

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, 2002

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 Q4823

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.)

1931 BLACK ROCK TURNPIKE, Fairfield, Connecticut

(Address of principal executive offices)

06825

(Zip Code)

Registrant's telephone number, including area code: (203) 332-7330

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 3,410,051 shares outstanding as of July 15, 2002 of its \$2.50 par value Common Stock.

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ACME UNITED CORPORATION

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PART I. FINANCIAL INFORMATION

ACME UNITED CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(all amounts in thousands, except per share data)

	June 30 2002	December 31 2001
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 245	\$ 172
Accounts receivable, less allowance	9,981	6,439
Inventories:		
Finished goods	5,347	6,554
Work in process	370	404
Raw materials and supplies	1,442	1,845
	-----	-----
	7,159	8,803
Prepaid expenses and other current assets	1,352	807
Deferred income taxes	241	241
	-----	-----
Total current assets	18,978	16,462
	-----	-----
Property, plant and equipment:		
Land	188	170
Buildings	2,212	2,072
Machinery and equipment	6,052	5,610
	-----	-----
	8,452	7,852
Less accumulated depreciation	6,004	5,594
	-----	-----
	2,448	2,258
Other assets	1,258	1,296
Goodwill	89	157
	-----	-----
Total assets	\$ 22,773	\$ 20,173
	=====	=====

See notes to condensed consolidated financial statements.

ACME UNITED CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS - continued
(UNAUDITED)

(all amounts in thousands, except per share data)

	June 30 2002	December 31 2001
	-----	-----
LIABILITIES		
Current liabilities:		
Notes payable	\$ 235	\$ 464
Accounts payable	2,255	2,038
Other accrued liabilities	2,320	2,821

Current portion of long-term debt	4,132	2,377
	-----	-----
Total current liabilities	8,942	7,700
Long-term debt, less current portion	3,807	2,875
Deferred income taxes	550	521
Other	232	405
	-----	-----
Total liabilities	13,531	11,501
STOCKHOLDERS' EQUITY		
Common stock, par value \$2.50:		
authorized 8,000,000 shares;		
issued 3,613,312 shares,		
including treasury stock	9,033	9,033
Treasury stock, at cost-203,261 shares	(937)	(937)
Additional paid-in capital	2,038	2,038
Retained earnings	478	129
Accumulated other comprehensive loss:		
Translation adjustment	(1,294)	(1,470)
Derivative financial instrument	(76)	(121)
	-----	-----
Total stockholders' equity	9,242	8,672
	-----	-----
Total liabilities and stockholders' equity	\$ 22,773	\$ 20,174
	=====	=====

See notes to condensed consolidated financial statements.

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

(all amounts in thousands of dollars, except per share amounts)

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Net sales	\$ 9,398	\$ 9,492	\$ 16,153	\$ 16,805
Costs and expenses:				
Cost of goods sold:				
Before inventory write-off related to restructuring	6,027	6,575	10,639	11,689
Inventory write-off related to restructuring	206		206	
	6,233	6,575	10,845	11,689
Selling, general and administrative expenses	2,381	2,314	4,325	4,089
Restructuring charges	359		359	
	8,973	8,889	15,529	15,778
Income before non operating items	425	603	625	1,027
Non operating items:				
Interest expense	163	206	310	409
Other income	37	81	122	102
Income before income taxes	299	478	437	720
Income taxes	72	13	88	25
Net income	227	465	349	695
Other comprehensive (expense) income -				
Foreign currency translation	212	49	176	(47)
Cumulative effect of change in accounting for derivative financial instruments	-	-	-	(104)
Change in fair value of derivative financial instrument less deferred income taxes of \$19 and \$29 for the three and sixth month periods ended June 30, 2002	14	7	45	(51)
Unrealized gain on available-for-sale marketable equity security	-	274	-	274
Comprehensive income	\$ 453	\$ 795	\$ 570	\$ 767
	=====	=====	=====	=====
Basic earnings per share	\$ 0.07	\$ 0.13	\$ 0.10	\$ 0.20
	=====	=====	=====	=====
Diluted earnings per share	\$ 0.06	\$ 0.13	\$ 0.10	\$ 0.19
	=====	=====	=====	=====
Weighted average number of common shares outstanding-				
denominator used for basic per share computations	3,410	3,508	3,410	3,508
Weighted average number of dilutive stock options outstanding	189	107	196	106
	-----	-----	-----	-----
Denominator used for diluted per share computations	3,599	3,615	3,606	3,614
	=====	=====	=====	=====

