

**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, 2020

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

State or Other Jurisdiction of
Incorporation or Organization

06-0236700

I.R.S. Employer Identification No.

55 Walls Drive, Fairfield, Connecticut

Address of Principal Executive Offices

06824

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 (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

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

Registrant had 3,338,913 shares of its \$2.50 par value Common Stock outstanding as of November 3, 2020.

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

	September 30, 2020 (unaudited)	December 31, 2019 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,031	\$ 6,822
Accounts receivable, less allowance of \$1,428 in 2020 and \$523 in 2019	32,154	25,485
Inventories	48,351	39,261
Prepaid expenses and other current assets	2,142	1,578
Total current assets	85,678	73,146
Property, plant and equipment:		
Land	1,426	1,420
Buildings	11,142	10,096
Machinery and equipment	20,117	19,112
	32,685	30,628
Less: accumulated depreciation	18,344	16,592
	14,341	14,036
Operating lease right-of-use asset, net	2,190	2,989
Goodwill	4,696	4,696
Intangible assets, less accumulated amortization	16,072	15,793
Other assets	40	89
Total assets	\$ 123,017	\$ 110,749

See Notes to Condensed Consolidated Financial Statements

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

	September 30, 2020 (unaudited)	December 31, 2019 (Note 1)
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 9,251	\$ 6,693
Operating lease liability - current portion	847	1,047
Current portion of mortgage payable	267	267
Other accrued liabilities	13,376	8,576
Total current liabilities	<u>23,741</u>	<u>16,583</u>
Non-current liabilities:		
Long-term debt	30,703	33,240
Long-term debt - PPP Loan	3,508	-
Mortgage payable, net of current portion	2,978	3,178
Operating lease liability - non-current portion	1,422	1,961
Other non-current liabilities	69	83
Total liabilities	<u>62,421</u>	<u>55,045</u>
Commitments and Contingencies (see note 2)		
STOCKHOLDERS' EQUITY		
Common stock, par value \$2.50: authorized 8,000,000 shares; issued - 4,840,571 shares in 2020 and 2019, including treasury stock		
	12,101	12,094
Additional paid-in capital	8,438	8,262
Retained earnings	56,425	51,571
Treasury stock, at cost - 1,501,658 shares in 2020 and 1,487,238 in 2019	(14,522)	(14,235)
Accumulated other comprehensive loss:		
Minimum pension liability	(522)	(522)
Translation adjustment	(1,324)	(1,466)
	<u>(1,846)</u>	<u>(1,988)</u>
Total stockholders' equity	<u>60,596</u>	<u>55,704</u>
Total liabilities and stockholders' equity	<u>\$ 123,017</u>	<u>\$ 110,749</u>

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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net sales	\$ 43,316	\$ 36,995	\$ 123,133	\$ 108,585
Cost of goods sold	28,360	23,861	78,594	68,877
Gross profit	14,956	13,134	44,539	39,708
Selling, general and administrative expenses	12,832	11,408	36,023	32,679
Operating income	2,124	1,726	8,516	7,029
Non-operating items:				
Interest:				
Interest expense	173	478	742	1,491
Interest income	(5)	(9)	(20)	(28)
Interest expense, net	168	469	722	1,463
Other (income) expense, net	(35)	40	2	52
Total other expense, net	133	509	724	1,515
Income before income tax expense	1,991	1,217	7,792	5,514
Income tax expense	412	158	1,737	977
Net income	\$ 1,579	\$ 1,059	\$ 6,055	\$ 4,537
Basic earnings per share	\$ 0.47	\$ 0.32	\$ 1.81	\$ 1.35
Diluted earnings per share	\$ 0.46	\$ 0.30	\$ 1.75	\$ 1.32
Weighted average number of common shares outstanding-denominator used for basic per share computations	3,340	3,352	3,343	3,352
Weighted average number of dilutive stock options outstanding	122	134	111	94
Denominator used for diluted per share computations	3,461	3,486	3,455	3,446
Dividends declared per share	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.36

