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: March 31, 2022

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: 01-07698

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.
1 Waterview Drive, Shelton, Connecticut	**06484**
Address of Principal Executive Offices	Zip Code

Registrant's telephone number, including area code: **(203) 254-6060**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
$2.50 par value Common Stock	**ACU**	**NYSE American**

Indicate by check mark whether the registrant (l) 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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (sec. 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller Reporting Company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(s) of the Exchange Act ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 USC. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes ☒ No ☐

Registrant had 3,520,646 shares of its $2.50 par value Common Stock outstanding as of May 5, 2022.

ACME UNITED CORPORATION

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

	March 31, 2022 (unaudited)	December 31, 2021 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,307	$ 4,843
Accounts receivable, less allowance of $1,013 in 2022 and $1,007 in 2021	34,605	34,221
Inventories	60,716	53,552
Prepaid expenses and other current assets	3,810	2,635
Total current assets	104,438	95,251
Property, plant and equipment:		
Land	1,759	1,761
Buildings	13,516	13,456
Machinery and equipment	30,221	29,760
	45,496	44,977
Less: accumulated depreciation	21,609	20,950
Net property, plant and equipment	23,887	24,027
Operating lease right-of-use asset, net	3,064	3,130
Goodwill	4,800	4,800
Intangible assets, less accumulated amortization	16,888	17,231
Total assets	$ 153,077	$ 144,439

See Notes to Condensed Consolidated Financial Statements.

ACME UNITED CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)
(all amounts in thousands, except share amounts)

	March 31, 2022 (unaudited)	December 31, 2021 (Note 1)
LIABILITIES		
Current liabilities:		
Accounts payable	$ 10,939	$ 8,977
Operating lease liability - current portion	1,112	1,000
Current portion of mortgage payable	389	389
Other accrued liabilities	8,937	9,909
Total current liabilities	21,377	20,275
Non-current liabilities:		
Long-term debt	40,151	33,037
Mortgage payable, net of current portion	10,989	11,081
Operating lease liability - non-current portion	2,187	2,365
Other non-current liabilities	600	599
Total liabilities	75,304	67,357
Commitments and Contingencies (see note 2)		
STOCKHOLDERS' EQUITY		
Common stock, par value $2.50:		
authorized 8,000,000 shares;		
5,065,518 shares issued and 3,520,646 shares outstanding in 2022 and 2021	12,655	12,655
Additional paid-in capital	12,222	11,930
Retained earnings	70,245	69,873
Treasury stock, at cost - 1,544,872 shares in 2022 and 2021	(15,996)	(15,996)
Accumulated other comprehensive loss:		
Translation adjustment	(1,353)	(1,380)
Total stockholders’ equity	77,773	77,082
Total liabilities and stockholders’ equity	$ 153,077	$ 144,439

See Notes to Condensed Consolidated Financial Statements.

ACME UNITED CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(all amounts in thousands, except per share amounts)

	Three Months Ended March 31,	
	2022	2021
Net sales	$ 43,333	$ 43,525
Cost of goods sold	28,365	27,938
Gross profit	14,968	15,587
Selling, general and administrative expenses	13,597	12,619
Operating income	1,371	2,968
Non-operating items:		
Interest:		
Interest expense	309	226
Interest income	(4)	(5)
Interest expense, net	305	221
Other (income) expense, net	(2)	77
Total other expense, net	303	298
Income before income tax expense	1,068	2,670
Income tax expense	238	624
Net income	$ 830	$ 2,046
Basic earnings per share	$ 0.24	$ 0.61
Diluted earnings per share	$ 0.22	$ 0.52
Weighted average number of common shares outstanding-denominator used for basic per share computations	3,521	3,347
Weighted average number of dilutive stock options outstanding	327	564
Denominator used for diluted per share computations	3,848	3,911
Dividends declared per share	$ 0.13	$ 0.13

See Notes to Condensed Consolidated Financial Statements.

