
	-----	-----
Total current liabilities	8,483	7,540
Deferred income taxes	131	141
Long-term debt, less current portion	10,256	5,577
Other	953	871
	-----	-----
Total liabilities	19,823	14,129
STOCKHOLDERS' EQUITY Common stock, par value \$2.50: authorized 8,000,000 shares; issued 4,174,324 shares in 2006 and 4,164,824 in 2005, including treasury stock	10,434	10,405
Treasury stock, at cost - 678,991 shares in 2006 and 2005	(5,439)	(5,439)
Additional paid-in capital	2,818	2,624
Retained earnings	9,605	7,547
Accumulated other comprehensive loss:		
Translation adjustment	31	(182)
Minimum pension liability	(890)	(890)
	-----	-----
	(859)	(1,072)
	-----	-----
Total stockholders' equity	16,559	14,065
	-----	-----
Total liabilities and stockholders' equity	\$ 36,382	\$ 28,194
	=====	=====

See notes to condensed consolidated financial statements.

(4)

Edgar Filing: ACME UNITED CORP - Form 10-Q

ACME UNITED CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(UNAUDITED)

(all amounts in thousands, except per share amounts)

	Three Months Ended June 30		S
	2006	2005	
Net sales	\$ 16,984	\$ 14,904	\$ 2
Costs and expenses:			
Cost of goods sold	9,556	8,173	1
Selling, general and administrative expenses	4,995	4,577	
	14,551	12,750	2
Income before non-operating items	2,433	2,154	
Non-operating items:			
Interest expense	130	43	
Other (income) expense, net	(38)	97	
	92	140	
Income before income taxes	2,341	2,014	
Income tax expense	835	700	
Net income	1,506	1,314	
Other comprehensive income (expense) -			
Foreign currency translation	240	(81)	
Comprehensive income	\$ 1,746	\$ 1,233	\$
Basic earnings per share	\$ 0.43	\$ 0.37	\$
Diluted earnings per share	\$ 0.40	\$ 0.34	\$
Weighted average number of common shares outstanding- denominator used for basic per share computations	3,489	3,541	
Weighted average number of dilutive stock options outstanding	242	307	
Denominator used for diluted per share computations	3,731	3,848	
Dividends declared per share	0.03	0.03	

See notes to condensed consolidated financial statements.

Edgar Filing: ACME UNITED CORP - Form 10-Q

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

	Six Months Ended June 30	
	2006	2005
Operating Activities:		
Net income	\$ 2,265	\$ 1,964
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	403	259
Amortization	17	21
Stock compensation expense	173	-
Loss on disposal/sale of assets	-	43
Changes in operating assets and liabilities:		
Accounts receivable	(5,425)	(3,708)
Inventories	(2,327)	(2,888)
Prepaid expenses and other current assets	(333)	(61)
Accounts payable	1,523	1,488
Other accrued liabilities	(587)	(51)
	-----	-----
Total adjustments	(6,556)	(4,897)
	-----	-----
Net cash used by operating activities	(4,291)	(2,933)
	-----	-----
Investing Activities:		
Purchase of property, plant, and equipment	(128)	(453)
Proceeds from sale of property, plant, and equipment	-	166
Purchase of patents and trademarks	(65)	(85)
	-----	-----
Net cash used by investing activities	(193)	(372)
	-----	-----
Financing Activities:		
Net borrowing of long-term debt	4,665	3,594
Proceeds from issuance of common stock	51	788
Distribution to stockholders	(222)	(146)
Purchase of treasury stock	-	(2,203)
	-----	-----
Net cash provided by financing activities	4,494	2,033
	-----	-----
Effect of exchange rate changes	(33)	(14)
	-----	-----
Net change in cash and cash equivalents	(23)	(1,286)
Cash and cash equivalents at beginning of period	1,076	1,888
	-----	-----
Cash and cash equivalents at end of period	\$ 1,053	\$ 602
	=====	=====

See notes to condensed consolidated financial statements

Edgar Filing: ACME UNITED CORP - Form 10-Q

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 -- Basis of Presentation

In the opinion of management, the accompanying condensed consolidated financial statements include all adjustments necessary to present fairly the financial position, results of operations and cash flows of Acme United Corporation (the "Company"). These adjustments are of a normal, recurring nature. However, the financial statements do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the Company's Annual Report on Form 10-K. Please refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 for such disclosures. The condensed consolidated balance sheet as of December 31, 2005 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 Form 10-Q should be read in conjunction with the Managements Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto, included in the Company's 2005 Form 10-K.