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net income	\$ 1,579	\$ 1,059	\$ 6,055	\$ 4,537
Other comprehensive income (loss):				
Foreign currency translation adjustment	270	(254)	142	(124)
Comprehensive income	<u>\$ 1,849</u>	<u>\$ 805</u>	<u>\$ 6,197</u>	<u>\$ 4,413</u>

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 September 30, 2019

	Outstanding Shares of Common Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Gain	Retained Earnings	Total
Balances, June 30, 2019	3,350,833	\$ 12,094	\$ (14,235)	\$ 8,701	\$ (2,099)	\$ 50,341	\$ 54,802
Net income						1,059	1,059
Other comprehensive loss					(205)		(205)
Stock compensation expense				247			247
Distributions to shareholders						(404)	(404)
Cash settlement of stock options				(475)			(475)
Balances, September 30, 2019	3,350,833	\$ 12,094	\$ (14,235)	\$ 8,473	\$ (2,304)	\$ 50,996	\$ 55,024

For the three months ended September 30, 2020

	Outstanding Shares of Common Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Gain	Retained Earnings	Total
Balances, June 30, 2020	3,336,413	\$ 12,094	\$ (14,522)	\$ 8,304	\$ (2,116)	\$ 55,247	\$ 59,007
Net income						1,579	1,579
Other comprehensive gain					270		270
Stock compensation expense				327			327
Distributions to shareholders						(401)	(401)
Issuance of common stock	2,500	7		52			59
Cash settlement of stock options				(245)			(245)
Balances, September 30, 2020	3,338,913	\$ 12,101	\$ (14,522)	\$ 8,438	\$ (1,846)	\$ 56,425	\$ 60,596

For the nine months ended September 30, 2019

	Outstanding Shares of Common Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Gain	Retained Earnings	Total
Balances, December 31, 2018	3,350,833	\$ 12,094	\$ (14,235)	\$ 8,982	\$ (2,058)	\$ 47,550	\$ 52,333
Net income						4,537	4,537
Other comprehensive loss					(124)		(124)
Adoption of ASU 2018-02					(122)	122	—
Stock compensation expense				745			745
Distributions to shareholders						(1,213)	(1,213)
Cash settlement of stock options				(1,254)			(1,254)
Balances, September 30, 2019	3,350,833	\$ 12,094	\$ (14,235)	\$ 8,473	\$ (2,304)	\$ 50,996	\$ 55,024

For nine months ended September 30, 2020

	Outstanding Shares of Common Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Gain	Retained Earnings	Total
Balances, December 31, 2019	3,350,833	\$ 12,094	\$ (14,235)	\$ 8,262	\$ (1,988)	\$ 51,571	\$ 55,704
Net income						6,055	6,055
Other comprehensive gain					142		142
Stock compensation expense				929			929
Distributions to shareholders						(1,201)	(1,201)
Issuance of common stock	2,500	7		52			59
Cash settlement of stock options				(805)			(805)
Purchase of treasury stock	(14,420)		(287)				(287)
Balances, September 30, 2020	3,338,913	\$ 12,101	\$ (14,522)	\$ 8,438	\$ (1,846)	\$ 56,425	\$ 60,596

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 6,055	\$ 4,537
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,830	1,640
Amortization of intangible assets	991	937
Non-cash lease expense	57	16
Stock compensation expense	929	745
Provision for bad debt	910	55
Changes in operating assets and liabilities:		
Accounts receivable	(7,293)	(5,595)
Inventories	(8,544)	2,253
Prepaid expenses and other current assets	121	450
Accounts payable	2,040	(1,174)
Other accrued liabilities	4,645	3,404
Total adjustments	<u>(4,314)</u>	<u>2,731</u>
Net cash provided by operating activities	<u>1,741</u>	<u>7,268</u>
Cash flows from investing activities:		
Purchase of property, plant and equipment	(2,081)	(1,123)
Acquisition of First Aid Central	(2,074)	-
Net cash used in investing activities	<u>(4,155)</u>	<u>(1,123)</u>
Cash flows from financing activities:		
Net repayments of long-term debt	(2,537)	(2,158)
Proceeds from PPP Loan	3,508	-
Cash settlement of stock options	(805)	(1,254)
Repayments on mortgage	(200)	(200)
Proceeds from issuance of common stock	59	-
Distributions to shareholders	(1,201)	(1,213)
Purchase of treasury shares	(287)	-
Net cash used in financing activities	<u>(1,463)</u>	<u>(4,825)</u>
Effect of exchange rate changes on cash and cash equivalents	86	(31)
Net change in cash and cash equivalents	<u>(3,791)</u>	<u>1,289</u>
Cash and cash equivalents at beginning of period	<u>6,822</u>	<u>4,409</u>
Cash and cash equivalents at end of period	<u>\$ 3,031</u>	<u>\$ 5,698</u>
Supplemental cash flow information:		
Cash paid for income taxes	\$ 415	\$ 279
Cash paid for interest	\$ 751	\$ 1,476