ACME UNITED CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(all amounts in thousands)

	Three Months Ended March 31,	
	2022	2021
Net income	$ 830	$ 2,046
Other comprehensive income (loss):		
Foreign currency translation adjustment	27	(188)
Comprehensive income	$ 857	$ 1,858

See Notes to Condensed Consolidated Financial Statements.

ACME UNITED CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)
(all amounts in thousands, except share amounts)

For the three months ended March 31, 2021

	Outstanding Shares of Common Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balances, December 31, 2020	3,338,913	$ 12,101	$ (14,522)	$ 7,931	$ (826)	$ 58,033	$ 62,717
Net income						2,046	2,046
Other comprehensive income					(188)		(188)
Stock compensation expense				306			306
Distributions to shareholders						(436)	(436)
Issuance of common stock	17,701	44		138			182
Balances March 31, 2021	3,356,614	$ 12,145	$ (14,522)	$ 8,375	$ (1,014)	$ 59,643	$ 64,627

For the three months ended March 31, 2022

	Outstanding Shares of Common Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balances, December 31, 2021	3,520,646	$ 12,655	$ (15,996)	$ 11,930	$ (1,380)	$ 69,873	$ 77,082
Net income						830	830
Other comprehensive loss					27		27
Stock compensation expense				400			400
Distributions to shareholders						(458)	(458)
Cash settlement of stock options				(108)			(108)
Balances March 31, 2022	3,520,646	$ 12,655	$ (15,996)	$ 12,222	$ (1,353)	$ 70,245	$ 77,773

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2022	**2021**
Cash flows from operating activities:		
Net income	$ 830	$ 2,046
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	652	584
Amortization of intangible assets	374	375
Non-cash lease expense	-	43
Stock compensation expense	400	306
Provision for bad debt	-	29
Amortization of deferred financing costs	6	-
Changes in operating assets and liabilities:		
Accounts receivable	(389)	(4,634)
Inventories	(7,139)	1,175
Prepaid expenses and other current assets	(1,143)	(787)
Accounts payable	1,885	774
Other accrued liabilities	(955)	(247)
Total adjustments	(6,309)	(2,382)
Net cash used in operating activities	(5,479)	(336)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(518)	(1,480)
Net cash used in investing activities	(518)	(1,480)
Cash flows from financing activities:		
Net borrowings of long-term debt	7,114	1,859
Cash settlement of stock options	(108)	-
Repayments on mortgage	(98)	(67)
Proceeds from issuance of common stock	-	182
Distributions to shareholders	(458)	(436)
Net cash provided by financing activities	6,450	1,538
Effect of exchange rate changes on cash and cash equivalents	11	(32)
Net change in cash and cash equivalents	464	(310)
Cash and cash equivalents at beginning of period	4,843	4,167
Cash and cash equivalents at end of period	$ 5,307	$ 3,857
Supplemental cash flow information:		
Cash paid for income taxes	$ -	$ 45
Cash paid for interest	$ 286	$ 218

See Notes to Condensed Consolidated Financial Statements.

1. Basis of Presentation

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 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, 2021 for such disclosures. The condensed consolidated balance sheet as of December 31, 2021 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 Quarterly Report on Form 10-Q should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included in the Company’s 2021 Annual Report on Form 10-K.

The Company has evaluated events and transactions subsequent to March 31, 2022 and through the date these condensed consolidated financial statements were issued.

2. Commitment and Contingencies

There are no pending material legal proceedings to which the Company is a party, or, to the actual knowledge of the Company, contemplated by any governmental authority.

3. Revenue from Contracts with Customers

Nature of Goods and Services

The Company recognizes revenue from the sales of a broad line of products that are grouped into two main categories: (a) first aid and medical; and (b) cutting, sharpening and measuring. The cutting, sharpening and measuring category includes scissors, knives, paper trimmers, pencil sharpeners and other sharpening tools. The first aid and medical category includes first aid kits and refills, over-the-counter medications and a variety of medical products. Revenue recognition is evaluated through the following five steps: (i) identification of the contract or contracts with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price in the contract; and (v) recognition of revenue when or as a performance obligation is satisfied.

