

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

FORM 10-Q

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

For the quarterly period ended September 30, 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 November 14, 1996 of its \$ 2.50 par value Common Stock.

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PART 1 - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

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

September 30 December 31
1996 1995
(Unaudited)

ASSETS	-----	-----
Current Assets:		
Cash and cash equivalents	\$ 429	\$ 532
Accounts receivable	9,632	8,108
Inventories:		
Finished goods	6,075	9,942
Work in process	1,064	3,963
Raw materials & supplies	3,190	4,108
Prepaid expenses and other current assets	465	606
Total current assets	----- 20,855	----- 27,259
Plant, Property and Equipment:		
Land	454	491
Buildings	3,849	4,237
Machinery and equipment	15,609	15,736
Total plant, property and equipment	----- 19,912	----- 20,464
Less, accumulated depreciation	13,311	13,142
Net plant, property and equipment	----- 6,601	----- 7,322
Licensing agreements	882	1,170
Other assets	666	452
Goodwill	790	818
Total assets	----- \$ 29,794 =====	----- \$ 37,021 =====

<FN>
See notes to the financial statements

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

	September 30 1996 (Unaudited)	December 31 1995
	-----	-----
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 1,676	\$ 3,193
Notes payable due within one year	3,511	3,650
Restructuring reserve	882	1,198
Other accrued liabilities	3,665	3,243
Total current liabilities	----- 9,734	----- 11,284
Long term debt	12,994	14,880
Restructuring reserve	145	1,352
Total liabilities	----- 22,873	----- 27,516

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)	(2,282)	258
Translation adjustment	(1,046)	(1,002)

Treasury Stock, 47,000 shares	(357)	(357)
Total stockholders' equity	<u>6,921</u>	<u>9,505</u>
Total liabilities and stockholders' equity	<u>\$ 29,794</u>	<u>\$ 37,021</u>

<FN>

See notes to financial statements

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

	Three months ended		Nine months ended	
	September 30 1996	September 30 1995	September 30 1996	September 30 1995
Net Sales	\$ 13,281	\$ 13,838	\$ 38,103	\$ 41,205
Other income	49	14	221	52
	<u>13,330</u>	<u>13,852</u>	<u>38,324</u>	<u>41,257</u>
Costs and expenses:				
Cost of goods sold	9,807	10,021	29,120	29,587
Selling, general and administrative expense	3,700	3,444	10,442	10,176
Interest expense	361	526	1,199	1,479
	<u>13,868</u>	<u>13,991</u>	<u>40,761</u>	<u>41,242</u>
Income (loss) before income taxes	(538)	(139)	(2,437)	15
Provision (benefit) for income taxes	(53)	27	103	8
Net income (loss)	<u>\$ (485)</u>	<u>\$ (166)</u>	<u>\$ (2,540)</u>	<u>\$ 7</u>
Weighted average common and dilutive common equivalent shares	<u>3,338</u>	<u>3,338</u>	<u>3,338</u>	<u>3,338</u>
Net income (loss) per common share	<u>\$ (.15)</u>	<u>\$ (.05)</u>	<u>\$ (.76)</u>	<u>\$.00</u>

<FN>

See notes to financial statements

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

	Nine months ended	
	September 30 1996	September 30 1995
Cash flows from operating activities:		
Net income (loss)	\$ (2,540)	\$ 7
Adjustments:		
Depreciation	859	1,021
Amortization	330	421
Deferred tax (credits)	-	(424)
(Gain) on sale of property, plant and equipment	(25)	(23)
(Gain) on disposition of trademarks and tradename	(98)	-
Changes in assets and liabilities:		
Accounts receivable	(1,826)	(2,270)
Inventory	6,702	171
Prepaid expenses and other current assets	127	116
Other assets	(241)	217
Accounts payable	(1,479)	(466)
Income taxes payable	92	300
Other liabilities	(843)	(483)
Total adjustments	<u>3,598</u>	<u>(1,420)</u>
Net cash provided (used) by operations	<u>1,058</u>	<u>(1,413)</u>
Cash flow from investing activities:		
Capital expenditures	(507)	(783)
Proceeds from sales of business and property, plant and equipment	1,108	38
Net cash provided (used) by investing activities	<u>601</u>	<u>(745)</u>
Cash flows from financing activities:		

Net borrowings	(1,745)	1,896
Net cash (used) provided by financing activities	(1,745)	1,896
Effect of exchange rate changes on cash	(17)	(8)
Net change in cash and cash equivalents	(103)	(270)
Cash and cash equivalents at beginning of period	532	450
Cash and cash equivalents at end of period	\$ 429	\$ 180

<FN>
See notes to financial statements

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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 September 30, 1996 and December 31, 1995, the results of its operations for the three and nine month periods ended September 30, 1996 and 1995, and cash flows for the nine months ended September 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 nine month periods ended September 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.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Net Sales

Consolidated net sales for the quarter ended September 30, 1996 were \$13,281,000, compared with \$13,838,000 for the same period last year, a decline of \$557,000. Of this decline, \$1,393,000 resulted from the divestiture of the Altenbach business in Germany. Excluding Altenbach from the prior year, sales increased \$836,000 or 7% in the third quarter of 1996 as compared with the third quarter of 1995. The revenue growth was due to an increase in the U.S. and Canadian product sales. Net sales were \$38,103,000 for the first nine months of 1996, compared with net sales of \$41,205,000 for the same period of 1995, a decline of \$3,102,000. Of this decline, \$2,615,000 was attributed to Altenbach. Excluding Altenbach from the prior year, sales decreased by \$487,000 or 1% for the nine months as compared with the same period last year.