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, 2019 for such disclosures. The condensed consolidated balance sheet as of December 31, 2019 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 2019 Annual Report on Form 10-K.

Certain reclassification of prior years' amounts have been made to conform to the current years' presentation.

The Company has evaluated events and transactions subsequent to September 30, 2020 and through the date these condensed consolidated financial statements were issued.

Recently Issued and Adopted Accounting Standards

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20), Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans Income Statement - Reporting Comprehensive Income (Topic 220)*. This ASU removes disclosures that no longer are considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. ASU 2018-14 is effective for fiscal years ending after December 15, 2020. The Company does not expect that the adoption of ASU 2018-14 will have a material impact on its consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The update eliminates, clarifies and modifies certain guidance related to the accounting for income taxes. ASU 2019-12 is effective for annual reporting periods beginning after December 15, 2020, i.e. commencing with our current fiscal year. The Company does not expect the adoption of ASU 2019-12 to have a material effect on its consolidated financial statements.

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: (i) cutting, sharpening and measuring; and (ii) first aid and safety. The cutting, sharpening and measuring category includes scissors, knives, paper trimmers, pencil sharpeners and other sharpening tools. The first aid and safety category includes first aid kits and refills and a variety of safety 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 fulfillment 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 September 30, 2020

	U.S.	Canada	Europe	Total
Cutting, Sharpening and Measuring	\$ 18,656	\$ 2,199	\$ 3,013	\$ 23,868
First Aid and Safety	18,000	1,174	274	19,448
Total Net Sales	\$ 36,656	\$ 3,373	\$ 3,287	\$ 43,316

For the three months ended September 30, 2019

	U.S.	Canada	Europe	Total
Cutting, Sharpening and Measuring	\$ 16,040	\$ 1,712	\$ 2,186	\$ 19,938
First Aid and Safety	16,793	—	264	17,057
Total Net Sales	\$ 32,833	\$ 1,712	\$ 2,450	\$ 36,995

For the nine months ended September 30, 2020

	U.S.	Canada	Europe	Total
Cutting, Sharpening and Measuring	\$ 50,088	\$ 4,860	\$ 8,505	\$ 63,453
First Aid and Safety	55,488	3,315	877	59,680
Total Net Sales	\$ 105,576	\$ 8,175	\$ 9,382	\$ 123,133

For the nine months ended September 30, 2019

	U.S.	Canada	Europe	Total
Cutting, Sharpening and Measuring	\$ 48,045	\$ 5,281	\$ 7,216	\$ 60,542
First Aid and Safety	47,285	—	758	48,043
Total Net Sales	\$ 95,330	\$ 5,281	\$ 7,974	\$ 108,585

4. Debt and Shareholders' Equity

Long-term debt consists of borrowings under the Company's revolving loan agreement with HSBC Bank, N.A. The 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, dividends, acquisitions, share repurchases 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 September 30, 2020, the Company was in compliance with the covenants then in effect under the loan agreement.

As of September 30, 2020, and December 31, 2019, the Company had outstanding borrowings of \$30,703,167 and \$33,240,407, respectively, under the Company's revolving loan agreement with HSBC.