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 financial position, results of operations, or liquidity.

Note 3 -- Pension

Components of net periodic pension cost are as follows:

	Three Months Ended		Six Months Ended	
	June 30 2006	June 30 2005	June 30 2006	June 30 2005
Components of net periodic benefit cost:				
Interest cost	\$ 45,948	\$ 53,365	\$ 93,948	\$ 106,7
Service cost	6,250	8,750	15,000	17,5
Expected return on plan assets	(62,048)	(69,045)	(114,298)	(138,0
Amortization of prior service costs	2,138	2,138	4,388	4,2
Amortization of actuarial gain	24,408	17,102	46,408	34,2
	\$ 16,696	\$ 12,310	\$ 45,446	\$ 24,6
	=====			

Note 4 -- Long Term Debt and Capital Structure

The Company's revolving loan agreement, as amended, provides for

Edgar Filing: ACME UNITED CORP - Form 10-Q

borrowing up to \$15 million with all amounts outstanding to be repaid by June 30, 2009. At June 30, 2006 and December 31, 2005, the Company had borrowings under the revolving loan agreement of \$10,165,000 and \$5,544,500, respectively. Based on the scheduled maturity date, the Company has classified these borrowings at June 30, 2006 as long-term.

During the first six months of 2006, the Company issued 12,500 shares of common stock with proceeds of \$51,155 upon the exercise of outstanding stock options.

(7)

Note 5 -- Non-Recurring Charge

In the quarter ended September 30, 2005, the Company accrued a charge of \$1.5 million related to the estimated cost to demolish the Company's former manufacturing facility located in Bridgeport, CT, and remove certain environmentally hazardous material contained in the buildings to be demolished. The estimated costs were based on a third party contractor's estimate. After the demolition is complete, the Company will explore options to sell the property.

As of June 30, 2006, the Company had approximately \$482,000 remaining in its accrual for demolition costs related to the former manufacturing site. Please refer to Company's Annual Report on Form 10-K for the year ended December 31, 2005 for a more detailed discussion.

Note 6-- Segment Information

The Company reports financial information based on the organizational structure used by management for making operating and investment decisions and for assessing performance. The Company's reportable business segments include: (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; consequently, management reviews the financial results of both segments on a consolidated basis. Therefore, the results of the Asian operating segment have been aggregated with the results of the United States operating segment to form one reportable segment. The determination of reportable segments is based on the guidance set forth in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". Each reportable segment derives its revenue from the sales of cutting devices, measuring instruments and safety products for school, office, home and industrial use.

The Chief Operating Decision Maker evaluates the performance of each operating segment based on segment revenues and operating income. Segment amounts are presented after converting to U.S. dollars and consolidating eliminations.

Financial data by segment:

(in thousands)

	Three months ended June 30 2006	2005	Six months ended 2006
	-----	-----	-----
Sales to external customers			
United States	\$ 13,238	\$ 11,729	\$ 22,918
Canada	2,388	2,209	3,910
Europe	1,358	966	2,413

Edgar Filing: ACME UNITED CORP - Form 10-Q

Consolidated	\$ 16,984	\$ 14,904	\$ 29,241
Operating Income			
United States	\$ 2,320	\$ 1,846	\$ 3,726
Canada	322	271	390
Europe	(209)	37	(390)
Consolidated	\$ 2,433	\$ 2,154	\$ 3,726
Total assets by segment	June 30 2006	December 31 2005	
United States	\$ 27,976	\$ 21,735	
Canada	4,687	3,900	
Europe	3,719	2,559	
Consolidated	\$ 36,382	\$ 28,194	

