SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended June 30, 1999

OR

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

For the transition period from ______ to ______

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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) |

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 |X| No |_|

Registrant had 3,377,488 shares outstanding as of August 14, 1999 of its $2.50 par value Common Stock.

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ACME UNITED CORPORATION

# PART I. FINANCIAL INFORMATION

## ACME UNITED CORPORATION

### CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(all amounts in thousands, except per share data)

| | June 30 1999 | December 31 1998 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 33 | $ 40 |
| Accounts receivable, less allowance | 9,453 | 7,722 |
| Inventories: | | |
| Finished goods | 5,187 | 7,122 |
| Work in process | 903 | 1,240 |
| Raw materials and supplies | 3,574 | 4,907 |
| | 9,664 | 13,269 |
| Prepaid expenses and other current assets | 415 | 424 |
| Total current assets | 19,565 | 21,455 |
| Property, plant and equipment: | | |
| Land | 196 | 219 |
| Buildings | 2,023 | 2,179 |
| Machinery and equipment | 13,404 | 16,216 |
| | 15,623 | 18,614 |
| Less accumulated depreciation | 10,260 | 12,573 |
| | 5,363 | 6,041 |
| Other assets | 903 | 895 |
| Goodwill, less accumulated amortization | 388 | 505 |
| Total assets | $ 26,219 | $ 28,896 |

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 1999 | December 31 1998 |
|---|---|---|
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Notes payable | $ 753 | $ 882 |
| Accounts payable | 4,722 | 4,422 |
| Other accrued liabilities | 4,071 | 3,590 |
| Current portion of long term debt | 9,735 | 8,944 |
| Total current liabilities | 19,281 | 17,838 |
| Long term debt, less current portion | 458 | 6,382 |
| Total liabilities | 19,739 | 24,220 |

STOCKHOLDERS' EQUITY

| | 1999 | 1998 |
|---|---|---|
| Common stock, par value $2.50 : Authorized-4,000,000 shares; issued-3,482,495 shares in 1999 and 1998, including treasury stock | 8,706 | 8,706 |
| Additional paid-in capital | 2,233 | 2,233 |
| Retained-earnings deficit | (2,499) | (4,380) |
| Accumulated other comprehensive loss - translation adjustment | (1,312) | (1,235) |
| Treasury stock, at cost -105,007 shares | (648) | (648) |
| Total stockholders' equity | 6,480 | 4,676 |
| Total liabilities and stockholders' equity | $ 26,219 | $ 28,896 |

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, except per share data)

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| Revenues: | | | | |
| Net sales | $ 9,813 | $ 10,273 | $ 17,383 | $ 18,744 |
| Other income | 87 | 72 | 264 | 125 |
| Total revenues | 9,900 | 10,345 | 17,647 | 18,869 |
| Costs and expenses: | | | | |
| Cost of goods sold | 7,419 | 7,874 | 13,496 | 14,405 |
| Selling, general and administrative expenses | 2,069 | 2,215 | 3,937 | 4,251 |
| Interest expense | 248 | 363 | 606 | 701 |
| Total expenses | 9,736 | 10,452 | 18,039 | 19,357 |
| Income (loss) from continuing operations before income taxes | 164 | (107) | (392) | (488) |
| Income taxes | 39 | 22 | 25 | 18 |
| Income (loss) from continuing operations | 125 | (129) | (417) | (506) |
| Discontinued operations: | | | | |
| Gain on sale of discontinued operations | --- | --- | 2,101 | --- |
| Income from discontinued operations | --- | 248 | 198 | 532 |
| | --- | 248 | 2,299 | 532 |
| Net income | 125 | 119 | 1,882 | 26 |
| Other comprehensive expense - foreign currency translation | (7) | (19) | (78) | (31) |
| Comprehensive income | $ 118 | $ 100 | $ 1,804 | $ 553 |
| Earnings (loss) per share: | | | | |
| Continuing operations | $ 0.04 | $ (0.03) | $ (0.12) | $ (0.14) |
| Discontinued operations | --- | 0.07 | 0.68 | 0.15 |
| Net income | $ 0.04 | $ 0.04 | $ 0.56 | $ 0.01 |
| Weighted average number of common shares outstanding-denominator used for per share computations | 3,377 | 3,370 | 3,377 | 3,369 |

See notes to condensed consolidated financial statements.