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ACME UNITED CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)
(all amounts in thousands of dollars)

	Six Months Ended June 30	
	2002	2001
Operating Activities:		
Net income	\$ 349	\$ 695
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	231	287
Amortization	60	68
Non-cash restructuring charges	300	-
Gain on sale of property, plant, and equipment	-	(64)
Changes in operating assets and liabilities:		
Accounts receivable	(3,558)	(4,076)
Inventories	1,436	609
Prepaid expenses and other current assets	(545)	(347)
Other assets	(21)	(19)
Accounts payable	218	665
Other accrued liabilities	(676)	569
Total adjustments	(2,554)	(2,308)
Net cash used by operating activities	(2,205)	(1,613)
Investing Activities:		
Capital expenditures	(356)	(126)
Proceeds from the sales of property, plant, and equipment	-	104
Net cash used by investing activities	(356)	(22)
Financing Activities:		
Net short-term borrowings	2,543	1,748
Payments of long-term debt	(85)	(38)
Debt issuance costs	-	(2)
Net cash provided by financing activities	2,458	1,708
Effect of exchange rate changes	176	(47)
Net change in cash and cash equivalents	73	26
Cash and cash equivalents at beginning of period	172	22
Cash and cash equivalents at end of period	\$ 245	\$ 48

See notes to condensed consolidated financial statements

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Notes to CONDENSED CONSOLIDATED Financial Statements
(Unaudited)

Note 1 -- Basis of Presentation

In the opinion of management, the accompanying condensed consolidated financial statements include all adjustments necessary to present fairly the financial position, results of operations and cash flows. 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, 2001 for such disclosures. The condensed consolidated balance sheet as of December 31, 2001 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 Company has reclassified certain amounts in prior periods to conform to the current presentation.

Note 2 -- Contingencies

The Company has been involved in certain environmental and other matters. Additionally, the Company has been involved in numerous legal actions relating to the use of certain latex products, which the Company distributes, but does not manufacture. The Company is one of many defendants. The Company has been released from the majority of the lawsuits. While two lawsuits remain, they are still in preliminary stages and it has not been determined whether the Company's products were involved. Based on information available, the Company believes there will not be a material adverse impact on financial position, results of operations, or liquidity, from these matters, either individually or in aggregate.

Note 3 -- Restructuring Charges

During the second quarter of 2002, approximately \$565,000 was charged against earnings as a result of certain strategic and operating changes initiated by the Company's management related to liquidating Acme United Limited, a subsidiary located in the United Kingdom. The restructuring charges consisted of a write-down of inventory of \$206,271, accounting and legal costs of \$94,843, lease cancellation costs of \$89,640, write-off of goodwill of \$69,969, severance costs of \$59,759, other closing costs of \$18,675, write-off of uncollectable account receivable of \$15,455, and write-offs of equipment of \$10,458. Approximately \$215,000 remained in accrued restructuring charges at June 30, 2002. During the first six months of 2002, the Company did not terminate any employees or pay severance costs related to the restructuring charges. Also, approximately \$48,000 of accounting and legal costs have been paid. Refer to managements discussion and analysis of financial condition and results of operations.

Note 4 -- Subsequent Event

On August 2, 2002, the Company entered into a new revolving loan agreement with Wachovia Bank, N.A.. This agreement allows for borrowings up to a maximum of \$10,000,000 based on a formula, which applies specific percentages to balances of accounts receivable and inventory. Interest is payable monthly and is charged at the LIBOR rate plus 1.75 percent. All outstanding borrowings are due on July 31, 2005. The Company also transferred its interest rate swap agreement to Wachovia Bank, N.A., which fixes the effective interest rate to 7.18 percent for \$3.5 million of debt under the agreement. The swap agreement expires January 19, 2003.