(8)

Note 7 - Stock Based Compensation

Effective January 1, 2006, the Company adopted the provisions of, and accounted for stock-based compensation in accordance with, the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards No. 123--revised 2004 ("SFAS 123R"), "Share-Based Payment" which replaced Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees." Under the fair value recognition provisions of SFAS 123R, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is generally the vesting period. The Company adopted SFAS 123R using the modified-prospective method, under which prior periods are not restated for comparative purposes. The valuation provisions of SFAS 123R apply to new grants and any grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation cost estimated for pro forma disclosures.

The Company uses the Black-Scholes option pricing model to determine the fair value of employee and non-employee director stock options. The determination of the fair value of stock-based payment awards on the date of grant, using an option-pricing model, is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. 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 that will ultimately not complete their vesting requirements ("forfeitures").

The Company estimates the expected term of options granted by evaluating various factors including the vesting period, historical employee information as

Edgar Filing: ACME UNITED CORP - Form 10-Q

well as current and historical stock prices and market conditions. The Company estimates the volatility of its common stock by calculating historical volatility based on the closing stock price on the last day of each of the forty-eight months leading up to the month the option was granted. The risk-free interest rate that the Company uses in the option valuation model is the interest rate on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term of the options granted. Historical information was the basis for calculating the dividend yield. The Company is required to estimate forfeitures at the time of grant and to revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company used a mix of historical data and future assumptions to estimate pre-vesting option forfeitures and to record stock-based compensation expense only for those awards that are expected to vest. All stock-based payment awards are amortized over the requisite service periods of the awards, which are generally the vesting periods. The option grants generally vest at a rate of 25% one day after the date of grant and 25% on the day after the anniversary of the grant date in each of the next three years.

The assumptions used to value option grants for the quarters ended June 30, 2006 and June 30, 2005 are as follows:

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Expected life in years	4	5	4	5
Interest rate	4.90%	3.84%	4.32 - 4.90%	3.72 - 3.90%
Volatility	0.34	0.36	.34	0.36 - 0.39
Dividend yield	0.80%	0.70%	0.80 - 0.90%	0.70%

Total stock-based compensation recognized on the Company's consolidated statement of operations for the three and six months ended June 30, 2006 is \$106,966 and \$173,372, respectively. As of June 30, 2006, there was approximately \$281,337 of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based payments granted to the Company's employees. As of June 30, 2006, the remaining unamortized expense is expected to be recognized over a weighted average period of 1.9 years.

(9)

The pro forma effects of recognizing the estimated fair value of stock-based compensation for the three and six months ended June 30, 2005 has been disclosed previously in the Company's footnotes under provisions of SFAS 123, Accounting for Stock-Based Compensation. The previously-disclosed pro forma information, as adjusted to reflect a 36 month, instead of a 48 month option vesting schedule, is presented below.

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income, as reported	\$ 1,314,000	\$ 1,964,000
Deduct: Total stock-based employee compensation expense determined under		

Edgar Filing: ACME UNITED CORP - Form 10-Q

fair value based method for all awards, net of related income tax effects	230,497	251,701
	-----	-----
Pro forma net income	\$ 1,083,503	\$ 1,712,299
	=====	=====
Net income per share:		
Basic-as reported	\$ 0.37	\$ 0.56
Basic-pro forma	\$ 0.31	\$ 0.49
Diluted-as reported	\$ 0.34	\$ 0.52
Diluted-pro forma	\$ 0.28	\$ 0.45

(10)

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, changes in client needs and consumer spending habits, the impact of competition and technological change on the Company, the Company's ability to manage its growth effectively, including its ability to successfully integrate any business which it might acquire, and currency fluctuations. 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, 2005, except as follows:

