

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, 1996

OR

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

For the transition period from _____ to _____

Commission File Number Q4823

ACME UNITED CORPORATION

(Exact name of registrant as specified in its charter)

Connecticut 06-0236700

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

75 Kings Highway Cutoff, Fairfield, Connecticut 06430

(Address of principal executive offices) (Zip Code)

(203) 332-7330

Registrant's telephone number, including area code

Former name, former address and former fiscal year, if changed since last report

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

Registrant had 3,337,620 shares outstanding as of August 13, 1996 of its \$ 2.50 par value Common Stock.

2
PART 1 - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

ACME UNITED CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(ALL AMOUNTS IN THOUSANDS)

June 30

December 31

	1996 (Unaudited)	1995
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 114	\$ 532
Accounts receivable	9,933	8,108
Inventories:		
Finished goods	7,472	9,942
Work in process	2,483	3,963
Raw materials & supplies	3,526	4,108
Prepaid expenses and other current assets	421	606
Total current assets	<u>23,949</u>	<u>27,259</u>
Plant, Property and Equipment:		
Land	454	491
Buildings	3,849	4,237
Machinery and equipment	15,373	15,736
Total plant, property and equipment	<u>19,676</u>	<u>20,464</u>
Less, accumulated depreciation	13,027	13,142
Net plant, property and equipment	<u>6,649</u>	<u>7,322</u>
Licensing agreements	980	1,170
Other assets	280	452
Goodwill	798	818
Total assets	<u>\$ 32,656</u>	<u>\$ 37,021</u>

<FN>

See notes to financial statements

3

ACME UNITED CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(ALL AMOUNTS IN THOUSANDS)

	June 30 1996 (Unaudited)	December 31 1995
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 2,704	\$ 3,193
Notes payable due within one year	4,248	3,650
Restructuring reserve	1,124	1,198
Other accrued liabilities	2,950	3,243
Total current liabilities	<u>11,026</u>	<u>11,284</u>
Long term debt	14,092	14,880
Restructuring reserve	145	1,352
Total liabilities	<u>25,263</u>	<u>27,516</u>

STOCKHOLDERS' EQUITY

Common stock, par value \$2.50: authorized 8,000,000 shares; Issued 3,384,620, outstanding 3,337,620	8,461	8,461
Additional paid-in capital	2,145	2,145

Retained earnings (accumulated deficit)	(1,797)	258
Translation adjustment	(1,059)	(1,002)
Treasury Stock, 47,000 shares	(357)	(357)
Total stockholders' equity	<u>7,393</u>	<u>9,505</u>
Total liabilities and stockholders' equity	<u>\$ 32,656</u>	<u>\$ 37,021</u>

<FN>
See notes to financial statements

4

ACME UNITED CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(ALL AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three months ended		Six months ended	
	June 30 1996	June 30 1995	June 30 1996	June 30 1995
Net Sales	\$ 12,782	\$ 14,470	\$ 24,822	\$ 27,368
Other income	46	15	172	38
	<u>12,828</u>	<u>14,485</u>	<u>24,994</u>	<u>27,406</u>
Costs and expenses:				
Cost of goods sold	10,191	10,290	19,313	19,566
Selling, general and administrative expense	3,420	3,387	6,742	6,732
Interest expense	410	496	838	953
	<u>14,021</u>	<u>14,173</u>	<u>26,893</u>	<u>27,251</u>
Income (loss) before income taxes	(1,193)	312	(1,899)	155
Provision (benefit) for income taxes	46	70	156	(19)
Net income (loss)	<u>\$ (1,239)</u>	<u>\$ 242</u>	<u>\$ (2,055)</u>	<u>\$ 174</u>
Weighted average common and dilutive common equivalent shares	<u>3,338</u>	<u>3,355</u>	<u>3,338</u>	<u>3,359</u>
Net income (loss) per common share	<u>\$ (.37)</u>	<u>\$.07</u>	<u>\$ (.62)</u>	<u>\$.05</u>

<FN>
See notes to financial statements

5

ACME UNITED CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(ALL AMOUNTS IN THOUSANDS)