When Performance Obligations Are Satisfied

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Revenue is generated by the sale of the Company’s products to its customers. Sales contracts (purchase orders) generally have a single performance obligation that is satisfied at a point in time, with shipment or delivery, depending on the terms of the underlying contract. Revenue is measured based on the consideration specified in the contract. The amount of consideration we receive and revenue we recognize is impacted by incentives ("customer rebates"), including sales rebates, which are generally tied to sales volume levels, in-store promotional allowances, shared media and customer catalogue allowances and other cooperative advertising arrangements; freight allowance programs offered to our customers; and allowance for returns and discounts. We generally recognize customer rebate costs as a deduction to gross sales at the time that the associated revenue is recognized.

Significant Payment Terms

Payment terms for each customer are dependent on the agreed upon contractual repayment terms. Payment terms typically are between 30 and 90 days and vary depending on the size of the customer and its risk profile to the Company. Some customers receive discounts for early payment.

Product Returns

The Company accepts product returns in the normal course of business. The Company estimates reserves for returns and the related refunds to customers based on historical experience. Reserves for returned merchandise are included as a component of “Accounts receivable” in the condensed consolidated balance sheets.

Practical Expedient Usage and Accounting Policy Elections

For the Company's contracts that have an original duration of one year or less, the Company uses the practical expedient in ASC 606-10-32-18 applicable to such contracts and does not consider the time value of money in relation to significant financing components. The effect of applying this practical expedient election did not have an impact on the Company's condensed consolidated financial statements.

Per ASC 606-10-25-18B, the Company has elected to account for shipping and handling activities that occur after the customer has obtained control as a fulfilment activity instead of a performance obligation. Furthermore, shipping and handling activities performed before transfer of control of the product also do not constitute a separate and distinct performance obligation. The effect of applying this practical expedient election did not have an impact on the Company's condensed consolidated financial statements.

The Company has elected to exclude from the transaction price those amounts which relate to sales and other taxes that are assessed by governmental authorities and that are imposed on and concurrent with a specific revenue-producing transaction and collected by the Company from a customer.

Applying the practical expedient in ASC 340-40-25-4, *Other Assets and Deferred Costs*, the Company recognizes the incremental costs of obtaining contracts as an expense when incurred. These costs are included in "Selling, general and administrative expenses." The effect of applying this practical expedient did not have an impact on the Company's condensed consolidated financial statements.

Disaggregation of Revenues

The following table represents external net sales disaggregated by product category, by segment (amounts in thousands):

For the three months ended March 31, 2022

	United States	Canada	Europe	Total
Cutting, Sharpening and Measuring	$ 15,333	$ 1,593	$ 3,558	$ 20,484
First Aid and Medical	20,408	2,022	$ 419	22,849
Total Net Sales	**$ 35,741**	**$ 3,615**	**$ 3,977**	**$ 43,333**

For the three months ended March 31, 2021

	United States	Canada	Europe	Total
Cutting, Sharpening and Measuring	$ 15,564	$ 1,549	$ 3,743	$ 20,856
First Aid and Medical	20,484	1,784	401	22,669
Total Net Sales	**$ 36,048**	**$ 3,333**	**$ 4,144**	**$ 43,525**

4. Debt and Shareholders' Equity

Long-term debt consists of (i) borrowings under the Company's revolving loan agreement with HSBC Bank, N.A. and (ii) amounts outstanding under the fixed rate mortgage on the Company's manufacturing and distribution facilities in Rocky Mount, NC and Vancouver, WA. The revolving loan agreement provides for borrowings of up to $50 million at Prime Rate less 1.25%. The credit facility has an expiration date of May 24, 2023. The Company must pay a facility fee, payable quarterly, in an amount equal to two tenths of one percent (.20%) per annum of the average daily unused portion of the revolving credit line. The facility is intended to provide liquidity for working capital, growth, share repurchases, dividends, acquisitions and other business activities. Under the revolving loan agreement, the Company is required to maintain specific amounts of tangible net worth, a specified debt to net worth ratio and a fixed charge coverage ratio and must have annual net income greater than zero, measured as of the end of each fiscal year. As of March 31, 2022, the Company was in compliance with the covenants then in effect under the loan agreement.