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ACME UNITED CORPORATION

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

Six Months Ended
June 30

| | 1999 | 1998 |
|---|---|---|
| Operating activities: | | |
| Net income | $ 1,882 | $ 27 |
| Adjustments to reconcile net income to net cash used by operating activities: | | |
| Gain on sale of discontinued operations | (2,101) | --- |
| Depreciation | 346 | 524 |
| Amortization | 15 | 11 |
| Gain on disposal of property, plant, and equipment | --- | 51 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,881) | (3,366) |
| Inventories | 313 | 1,225 |
| Prepaid expenses and other current assets | 9 | (506) |
| Other assets | (2) | (18) |
| Accounts payable | 300 | 427 |
| Other accrued liabilities | (1,442) | 169 |
| Net cash used by operating activities | (2,561) | (1,456) |
| Investing activities: | | |
| Capital expenditures | (342) | (1,284) |
| Proceeds from sales of property, plant, and equipment | --- | 300 |
| Proceeds from sale of medical division | 8,156 | --- |
| Net cash provided (used) by investing activities | 7,814 | (984) |
| Financing activities: | | |
| Net proceeds (payments) on short term borrowing arrangements | (5,999) | 1,710 |
| Proceeds on long term debt | 2,500 | 736 |
| Payments on long term debt | (1,763) | --- |
| Stock options exercised | --- | 33 |
| Net cash (used) provided by financing activities | (5,262) | 2,479 |
| Effect of exchange rate changes on cash | 2 | (2) |
| Net change in cash and cash equivalents | (7) | 37 |
| Cash and cash equivalents at beginning of period | 40 | 25 |
| Cash and cash equivalents at end of period | $ 33 | $ 62 |

See notes to condensed consolidated financial statements.



## Notes to CONDENSED CONSOLIDATED Financial Statements

(Unaudited)

### Note 1 -- Basis of Presentation

In the opinion of management, the accompanying condensed consolidated financial statements contain 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 generally accepted accounting principles 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, 1998 for such disclosures. The condensed consolidated balance sheet as of December 31, 1998 was derived from the audited consolidated balance sheet as of that date. The results of operations for the six months ended June 30, 1999 are not necessarily indicative of the results to be expected for the full year.

### Note 2 -- Discontinued Operations

On March 22, 1999 the Company sold its medical business including customer lists, inventory, and certain equipment for approximately $8,156,000 realizing a gain of $2,101,000. The condensed consolidated statements of operations for 1998 have been reclassified to reflect the discontinuance of the medical business segment.

The condensed consolidated statements of operations relating to the medical business follow:

| | Six Months Ended June 30 1999 | Six Months Ended June 30 1998 |
|---|---|---|
| Net sales....................... | $ 3,049,000 | $ 5,020,000 |
| Costs and expenses.............. | 2,851,000 | 4,488,000 |
| Income from operations.......... | $ 198,000 | $ 532,000 |
| Earnings per share.............. | $ .06 | $ .15 |

Income taxes related to the medical business are not material.

Note 3 -- Contingencies

The Company has been involved in certain environmental 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 a limited number of lawsuits remain, they are still in preliminary stages and there is no indication the Company's products were involved. Based on information available, the Company believes that there will not be a material adverse impact on financial position, results of operations, or liquidity, from environmental and product liabilities, either individually or in aggregate.



Note 4 -- Debt and Liquidity

The company has short-term lines of credit for its foreign subsidiaries which are renewable at various times throughout the remainder of 1999. The aggregate amount available under these lines is $1,029,000 of which $753,000 is outstanding at June 30, 1999.

Long term debt consisted of the following:

(all amounts in thousands)

| | June 30 1999 | December 31 1998 |
|---|---|---|
| Notes payable: | | |
| U.S. and Canada arrangements....... | $ 8,629 | $ 6,614 |
| Other............................. | 1,564 | 8,712 |
| | 10,193 | 15,326 |
| Less current portion | 9,735 | 8,944 |
| | $ 458 | $ 6,382 |

On March 22, 1999, the Company used the proceeds from the sale of the medical business to pay down $6,800,000 of outstanding debt.

On April 28, 1999 the Company refinanced its debt arrangements in the U.S. and Canada. Under the new arrangement, the Company may borrow up to $10,500,000 through November 15, 1999 and from January 1, 2000 to April 30, 2000 (the maturity date); between November 16, 1999 and December 31, 1999 the Company may borrow up to $7,250,000. (The amounts the Company may borrow are based on a formula which applies specific percentages to balances of accounts receivable and inventories.) In addition, the Company converted $2,500,000 of debt into a term loan payable in monthly installments of $50,000, plus interest commencing

May 1, 1999 through April 1, 2000 and a final installment of $1,900,000, plus interest, due April 30, 2000. All amounts borrowed under these arrangements bear interest at the prime base rate, as defined, plus 1.5%. At June 30, 1999, outstanding debt under the Company's arrangements in the U.S. and Canada was $8,629,000 which has been classified as current and $223,000 was available for additional borrowing. The Company is currently negotiating with lenders to refinance these arrangements to extend the maturity date beyond December 31, 2000. Without such adequate debt financing the Company would be unable to fund its obligations as they become due in the ordinary course of business. The Company believes it will be successful in refinancing these arrangements.

Under the aforementioned debt arrangements, the Company, among other things, is restricted with respect to dividends, additional borrowings, investments, mergers, distributions, and property and equipment acquisitions. Further, the Company is required to maintain specific amounts of tangible net worth, as defined, commencing June 30, 1999 and a specified debt service coverage ratio, as defined, commencing September 30, 1999. As of June 30, 1999 the Company is in compliance with the covenants and believes that they will be met for the remainder of the arrangement's term. Substantially all assets are pledged as collateral for debt.