On October 26, 2017, the Company exercised its option to purchase its First Aid Only manufacturing and distribution center in Vancouver, WA for \$4.0 million. The property consists of 53,000 square feet of office, manufacturing, and warehouse space on 2.86 acres. The purchase was financed by a variable rate mortgage with HSBC Bank, N.A. at an interest rate of LIBOR plus 2.5%. Commencing on December 1, 2017, principal payments of \$22,222 are due monthly, with all amounts outstanding due on maturity on October 31, 2024.

Also included in long term debt is the amount outstanding under the Paycheck Protection Program (PPP). See Note 10 – Paycheck Protection Program Loan for additional details.

During the three and nine months ended September 30, 2020, the Company paid approximately \$245,000 and \$805,000, respectively, to optionees who had elected a net cash settlement of their respective employee stock options.

During the nine months ended September 30, 2020, the Company paid approximately \$287,000, to repurchase a total of 14,420 shares of its Common Stock under its 2010 stock repurchase program. As of September 30, 2020, a total of 3,579 and 200,000 additional shares may be purchased in the future under the repurchase programs announced in 2010 and 2019, respectively.

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 cutting and sharpening devices, measuring instruments and first aid and safety products 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 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. Individual direct import sales are made in larger quantities than domestic sales, typically full containers. Direct import sales represented approximately 12% and 11% of the Company's total net sales for the three and nine months ended September 30, 2020, respectively, compared to 14% for the comparable periods in 2019.

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 and nine months ended September 30, 2020 and 2019:

Financial data by segment:
(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Sales to external customers:				
United States	\$ 36,656	\$ 32,780	\$ 105,576	\$ 95,178
Canada	3,373	1,775	8,175	5,402
Europe	3,287	2,440	9,382	8,005
Consolidated	<u>\$ 43,316</u>	<u>\$ 36,995</u>	<u>\$ 123,133</u>	<u>\$ 108,585</u>
Operating income:				
United States	\$ 1,189	\$ 1,381	\$ 6,442	\$ 5,942
Canada	600	280	1,173	746
Europe	335	65	901	341
Consolidated	<u>\$ 2,124</u>	<u>\$ 1,726</u>	<u>\$ 8,516</u>	<u>\$ 7,029</u>
Interest expense, net	168	469	722	1,463
Other (income) expense, net	(35)	40	2	52
Consolidated income before income taxes	<u>\$ 1,991</u>	<u>\$ 1,217</u>	<u>\$ 7,792</u>	<u>\$ 5,514</u>

Assets by segment:
(in thousands)

	September 30, 2020	December 31, 2019
United States	\$ 107,396	\$ 98,578
Canada	7,546	6,168
Europe	8,075	6,003
Consolidated	<u>\$ 123,017</u>	<u>\$ 110,749</u>

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 expenses were \$327,000 and \$929,000, respectively, for the three and nine months ended September 30, 2020, respectively, compared to \$247,000 and \$745,000 for the three and nine months ended September 30, 2019, respectively.

As of September 30, 2020, there was a total of \$2,100,706 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 September 30, 2020, lease expense in the amount of \$0.1 million was included in cost of goods sold and \$0.2 million was included in selling, general and administrative expenses in the accompanying condensed consolidated statement of operations. For the nine months ended September 30, 2020, lease expense in the amount of \$0.3 million was included in cost of goods sold and \$0.6 million was included in selling, general and administrative expenses in the accompanying condensed consolidated statement of operations.

Information related to leases (in thousands):

	Three months ended September 30, 2020	Three months ended September 30, 2019
Operating lease cost	\$ 284	\$ 275
Operating lease - cash flow	\$ 272	\$ 270
	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Operating lease cost	\$ 899	\$ 856
Operating lease - cash flow	\$ 839	\$ 840
	September 30, 2020	September 30, 2019
Weighted-average remaining lease term	4.0 years	3.0 years
Weighted-average discount rate	5%	5%

Future minimum lease payments under non-cancellable leases as of September 30, 2020:

2020 (remaining)	\$	272
2021		735
2022		467
2023		462
2024		278
Thereafter		294
Total future minimum lease payments	\$	2,508
Less: imputed interest		(239)
Present value of lease liabilities - current		847
Present value of lease liabilities - non-current	\$	1,422

9. Business Combinations

On January 7, 2020, the Company purchased the assets of First Aid Central, a Canadian first aid and safety supplier, based in Laval, Canada for approximately \$2.1 million in cash. First Aid Central products consist of a broad line of first aid kits, refills, and safety products that are sold to a wide range of industries and end users. The products meet federal Health Canada and provincial regulatory requirements.