Domestic Consumer net sales totaled \$6,325,000 in the third quarter of 1996, compared with \$5,268,000 in the third quarter of 1995, an increase of 20%. Solid sales growth was achieved for the first aid and ruler product lines. Sales for the first aid product line increased by 65% and the ruler product line by 28% for the third quarter of 1996 as compared with the third quarter of 1995. For the first nine months of 1996, consumer net sales of \$16,214,000 were 8% higher than net sales of \$14,995,000 for the same period in 1995. Net sales of medical products were \$3,707,000 in the third quarter of 1996 as compared with \$3,992,000 in the third quarter of 1995. Net sales of medical products were \$11,076,000 for the first nine months of 1996 as compared with \$12,498,000 for the first nine months of 1995. The sales

decline in 1996 was primarily the result of a volume decline in the low margin custom tray market. However, the company has entered into a contract to supply disposable medical instruments to the Asian market with sales beginning in the fourth quarter of 1996. Net sales from foreign operations were \$3,547,000 in the third quarter of 1996 as compared with \$4,987,000 in the third quarter of 1995. Excluding Altenbach from the prior year, sales decreased \$47,000 or 1% for the third quarter of 1996 as compared with the same period of last year. While sales were soft in the United Kingdom and Germany, the Canadian operation recorded a 10% sales increase over the third quarter of 1995. Net sales from foreign operations were \$11,672,000 for the first nine months of 1996 compared with \$15,195,000 for the similar period in 1995. Of the decline of \$3,523,000, \$2,615,000 resulted from the divestiture of Altenbach.

Gross Profit Margin

For the third quarter of 1996, the Company reported a reduced gross profit margin of 26.2% compared to 27.6% in the same quarter of 1995. The gross profit margin for the first nine months of 1996 was 23.6% compared with a 28.2% gross profit margin for the same period in 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 bring inventory levels more in line with the current sales volume.

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Net Income

A net loss of \$ 485,000, or 15 cents per share, for the third quarter of 1996 compared with a net loss of \$166,000, or five cents per share, for the third quarter of 1995. For the first nine months of 1996, the net loss was \$2,540,000, or 76 cents per share. This compares with net income of \$7,000 for the first nine months of 1995. Excluding the severance and restructuring costs, the company realized a profit on a continuing business basis for the third quarter of 1996 of \$194,000 or six cents per share. The third quarter loss included \$580,000 of severance costs and \$99,000 of restructuring costs. The nine month loss included \$869,000 of severance costs, \$926,000 of restructuring costs, and \$271,000 of loss incurred by the Altenbach operation. On a continuing business basis (excluding Altenbach, severance and restructuring costs), the net loss for the nine months of 1996 was \$474,000 or 14 cents per share.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$256,000 and \$266,000 for the three and nine month periods ended September 30, 1996 as compared with the same periods in 1995. Severance costs amounted to \$580,000 and \$869,000 for the three and nine month periods ended September 30, 1996, respectively. Excluding these severance charges, the Company reduced its selling, general and administrative costs by \$324,000 or 9% for the quarter ended September 30, 1996, and \$603,000 or 6% for the nine month period ended September 30, 1996 as compared with the same periods in 1995.

Interest Expense

Interest expense decreased by \$165,000 and \$280,000 for the three and nine month periods ended September 30, 1996, respectively, as compared with 1995, which is attributable to lower average bank borrowings.

Provision for Income Taxes

The provision (benefit) for income taxes for the three and nine month periods ended September 30, 1996 was (\$53,000) and \$103,000 as compared to \$27,000 and \$8,000 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 September 30, 1996 has decreased by \$4,261,000 or 21% from September 30, 1995. Company-wide inventory levels as of September 30, 1996 have decreased by \$8,445,000 or 45% from September 30, 1995 (excluding Altenbach)

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.

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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 September 30, 1996 the Company had an available line of \$11,107,000 with \$1,207,000 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:

	September 30, 1996	December 31, 1995
Working capital	\$11,121,000	\$15,975,000
Current ratio	2.14 to 1	2.42 to 1
Long term debt to equity ratio	1.88	1.57

PART II - OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

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

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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
(Registrant)

Date: November 14, 1996

Cheryl Kendall
Vice President - Chief Financial Officer

Date: November 14, 1996

Richard L. Windt
Vice President - Corporate Controller

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