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Note 5 -- New Accounting Standards

As of January 1, 2002, the Company adopted Financial Accounting Standards Board Statement No. 142, Goodwill and Other Intangible Assets (FAS 142) and as such no longer amortizes goodwill but rather tests it annually for impairment. There was no impairment of goodwill at January 1, 2002. Had Statement No. 142 been in effect as of the beginning of 2001, amortization expense for the three and six month periods ended June 30, 2001 would have been reduced by \$7,000 and \$14,000, respectively, increasing net income by the same amount.

As of January 1, 2002, the Company also adopted the Emerging Issues Task Force consensus No. 00-25, Vendor Income Statement Characterization of Consideration Paid to a Reseller of a Vendor's Products (EITF 00-25). As such, the Company recognizes consideration paid to a reseller of its product as a reduction of the selling price of its products and, therefore, reduces revenue in the Company's income statement. The adoption of EITF 00-25 had no effect on net income. Selling, general and administrative expenses for the three and six month periods

ended June 30, 2001 have been reclassified to conform to the new classification resulting in a \$1,151,000 and \$1,788,000 decrease of selling, general and administrative expenses and net sales for these respective periods.

As of January 1, 2001, the Company adopted Financial Accounting Standards Board Statement No.133, Accounting for Derivative Instruments and Hedging Activities (Statement 133) which was issued in June, 1998 and its amendments Statements 137, Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133 and 138, Accounting for Derivative Instruments and Certain Hedging Activities issued in June 1999 and June 2000, respectively (collectively referred to as Statement 133).

As a result of adopting Statement 133, the Company recognizes all derivative financial instruments, such as interest rate swap contracts and foreign exchange contracts, in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in shareholders' equity as a component of comprehensive income depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in income along with the portions of the changes in the fair values of the hedged items that relate to the hedged risk(s). Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive income net of deferred taxes. Changes in fair value of derivatives used as hedges of the net investment in foreign operations are reported in other comprehensive income as part of the cumulative translation adjustment. Changes in fair values of derivatives not qualifying as hedges are reported in income.

The Company accounted for the accounting change as a cumulative effect of an accounting principle. The adoption of Statement 133, resulted in a cumulative effect of an accounting change of \$104,277 decrease to other comprehensive income.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Three and Six Months Ended June 30, 2002

Results of Operations

Special Event

During the second quarter of 2002, the Company initiated liquidation procedures for Acme United Limited (AUL), a subsidiary located in the United Kingdom. For the year ended December 31, 2001, AUL recorded a net loss of \$495,000 on net sales of \$2.0 million, representing a sales decline of approximately \$1.2 million or 38% from the prior year. Through June 2002, AUL recorded a net loss of approximately \$187,000 before one time restructuring charges of \$565,000. The restructuring charges are comprised mainly of severance, lease termination costs, and inventory write-offs. These losses were offset by tax benefits of approximately \$418,000 in the United States for the same period.

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 business specific to the back-to-school season. Consolidated net sales for the quarter ended June 30, 2002 were \$9,398,000 compared with \$9,492,000 for 2001, a 1% decrease. Net sales for the first six months of 2002 were \$16,153,000 compared with \$16,804,000 for 2001, a 4% decrease. The sales decrease was mainly driven by a sales decline of 58% in the United Kingdom as a distribution agreement with a third party was terminated. Domestic sales were 3% higher in the first half of 2002 compared with the same period in 2001.

In connection with the adoption of EITF 00-25 on January 1, 2002, selling, general and administrative expenses for the three and six month periods ended

June 30, 2001 have been reclassified to conform to the new classification resulting in a \$1,151,000 and \$1,788,000 decrease of selling, general and administrative expenses and net sales for these respective periods.

Gross Profit

The gross profit for the second quarter of 2002 was \$3,165,000 (33.7% of net sales) compared to \$2,917,000 (30.7% of net sales) for the second quarter of 2001. Gross profit for the first six months of 2002 was 32.9% of net sales compared to 30.4% in the same period of 2001. Excluding the inventory write-down associated with the AUL liquidation gross profit was 35.9% of net sales for the second quarter of 2002 and 34.1% of net sales for the first six months of 2002. The introduction of new products coupled with improved operating efficiencies in the USA was the main reasons for the improved gross margins.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the second quarter of 2002 were \$2,381,000 (25.3% of net sales) compared with \$2,314,000 (24.4% of net sales) for the same period of 2001, an increase of \$67,000. SG&A expenses were 26.8% of net sales for the first six months of 2002 versus 24.3% in the comparable period of 2001.