Six months ended

June 30 June 30

	1996	1995
Cash flows from operating activities:		
Net income (loss)	\$ (2,055)	\$ 174
Adjustments:		
Depreciation	594	706
Amortization	224	281
Deferred tax (credits)	-	(256)
Loss (Gain) on sale of property, plant and equipment	19	(6)
(Gain) on disposition of trademarks and tradename	(98)	-
Changes in assets and liabilities:		
Accounts receivable	(2,183)	(2,609)
Inventory	3,541	(1,248)
Prepaid expenses and other current assets	260	145
Other assets	157	46
Accounts payable	(448)	60
Income taxes payable	(18)	133
Other liabilities	(1,257)	(162)
Total adjustments	791	(2,910)
Net cash used by operations	(1,264)	(2,736)
Cash flow from investing activities:		
Capital expenditures	(294)	(538)
Proceeds from sales of business and property, plant and equipment	1,061	6
Net cash provided (used) by investing activities	767	(532)
Cash flows from financing activities:		
Net borrowings	96	3,160
Net cash provided by financing activities	96	3,160
Effect of exchange rate changes on cash	(17)	11
Net change in cash and cash equivalents	(418)	(97)
Cash and cash equivalents at beginning of period	532	450
Cash and cash equivalents at end of period	\$ 114	\$ 353

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See notes to financial statements

6

ACME UNITED CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of the Company's management, the accompanying condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position as of June 30, 1996 and December 31, 1995, the results of its operations for the three and six month periods ended June 30, 1996 and 1995, and cash flows for the six months ended June 30, 1996 and 1995. The financial statements reflect all recurring adjustments but do not include all of the disclosures normally required by generally accepted accounting principles or those normally made in the annual Form 10-K filing. Please refer to the Company's annual report for the year ended December 31, 1995 for such disclosures.
2. The results of operations for the three and six month periods ended June 30, 1996 are not necessarily indicative of the results to be expected for the full year.
3. Net income (loss) per share is based on the weighted average number of common shares and dilutive common equivalent shares (common stock

options) outstanding during each period. No effect has been given to stock options outstanding as no dilutive effect would result from such inclusion.

4. On May 1, 1996, the Company sold all assets of its Altenbach subsidiary, excluding accounts receivable. The buyer purchased all fixed assets, inventory and intangible assets, including the Altenbach tradename. In exchange, the buyer paid \$960,000, assumed all lease obligations, employed substantially all Altenbach employees and assumed responsibility for their employee related social costs, including pensions. This transaction is not expected to have an impact on the Company's earnings as the costs related to the restructuring of operations in Germany, including the sale of the assets of the Altenbach operations, were accrued for in 1995.
5. At June 30, 1996 the Company was in default of one of the provisions of its domestic revolving credit line and obtained a waiver of such default from the lender.

7

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Net Sales

Consolidated net sales for the quarter ended June 30, 1996 were \$12,782,000, compared with \$14,470,000 for the same period last year, a decline of \$1,688,000. Of this decline, \$975,000 resulted from the divestiture of the Altenbach business in Germany. Net sales were \$24,822,000 for the first half of 1996, compared with net sales of \$27,368,000 for the same period of 1995, a decline of \$2,546,000. Of this decline, \$1,221,000 was attributed to Altenbach.

Domestic Consumer net sales totaled \$5,425,000 in the second quarter of 1996, compared with \$5,474,000 in the second quarter of 1995, a decline of 1%. Solid sales growth was achieved for the first aid product line. Ordering delays and highly competitive bid pricing resulted in direct school sales below last year's level. For the first six months of 1996, consumer net sales of \$9,889,000 were 2% higher than net sales of \$9,727,000 for the similar period in 1995. Net sales of medical products of \$3,648,000 in the second quarter of 1996 compares with \$4,159,000 in the second quarter of 1995. Net sales of medical products of \$7,369,000 for the first half of 1996 compares with \$8,506,000 for the first half of 1995. The sales decline in 1996 was primarily the result of a volume decline in the low margin custom tray market. Net sales from foreign operations were \$4,058,000 in the second quarter of 1996 as compared with \$5,515,000 in the second quarter of 1995. Of the decline of \$1,457,000, \$975,000 resulted from the divestiture of Altenbach. Net sales from foreign operations were \$8,125,000 for the first half of 1996 compared with \$10,209,000 for the first half of 1995. Of the decline of \$2,084,000, \$1,221,000 resulted from the divestiture of Altenbach.