Accounting for Stock-Based Compensation. In the first quarter of 2006, the Company began accounting for stock-based compensation in accordance with the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R. The Company uses the Black-Scholes option - pricing model, which requires the input of subjective assumptions. These assumptions include

Edgar Filing: ACME UNITED CORP - Form 10-Q

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 that will ultimately not complete their vesting requirements ("forfeitures"). Changes in the subjective assumptions can materially affect the estimate of fair value stock-based compensation, and consequently, the related amount recognized on the consolidated statements of operations. Refer to Note 7 "Stock Based Compensation" for a more detailed discussion of the effects of SFAS 123R on our results of operations and financial condition.

Results of Operations

Net Sales

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 season. Consolidated net sales for the three months ended June 30, 2006 were \$16,984,000 compared with \$14,904,000 in the same period of 2005, a 14% increase. Consolidated net sales for the six months ended June 30, 2006 were \$29,241,000, compared with \$25,487,000 for the same period in 2005, a 15% increase (14% at constant currency). Net sales for the first six months ended June 30, 2006 in the U.S. operating segment increased 15% as the result of sales initiatives with several major retailers and superstores. Sales in Europe and Canada for the six months ended June 30, 2006 increased by 12% in U.S. dollars and 8% in local currency. This sales growth was principally driven by new sales to a large pan-European superstore and an expanded product line with a major European retailer.

(11)

Gross Profit

Gross profit for the three months ended June 30, 2006 was \$7,428,000 (43.7% of net sales) compared to \$6,731,000 (45.2% of net sales) for the same period in 2005. Gross profit for the six months ended June 30, 2006 was \$12,980,000 (44.4% of net sales) compared to \$11,592,000 (45.5% of net sales) in the same period of 2005. The lower margin in the first six months of 2006 is primarily the result of expedited freight costs and other one-time expenses associated with the new business in Europe.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the three months ended June 30, 2006 were \$4,995,000 (29.4% of net sales) compared with \$4,577,000 (30.7% of net sales) for the same period of 2005, an increase of \$418,000. SG&A expenses for the six months ended June 30, 2006 were \$9,254,000 (31.6% of net sales) compared with \$8,296,000 (32.5% of net sales) in the comparable period of 2005. The majority of the increase was due to higher sales commissions and freight costs associated with higher sales, the addition of sales, marketing, logistics and quality control personnel. SG&A expenses for the first six months of 2006 also included \$173,000 in stock option compensation expense due to the Company's adoption of SFAS 123R.

Operating Income

Operating income for the three months ended June 30, 2006 was \$2,433,000 compared with \$2,154,000 in the same period of 2005. Operating income for the six months ended June 30, 2006 was \$3,726,000 as compared to \$3,296,000 in the

Edgar Filing: ACME UNITED CORP - Form 10-Q

same period of 2005. For the six months ended June 30, 2006, operating income for the United States increased by \$748,000 or 25% compared to the same period of 2005, primarily as a result of increased sales; operating income in Canada for the six months ended June 30, 2006 increased by \$68,000 or 21% due to an improved gross margin. The European operating loss increased during the six months ended June 30, 2006 by \$386,000 primarily due to expedited freight costs and other one-time expenses associated with the launch of the new customer programs.

Interest Expense

Interest expense for the three months ended June 30, 2006 was \$130,000, compared with \$43,000 for the same quarter of 2005, an \$87,000 increase. Interest expense for the six months ended June 30, 2006 was \$255,000 as compared to \$56,000 for the same period in 2005. The increase in interest expense was primarily the result of higher borrowings under the Company's bank revolving credit facility to fund inventory purchases, demolish a former manufacturing site and a higher LIBOR interest rate.

Other (Income) Expense, Net

Net other income was \$38,000 in the second quarter of 2006 compared to net other expense of \$97,000 in the second quarter of 2005. Net other income was \$114,000 in the first six months of 2006 compared to net other expense of \$146,000 in the first six months of 2005. The change from 2005 is primarily due to increased gains from foreign currency transactions in the first six months of 2006 compared to losses from foreign currency transactions in the first six months of 2005.