As of March 31, 2022 and December 31, 2021, the Company had outstanding borrowings of $40,151,000 and $33,037,000, respectively, under the Company's revolving loan agreement with HSBC.

The Company's manufacturing and distribution facilities in Rocky Mount, NC and Vancouver, WA were financed by a fixed rate mortgage with HSBC Bank, N.A. at a fixed interest rate of 3.8%. The Company entered into the agreement on December 1, 2021. Commencing on January 1, 2022, payments of principal and interest are due monthly, with all amounts outstanding due on maturity on December 1, 2031.As of March 31, 2022 and December 31, 2021, long-term debt related to the mortgage consisted of the following (amounts in '000's):

	March 31, 2022	December 31, 2021
Mortgage Payable - HSBC Bank N.A.	11,522	11,620
Less debt issuance costs	(144)	(150)
	11,378	11,470
Less current maturities	389	389
Long-term mortgage payable less current maturities	10,989	11,081

During the three months ended March 31, 2022, the Company, at its discretion, paid approximately $108,000 to optionees who had elected (subject to the approval of the Company) a net cash settlement of certain of their respective options.

5. Segment Information

The Company reports financial information based on the organizational structure used by the Company's chief operating decision makers for making operating and investment decisions and for assessing performance. The Company's reportable business segments consist of: (1) United States; (2) Canada; and (3) Europe. As described below, the activities of the Company's Asian operations are closely linked to those of the U.S. operations; accordingly, the Company's chief operating decision makers review the financial results of both on a consolidated basis, and the results of the Asian operations have been aggregated with the results of the United States operations to form one reportable segment called the "United States segment" or "U.S. segment". Each reportable segment derives its revenue from the sales of first aid and medical products, cutting and sharpening devices and measuring instruments for school, office, home, hardware, sporting and industrial use.

Domestic sales orders are filled primarily from the Company's distribution centers in North Carolina, Washington, Massachusetts, Tennessee, Florida and California. The Company is responsible for the costs of shipping, insurance, customs clearance, duties, storage and distribution related to such products. Orders filled from the Company's inventory are generally for less than container-sized lots.

Direct import sales are products sold by the Company's Asian subsidiary, directly to major U.S. retailers, who take ownership of the products in Asia. These sales are completed by delivering product to the customers' common carriers at the shipping points in Asia. Direct import sales are made in larger quantities than domestic sales, typically full containers. Direct import sales represented approximately 6% of the Company's total net sales for the three months ended March 31, 2022, compared to 7% for the comparable period in 2021. The decrease resulted primarily from COVID-related supply chain disruptions in China.

The chief operating decision maker evaluates the performance of each operating segment based on segment revenues and operating income. Segment revenues are defined as total revenues, including both external customer revenue and inter-segment revenue. Segment operating earnings are defined as segment revenues, less cost of goods sold and operating expenses. Identifiable assets by segment are those assets used in the respective reportable segment's operations. Inter-segment amounts are eliminated to arrive at consolidated financial results.

The following table sets forth certain financial data by segment for three months ended March 31, 2022 and 2021:

Financial data by segment:
(in thousands)

	Three Months Ended March 31,	
Sales to external customers:	2022	2021
United States	$ 35,741	$ 36,048
Canada	3,615	3,333
Europe	3,977	4,144
Consolidated	$ 43,333	$ 43,525
Operating income:		
United States	$ 811	$ 2,133
Canada	386	370
Europe	174	465
Consolidated	$ 1,371	$ 2,968
Interest expense, net	305	221
Other (income) expense, net	(2)	77
Consolidated income before income taxes	$ 1,068	$ 2,670

Assets by segment:
(in thousands)

	March 31, 2022	December 31, 2021
United States	$ 134,291	$ 125,521
Canada	9,327	9,100
Europe	9,459	9,818
Consolidated	$ 153,077	$ 144,439

6. Stock Based Compensation

The Company recognizes share-based compensation at the fair value of the equity instrument on the grant date. Compensation expense is recognized over the required service period, which is generally the vesting period of the equity instrument. Share-based compensation expense was approximately $400,000 for the three months ended March 31, 2022, compared to approximately $306,000 for the three months ended March 31, 2021.