Gross Profit Margin

For the second quarter of 1996, the Company reported a reduced gross profit margin of 20.3% compared to 28.9% in the same quarter of 1995. The gross profit margin for the first half of 1996 was 22.2% compared with a 28.5% gross profit margin for the first half of 1995. The loss of margin was due to the effects of excess manufacturing capacity, related restructuring costs, and the reduction in production in order to get inventory levels more in line with the sales volume. Restructuring costs associated with closing the Bridgeport manufacturing and warehouse operations accounted for \$608,000 of the gross profit margin decline in the second quarter of 1996 and \$1,062,000 of the decline in the first half of 1996. The manufacturing plant closure was completed four months ahead of schedule, accelerating charges into the first half of the year. The product lines were transferred to a lower cost and more efficient facility in Fremont, North Carolina, where production is now starting. The closing of the Bridgeport warehouse was announced in the second quarter of 1996. Effective September 9, 1996 the Bridgeport facility, which currently has 37 employees, will be closed in order to further reduce costs and improve efficiency.

Net Income

A net loss of \$1,239,000, or 37 cents per share, for the second quarter of 1996 compared with a net profit of \$242,000, or seven cents per share, for the second quarter of 1995. For the first half of 1996, the net loss was \$2,055,000, or 62 cents per share. This compares with net income of \$174,000, or five cents per share, for the first half of 1995. The second quarter loss included \$124,000 of severance costs, \$608,000 of restructuring costs associated with closing the Bridgeport, Connecticut manufacturing and warehouse operations, and \$51,000 of loss incurred by the Altenbach operation. The first half loss included \$289,000 of severance costs, \$1,062,000 of restructuring costs, and \$271,000 of loss incurred by the Altenbach operation.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$33,000 and \$10,000 for the three and six month period ended June, 30 1996 as compared with the same period in 1995. Severance costs amounted to \$126,000 and \$289,000 for the three and six month periods ended June 30, 1996, respectively. Excluding these severance charges, the Company reduced its selling, general and administrative costs by \$279,000 or 4.1% for the six month period ended June 30, 1996.

Interest Expense

Interest expense decreased by \$86,000 and \$115,000 for the three and six month periods ended June 30, 1996 as compared with 1995, which is attributable to lower average bank borrowings.

Provision for Income Taxes

The provision for income taxes for the three and six month periods ended June 30, 1996 was \$46,000 and \$156,000 as compared to \$70,000 and (\$19,000) for 1995. The consolidated effective tax rates are based on income (loss) before taxes in the various countries of operation and the statutory rates and laws in effect.

Liquidity and Capital Commitments

The Company has placed major emphasis on the reduction of inventory, debt and interest expense. Company-wide debt as of June 30, 1996 has decreased by \$3,856,000 from June 30, 1995. Of the decrease, \$1,512,000 was in the U.S.

All future debt reduction, along with normal payments for taxes and capital expenditures, is expected to be funded by inventory reduction and cash generated from operations.

In the U.S., the Company has a \$13,000,000 revolving line of credit which expires in May 1998. The revolving line is an asset-based agreement with various percentages applied to inventory, receivables and fixed assets. At June 30, 1996 the Company had an available line of \$12,192,000 with \$1,834,000 unused. The Company's foreign subsidiaries have overdraft arrangements which expire at various times during 1996.

The Company's working capital, current ratio and long term debt to equity ratio are as follows:

	June 30, 1996	December 31, 1995
	-----	-----
Working capital	\$12,923,000	\$15,975,000
Current ratio	2.17 to 1	2.42 to 1
Long term debt to equity ratio	1.91	1.57

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) No Form 8-K was filed by the Company during the three months ended June 30, 1996.

10
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
(Registrant)

Date: August 13, 1996

/s/ Cheryl Kendall

Cheryl Kendall
Vice President - Chief Financial Officer

Date: August 13, 1996

/s/ Richard L. Windt

Richard L. Windt
Vice President - Corporate Controller

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