Income Taxes

Income tax expense is calculated based on the estimated effective tax rate for the year. The effective tax rate differs from the statutory rate due to state taxes and the resulting tax benefit attributable to the liquidation of AUL.

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Net Income

Net income for the second quarter of 2002 was \$227,000, or 6 cents per share (diluted), compared to a net income of \$465,000, or 13 cents per share (diluted) for the same period of 2001. Net income for the first six months of 2002 was \$349,000, or 10 cents per share (diluted), compared to a net income of \$695,000, or 19 cents per share (diluted) for the same period of 2001. Excluding restructuring costs and tax benefits net income for the second quarter of 2002 was \$487,000, or 14 cents per share (diluted) and net income for the first six months of 2002 was \$508,000, or 14 cents per share (diluted).

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS-Continued

For the Six Months Ended June 30, 2002

Financial Condition

Liquidity and Capital Resources

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

	June 30, 2002	December 31, 2001
	-----	-----
Working capital.....	\$10,036,000	\$8,762,000
Current ratio.....	2.12 to 1	2.14 to 1
Long term debt to equity ratio.....	.41	.33

During the first six months of 2002, total debt increased by \$2,458,000 compared to total debt at December 31, 2001 as a result of net additional short-term borrowings to fund advances to suppliers and higher accounts receivable due to seasonal sales volume. At June 30, 2002, advances to suppliers were about

\$326,000 and are included with prepaid expenses and other current assets.

On August 2, 2002, the Company entered into a new revolving loan agreement with Wachovia Bank, N.A.. This agreement allows for borrowings up to a maximum of \$10,000,000 based on a formula, which applies specific percentages to balances of accounts receivable and inventory. Interest is payable monthly and is charged at the LIBOR rate plus 1.75 percent. All outstanding borrowings are due on July 31, 2005. The Company also transferred its interest rate swap agreement to Wachovia Bank, N.A., which fixes the effective interest rate to 7.18 percent for \$3.5 million of debt under the agreement. This agreement expires January 19, 2003.

Cash expected to be generated from operating activities, together with funds available under its existing loan agreement, is expected, under current conditions, to be sufficient to finance the Company's planned operations for the remainder of the year. Over that same period, the Company does not expect to make significant investments in plant, property, and equipment.

Safe Harbor for Forward-looking Statements

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) the Company's plans, strategies, objectives, expectations and intentions are subject to change at any time at the discretion of the Company; (ii) the Company's plans and results of operations will be affected by the Company's ability to manage its growth and inventory; and (iii) other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission.

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PART II. OTHER INFORMATION

Item 1 -- Legal Proceedings

None.

Item 2 -- Changes in Securities

None.

Item 3 -- Defaults Upon Senior Securities

None.

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

None.

Item 5 -- Other Information

None.

Item 6 -- Exhibits and Reports on Form 8-K

Exhibit 99.1 and 99.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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 5, 2002

By /s/ RONALD P. DAVANZO

 Ronald P. Davanzo
 Vice President and
 Chief Financial Officer

Dated: August 5, 2002

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Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officer of Acme United Corporation (the "Company") hereby certifies to my knowledge that the Company's quarterly report on Form 10-Q for the quarterly period ended June 30, 2002 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of section 13(a) or 15(b), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed to be a part of the Report or "filed" for any purpose whatsoever.

By /s/ WALTER C. JOHNSEN

 Walter C. Johnsen
 President and
 Chief Executive Officer

Dated: August 5, 2002

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Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officer of Acme United Corporation (the "Company") hereby certifies to my knowledge that the Company's quarterly report on Form 10-Q for the quarterly period ended June 30, 2002 (the "Report"), as filed with the

Securities and Exchange Commission on the date hereof, fully complies with the requirements of section 13(a) or 15(b), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed to be a part of the Report or "filed" for any purpose whatsoever.

By /s/ RONALD P. DAVANZO

 Ronald P. Davanzo
 Vice President and
 Chief Financial Officer

Dated: August 5, 2002