As of March 31, 2022, there was a total of $3,600,603 of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested share-based payments granted to the Company's employees. As of that date, the remaining unamortized expense was expected to be recognized over a weighted average period of approximately three years.

7. Fair Value Measurements

The carrying value of the Company's bank debt is a reasonable estimate of fair value because of the nature of its payment terms and maturity.

8. Leases

The Company has operating leases for office and warehouse space and equipment under various arrangements which provide the right to use the underlying asset and require lease payments for the lease term. The Company's lease portfolio consists of operating leases which expire at various dates through 2026.

Certain of the Company's lease arrangements contain renewal provisions, exercisable at the Company's option. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company determines if an arrangement is an operating lease at inception. Leases with an initial term of 12 months or less are not recorded on the balance sheet. All other leases are recorded on the balance sheet with right-of-use ("ROU") assets representing the right to use the underlying asset for the lease term and lease liabilities representing the obligation to make lease payments arising from the lease.

ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term and include options to extend or terminate the lease when they are reasonably certain to be exercised. As most of our leases do not provide an implicit rate, the present value of lease payments is determined primarily using our incremental borrowing rate based on the information available at the lease commencement date. The incremental borrowing rate is the rate of interest that we would have to pay to borrow on a collateralized basis over a similar term on an amount equal to the lease payments in a similar economic environment. Lease agreements with lease and non-lease components are generally accounted for as a single lease component. The Company's operating lease expense is recognized on a straight-line basis over the lease term. For the three months ended March 31, 2022 and 2021, lease expense in the amount of $0.1 million was included in cost of goods sold and $0.3 million and $0.2 million, respectively, were included in selling, general and administrative expenses in the accompanying condensed consolidated statement of operations.

Information related to leases (in thousands):

Operating cash flow information:	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Operating lease cost	$ 311	$ 336
Operating lease - cash flow	$ 322	$ 294
Non-cash activity:		
ROU assets obtained in exchange for lease liabilities	$ 211	$ -

	March 31, 2022	March 31, 2021
Weighted-average remaining lease term	3.0 years	4.0 years
Weighted-average discount rate	5%	5%

Future minimum lease payments under non-cancellable leases as of March 31, 2022:

2022 (remaining)	$	960
2023		1,081
2024		745
2025		650
2026		156
Thereafter		-
Total future minimum lease payments	$	3,592
Less: imputed interest		(293)
Present value of lease liabilities - current		1,112
Present value of lease liabilities - non-current	$	2,187

9. Other Accrued Liabilities

Other current accrued liabilities consisted of (in thousands):

	March 31, 2022		December 31, 2021	
Customer Rebates	$	5,274	$	5,414
Accrued Compensation		1,291		1,586
Dividend Payable		458		458
Income Tax Payable		813		564
Other		1,101		1,887
Total:	$	8,937	$	9,909

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 pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such statements are based on our beliefs as well as assumptions made by and information currently available to us. When used in this document, words like "may," "might," "will," "except," "anticipate," "believe," "potential," and similar expressions are intended to identify forward-looking statements. Actual results could differ materially from our current expectations.

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 that may impact the Company's business, operations and financial results, including those risks and uncertainties resulting from the global COVID-19 pandemic, future waves of COVID-19, including through the Delta and Omicrom variants and any new variant strains of the underlying virus; any future pandemics; the continuing effectiveness, global availability, and public acceptance of existing vaccines; the effectiveness, availability, and public acceptance of vaccines against variant strains of potential new viruses; and the heightened impact the pandemic has on many of the risks described herein, including, without limitation, risks relating to disruptions in our supply chain, and labor shortages, any of which could materially adversely impact the Company's ability to manufacture, source or distribute its products, both domestically and internationally.