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

For the Three and Six Months Ended June 30, 1999

### 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 business specific to the back-to-school season. Consolidated net sales for the quarter ended June 30, 1999 were $9,813,000 compared with $10,273,000 for 1998, or 4% lower. In March 1999, the Company sold its medical business to Medical Action Industries, Inc. Efforts were focused on building inventory to comply with contractual obligations arising from this sale in addition to shipping medical inventory to Medical Action Industries, Inc., which slowed shipments of consumer product impacting continuing operations. Domestic consumer sales backorder for the second quarter of 1999 was $1,472,000 compared with $631,000 for the second quarter of 1998, or 2.3 times higher. Had backorder levels been equal to prior year, sales would have been 4% higher.

International sales decreased by 18% for the second quarter. Three percent of the decline was due to currency fluctuations. European sales decreased mainly due to weak sales in the United Kingdom, as a slowing economy and competitive pressures negatively impacted results in the second quarter.

#### Gross Profit

The gross profit from continuing operations for the second quarter of 1999 was $2,394,000 (24.4% of net sales) compared with $2,399,000 (23.3% of net sales) for the second quarter of 1998. Product sourcing alternatives positively impacted costs in the U.S. consumer business which lead to an increase in gross margin from 25.0% in 1998 to 26.8% in the second quarter of 1999. The international gross margin rose to 17.0% in the second quarter of 1999 from 15.1% in the comparable quarter in 1998. The gain in gross profit was primarily due to savings associated with re-sourcing products acquired from Esselte Canada in 1997.

Management expects to continue to consolidate sourcing product from Asia to leverage its buying power to further improve margins.

#### Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the second quarter of 1999 were $2,069,000 (21% of net sales) compared with $2,215,000 (22% of net sales) for the same period of 1998, a decrease of $146,000, or 7%. The primary reason for the decrease is staff reductions. Management is continuing to investigate other potential SG&A cost saving programs.

Income (Loss)

Net income for the first half of 1999 is $1,882,000, or 56 cents per share. Net income for the first half of 1999 includes a realized gain on the sale of the medical business of $2,101,000. Income from continuing operations for the second quarter of 1999 is $125,000, or 4 cents per share, compared with a loss of $129,000, or 3 cents per share, for the second quarter of 1998. For the first six months of 1999, the loss from continuing operations was $417,000, or 12 cents per share compared with a loss of $505,000, or 15 cents per share in the first six months of 1998



Financial Condition

Liquidity and Capital Resources

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

| | June 30, 1999 | December 31, 1998 |
|---|---|---|
| Working capital.................. | $284,000 | $3,616,000 |
| Current ratio.................... | 1.01 to 1 | 1.20 to 1 |
| Long-term debt to equity ratio.... | .07 | 1.37 |

During the first six months of 1999, the total debt decreased by $5,133,000 compared to total debt at December 31, 1998.

Debt of $6,726,000 as of June 30, 1999 was classified during the second quarter of 1999 to the current portion of long term debt to reflect its maturity date of April 30, 2000. The Company is currently in negotiations with lenders to refinance these loans. Without such adequate debt financing the Company would be unable to fund its obligations as they become due in the ordinary course of business. The Company fully expects to secure new debt financing by the end of the year.

Capital expenditures for the next 12 months are not expected to exceed $250,000 and are expected to be financed by cash provided by investing activities and future operating activities.

Year 2000

The Company has completed the assessment phase of its Year 2000 compliance program and is currently completing modifications and testing of its information technology and other internal systems with the exception of Germany. In Germany, the Company has selected a new financial system to mitigate a Year 2000 problem. The Company's goal is to complete implementation of this new system by the end of the third quarter 1999. Financial systems at the Company's other locations are substantially Year 2000 compliant.

The Company is in the process of gathering information about the Year 2000 compliance status of its significant suppliers and is developing a contingency plan for alternative sourcing. The Company's goal is to complete its Year 2000 compliance program by the end of the third quarter 1999.

Estimated future costs for the Year 2000 compliance program range from $100,000 to $125,000 of which approximately $75,000 relates to Germany. Of these costs, the Company expects that $35,000 to $50,000 will be charged to operations as expenses. The costs of this project and its completion date are based on management's best estimates, which were derived from numerous assumptions about future events, including the availability of certain resources, third party remediation plans, and other factors.

The Company continuously monitors its action plans addressing the Year 2000 issue, and is developing contingency plans to address unforeseen problems and "worst case" scenarios. This is potentially a significant issue for most, if not all, companies, with implications which can not be anticipated or predicted with any degree of certainty.

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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; (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

Form 8-K was filed by the Company on April 6, 1999.

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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

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Walter C. Johnsen
President and
Chief Executive Officer

Dated: August 14, 1999

By /s/ RONALD P. DAVANZO

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Ronald P. Davanzo
Vice President and
Chief Financial Officer

Dated: August 14, 1999

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This schedule contains summary financial information extracted from the Condensed Consolidated Balance Sheet and Condensed Consolidated Statement of Operations and is qualified in its entirety by reference to such financial statements.
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