Income Taxes

The effective tax rate in the first six months of 2006 and 2005 was 37%.

(12)

Financial Condition

Liquidity and Capital Resources

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

	June 30, 2006	December 31, 2005
	-----	-----
Working capital	\$ 23,741,517	\$ 16,325,098
Current ratio	3.80	3.17
Long term debt to equity ratio	61.9%	39.7%

During the first six months of 2006, total debt outstanding under the Company's modified revolving loan agreement increased by \$4,620,500 compared to total debt at December 31, 2005, principally as a result of the buildup of inventory in anticipation of future business and payments associated with the demolition of the Company's former manufacturing site located in Bridgeport, CT (approximately \$1.0 million). Refer to Note 5 "Non-Recurring Charges" for further information.

On March 6, 2006, the Company modified its Revolving Loan Agreement (the

Edgar Filing: ACME UNITED CORP - Form 10-Q

"Modified Loan Agreement") with Wachovia Bank. The amendments include an increase in the maximum borrowing amount from \$10 million to \$15 million; an extension of the maturity date from June 30, 2007 to June 30, 2009; a decrease in the interest rate to LIBOR plus 1% from LIBOR plus 1.5%, as well as modifications to certain covenant restrictions. Funds borrowed under the Modified Loan Agreement will be used for working capital, general operating expenses and other purposes. As of June 30, 2006, \$10,165,000 was outstanding and \$4,835,000 was available for borrowing under the Modified Loan Agreement. The remaining estimated demolition costs of approximately \$482,000 related to the former manufacturing site will be paid with funds to be borrowed under the Modified Loan Agreement

The Company anticipates that cash generated from operating activities, together with funds available under the Modified Loan Agreement, are expected, under current conditions, to be sufficient to finance the Company's planned operations over the next twelve months. Over that same period, the Company does not expect to make significant investments in property, plant and equipment.

(13)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS—Continued

Recently Issued Accounting Standards

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4," to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) should be recognized as current period charges, and that fixed production overhead costs should be allocated to inventory based on normal capacity of production facilities. This statement is effective for the Company's fiscal year 2006. The adoption of this standard has not had a material effect on its financial position, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There are no material changes in market risks as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005.

Item 4. Controls and Procedures

(a) Evaluation of Internal Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures, which included inquiries made to certain other of our employees. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have each concluded that, as of June 30, 2006, our disclosure controls and procedures were effective and sufficient to ensure that we record, process, summarize and report information required to be disclosed by us in our periodic reports filed under the Securities and Exchange Commission's rules and forms.

(b) Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 2006, there were no changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, this internal control.

Edgar Filing: ACME UNITED CORP - Form 10-Q

(14)

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, including certain 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 from these matters.

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, 2005.

Item 2 -- Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 -- Defaults Upon Senior Securities

None

Item 4 -- Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of shareholders was held on April 24, 2006.

A. The following individuals were elected Directors at the Meeting and comprise the entire Board.

	Votes for	Votes against
	-----	-----
Rex Davidson	2,967,718	163,610
George R. Dunbar	3,116,349	14,979
Richmond Y. Holden, Jr.	3,119,331	11,997
Walter C. Johnsen	3,009,448	121,880
Susan H. Murphy	2,967,080	164,248
Brian Olschan	3,009,191	122,137
Gary D. Penisten	3,114,763	16,565
Stephen Spinelli, Jr.	2,967,718	163,610
Stevenson E. Ward	3,101,931	29,397

Item 5 -- Other Information

None.

(15)

Item 6 -- Exhibits

Documents filed as part of this report.

Edgar Filing: ACME UNITED CORP - Form 10-Q

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

(16)

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
President and
Chief Executive Officer

Dated: August 3, 2006

By /s/ PAUL G. DRISCOLL

Paul G. Driscoll
Vice President and
Chief Financial Officer

Dated: August 3, 2006

(17)