These risks and uncertainties further include, without limitation, the following: (i) changes in the Company's plans, strategies, objectives, expectations and intentions, which may be made at any time at the discretion of the Company; (ii) the impact of uncertainties in global economic conditions, whether caused by COVID-19 or otherwise, including the impact on the Company's suppliers and customers; (iii) additional disruptions in the Company's supply chains, whether caused by COVID-19 or otherwise; (iv) labor shortages and related costs the Company has and may continue to incur, including costs of acquiring and training new employees and rising wages and benefits; (v) the continuing adverse impact of cost inflation; (vi) the Company's ability to effectively manage its inventory in a rapidly changing business environment, including the additional inventory the Company has acquired in anticipation of supply chain disruptions and uncertainties; (vii) changes in client needs and consumer spending habits; (viii) the impact of competition; (ix) the impact of technological changes including, specifically, the growth of online marketing and sales activity; (x) the Company's ability to manage its growth effectively, including its ability to successfully integrate any business it might acquire; (xi) currency fluctuations; (xii) international trade policies and their impact on demand for our products and our competitive position, including the imposition of new tariffs or changes in existing tariff rates; and (xiii) other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission.

For a more detailed discussion of these and other factors affecting the Company, see the Risk Factors described in Item 1A included in the Company's Annual Report on Form 10-K for the fiscal year March 31, 2022 and below under "Financial Condition". 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

We discuss our critical accounting policies and estimates in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

COVID-19 Pandemic and Macroeconomic Related Considerations

As noted above under "Forward-Looking Statements", in response to the COVID-19 pandemic U.S. federal, state, local, and foreign governments adopted mitigation measures, creating significant uncertainties in the U.S. and global economies, including the shutdown of large portions of, or imposition of restrictions on, the U.S. and global economies. While there has been a general improvement in conditions and reduction of adverse effects from the pandemic, as of the present there continues to be significant uncertainty around the scope, severity, and duration of the pandemic, as well as the breadth and duration of business disruptions related to it and the overall impact on the U.S., global economies, and our operating results in future periods.

Commencing late in the first quarter of 2020 and continuing through the filing of this report, the COVID-19 pandemic and certain related challenges have affected the Company's financial results and business operations. During the first quarter of 2022, the Company experienced significant supply chain issues as a result of new Omicron outbreaks which surfaced in China. These outbreaks occurred in February 2022 and led to factory closures and slowdowns, mass quarantines in certain Chinese cities, and the complete shutdown of two if its largest ports. While the Company had previously purchased and maintained surplus inventory in the United States to minimize the impact of any disruption in our supply chain, certain of our largest customers take delivery of large shipments directly at ports in China and we were unable to fulfill these orders due to the new COVID outbreak in China and the resulting factory and port shutdowns. The resurgence in China exacerbated the global supply chain issues that we had already been experiencing in recent quarters. As economies have re-opened, global supply chains have struggled to keep up with increasing demand, and the resulting supply chain disruptions were already, in certain cases, affecting our ability to ship products in a timely manner. These factors have also contributed to increased freight, labor and product costs, which in turn had an adverse effect on our operating margin in the first three months of 2022, and those disruptions and increased costs are likely to persist in the near term and potentially for the foreseeable future. While we anticipate that the Company and its business partners will continue to experience supply chain disruptions, the Company believes that it has sufficient inventory of its products in the U.S. to at least partially offset near term supply chain disruptions anticipated demand in the near future. However, any further increase in the duration or severity of the COVID-19 pandemic or a resurgence of the pandemic and the continuation of related supply chain and labor issues, might adversely affect the Company's ability to manufacture, source or distribute its products both domestically and internationally. The occurrence of any of these factors could have a material adverse effect on the Company's business, operations and financial condition.

In addition, the Company has continued to experience other challenges related to the COVID-19 pandemic. These challenges include labor-related issues such as difficulties in hiring employees for its manufacturing and distribution centers due to current domestic labor shortages, increased labor costs, and higher employee turnover compared to pre-pandemic levels. In addition, a portion of the Company's workforce in its headquarters and elsewhere continues to work remotely. As a result, the Company has experienced and continues to experience operating inefficiencies.

Further, the resurgence in the spread of COVID-19 toward the end of 2021 and into 2022 has created greater uncertainty regarding the economic outlook for at least the balance of 2022, even as vaccines have become widely available. The extent to which the COVID-19 pandemic will continue to affect the Company's business, financial condition, liquidity and the Company's operating results will depend on future developments, which are highly uncertain and cannot be predicted.

Results of Operations

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 market.

Net sales

Consolidated net sales for the three months ended March 31, 2022 were $43,333,000 compared with $43,525,000 in the same period in 2021.

Sales in the U.S. for the three months ended March 31, 2022 declined 1%, compared to the same period in 2021. The decrease in sales for the three months was primarily due to a lower volume of shipments as a result of COVID-19 related supply chain constraints.

Net sales in Canada for the three months ended March 31, 2022, increased 8% in both U.S. and local currency compared to the same period in 2021, mainly due to higher sales of First Aid Central products, principally in the e-commerce channel.

European net sales for the first quarter of 2022 decreased 4% in U.S. dollars but increased 3% in local currency compared to the first quarter of 2021.

Gross profit

Gross profit for the three months ended March 31, 2022 was $14,968,000 (34.5% of net sales) compared to $15,587,000 (35.8% of net sales) in the same period in 2021. The decline in the quarter was primarily due to cost inflation pressures as well as higher transportation costs. Price increases partially offset cost increases.

Selling, general and administrative expenses

Selling, general and administrative ("SG&A") expenses for the three months ended March 31, 2022 were $13,597,000 (31.4% of net sales) compared with $12,619,000 (29.0% of net sales) in the same period in 2021, an increase of $978,000. The increase in SG&A expenses for three months ended March 31, 2022, compared to the same period in 2021 were primarily due to higher personnel related costs, including higher salaries and stock option expenses.

Operating income

Operating income for the three months ended March 31, 2022 was $1,371,000 compared with $2,968,000 in the same period of 2021.
Operating income in the U.S. segment decreased by $1,322,000 for the three months ended March 31, 2022, compared to the same period in 2021.

Operating income in the Canadian segment increased by $16,000 for the three months ended March 31, 2022, compared to the same period in 2021.

Operating income in the European segment decreased by $291,000 for the three months ended March 31, 2022, compared to the same period in 2021.

Interest expense, net

Interest expense, net for the three months ended March 31, 2022 was $305,000 compared with $221,000 in the same period of 2021, an $84,000 increase. The increase in interest expense, net is due to higher average debt outstanding.

Other (income) expense, net

Total other (income), net was $2,000 in the three months ended March 31, 2022 compared to other expense of $77,000 in the same period of 2021.

Income tax expense

The Company’s effective tax rates for the three months ended March 31, 2022 was 22% compared to 23% in the same period in 2021.

Financial Condition

Liquidity and Capital Resources

During the first three months of 2022, working capital increased approximately $8.2 million compared to December 31, 2021. Inventory increased approximately $7.2 million at March 31, 2022 compared to December 31, 2021. We increased inventory during that period to anticipate our continued growth and to be positioned to offset the impact of potential supply chain disruptions related to COVID-19. The increase also reflects higher product costs. Inventory turnover, calculated using a twelve-month average inventory balance, was 2.2 at March 31, 2022 compared to 2.4 at December 31, 2021. Receivables remained constant at March 31, 2022 compared to December 31, 2021. The average number of days sales outstanding in accounts receivable was 60 days at each of March 31, 2022 and December 31, 2021. Accounts payable and other current liabilities increased by approximately $1.1 million at March 31, 2022 compared to December 31, 2021.

The Company's working capital, current ratio and long-term debt to equity ratio are as follows (dollar amounts in thousands):

	March 31, 2022	December 31, 2021
Working capital	$ 83,061	$ 74,976
Current ratio	4.89	4.70
Long term debt to equity ratio	65.8%	57.2%

Long-term debt consists of (i) borrowings under the Company’s revolving loan agreement with HSBC Bank, N.A. and (ii) amounts outstanding under the fixed rate mortgage related on the Company’s manufacturing and distribution facilities in Rocky Mount, NC and Vancouver, WA. The revolving loan agreement provides for borrowings of up to $50 million at Prime Rate less 1.25%. The credit facility has an expiration date of May 24, 2023. The Company must pay a facility fee, payable quarterly, in an amount equal to two tenths of one percent (.20%) per annum of the average daily unused portion of the revolving credit line. The facility is intended to provide liquidity for working capital, growth, share repurchases, dividends, acquisition and other business activities. Under the revolving loan agreement, the Company is required to maintain specific amounts of tangible net worth, a specified debt to net worth ratio and a fixed charge coverage ratio and must have annual net income greater than zero, measured as of the end of each fiscal year. At March 31, 2022, the Company was in compliance with the covenants then in effect under the loan agreement.

During the first three months of 2022, total debt outstanding under the Company’s revolving credit facility increased by approximately $7.1 million, compared to total debt thereunder at December 31, 2021. As of March 31, 2022, $40,151,000 was outstanding and $9,849,000 was available for borrowing under the Company’s credit facility. The increase in debt outstanding was primarily related to the increase in inventory.

The Company’s manufacturing and distribution facilities in Rocky Mount, NC and Vancouver, WA were financed by a fixed rate mortgage with HSBC Bank, N.A. at a fixed interest rate of 3.8%. The Company entered into the agreement on December 1, 2021. Payments of principal and interest are due monthly, with all amounts outstanding due on maturity on December 1, 2031. At March 31, 2022, there was approximately $11.4 million outstanding on the mortgage.

The Company believes that cash generated from operating activities, together with funds available under its revolving credit facility, will, under current conditions, be sufficient to finance the Company's operations over the next twelve months from the filing of this report.

Item 3: Quantitative and Qualitative Disclosure about Market Risk

Not applicable.

Item 4: Controls and Procedures

(a) Evaluation of Internal Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2022. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

(b) Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 2022, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1 — Legal Proceedings

There are no pending material legal proceedings to which the registrant is a party, or, to the actual knowledge of the Company, contemplated by any governmental authority.

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, 2021.

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

None.

Item 3 — Defaults upon Senior Securities

None.

Item 4 — Mine Safety Disclosures

Not applicable.

Item 5 — Other Information

None.

Item 6 — Exhibits

Documents filed as part of this report:

Exhibit 31.1	Certification of Walter C. Johnsen pursuant to 18 U.S.C. Section 1350, as adopted pursuant Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Paul G. Driscoll pursuant to 18 U.S.C. Section 1350, as adopted pursuant Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification of Walter C. Johnsen 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 of Paul G. Driscoll pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
104	The cover page for the Company’s Quarterly Report on Form 10-Q has been formatted in Inline XBRL and contained in Exhibit 101

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
Chairman of the Board and
Chief Executive Officer

Dated: May 9, 2022

By /s/ Paul G. Driscoll

Paul G. Driscoll
Vice President and
Chief Financial Officer

Dated: May 9, 2022

Exhibit 31.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, WALTER C. JOHNSEN, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Acme United Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/ Walter C. Johnsen
Walter C. Johnsen
Chairman of the Board and
Chief Executive Officer

Dated: May 9, 2022

Exhibit 31.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, PAUL G. DRISCOLL, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Acme United Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/ Paul G. Driscoll
Paul G. Driscoll
Vice President and
Chief Financial Officer

Dated: May 9, 2022

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

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 March 31, 2022 (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(d), 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
Chairman of the Board and
Chief Executive Officer

Dated: May 9, 2022

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Acme United Corporation and will be retained by Acme United Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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

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 March 31, 2022 (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(d), 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/ Paul G. Driscoll
Paul G. Driscoll
Vice President and
Chief Financial Officer

Dated: May 9, 2022

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Acme United Corporation and will be retained by Acme United Corporation and furnished to the Securities and Exchange Commission or its staff upon request.