The purchase price was allocated to assets acquired as follows (in thousands):

Assets:	
Accounts receivable	\$ 232
Inventory	440
Prepaid Expense	47
Equipment	45
Intangible assets	1,310
Total assets	<u>\$ 2,074</u>

The acquisition was accounted for as a business combination, pursuant to ASC 805 – *Business Combinations*. All assets acquired in the acquisition are included in the Company's Canada segment.

Net sales for the three and nine months ended September 30, 2020 attributable to the sales of First Aid Central products were approximately \$1.2 million and \$3.3 million, respectively. Net income for the three and nine months ended September 30, 2020 attributable to First Aid Central products was approximately \$0.1 million and \$0.3 million, respectively.

Assuming First Aid Central assets were acquired on January 1, 2019, unaudited proforma combined net sales for the three months ended September 30, 2019, for the Company would have been approximately \$37.8 million. Unaudited proforma combined net income for the three months ended September 30, 2019 for the Company would have been approximately \$1.2 million. Unaudited proforma combined net sales for the nine months ended September 30, 2019 for the Company would have been approximately \$111.2. Unaudited proforma combined net income for the nine months ended September 30, 2019 for the Company would have been approximately \$4.9 million

10. Paycheck Protection Program Loan

On May 7, 2020, the Company received a loan (the “PPP Loan”) from HSBC Bank, N.A. in the amount of \$3,508,047 under the Paycheck Protection Program established by the Coronavirus Aid, Relief and Economic Security Act. Subject to potential forgiveness, as described below, the PPP Loan matures in two years on May 8, 2022, bears interest at a rate of 1.00% per year and is evidenced by a promissory note dated May 7, 2020 (the “Note”). Monthly payments of principal and interest are deferred until after any application for forgiveness submitted by the Company has been acted upon, as described below. The PPP Loan is unsecured and federally guaranteed. The Note contains customary events of default relating to, among other things, failure to make payments of principal and interest and breaches of representations and warranties. The Company may prepay the PPP Loan at any time prior to maturity with no penalty.

All or a portion of the PPP Loan may be eligible to be forgiven by the U.S. Small Business Administration (“SBA”) and the lender upon application by the Company, provided that the Company shall have used the loan proceeds for eligible purposes, including the payment of payroll, benefits, rent, mortgage interest and utilities, during the 8 week period beginning on the date of funding of the loan (the “covered period”). Not more than 40% of the amount forgiven may be for non-payroll costs.

Consistent with the requirements of the PPP for loan forgiveness, the Company used the loan proceeds solely for payment of payroll and otherwise in a manner which it believes satisfy the requirements for loan forgiveness. In August 2020, the Company submitted an application for forgiveness of the entire amount of the PPP loan to HSBC Bank, N.A. The lender approved the forgiveness application and, on August 26, 2020, submitted the Company’s application to the SBA for its approval. The application is presently pending; the SBA is required to act upon the application within 90 days. No assurance can be given that the Company’s application for loan forgiveness will be approved by the SBA, in whole or in part.

11. Other Accrued Liabilities

Other current and long-term accrued liabilities consisted of:

	September 30, 2020	December 31, 2019
Customer Rebates	\$ 5,870	\$ 4,849
Pension Liability	60	45
Accrued Compensation	2,488	1,695
Dividend Payable	400	402
Income Tax Payable	1,545	262
Other	3,082	1,406
Total:	\$ 13,445	\$ 8,659

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

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 including the impact that the global COVID-19 pandemic has had and will continue to have on the Company's business, operations and financial results. These include the severity and duration of the pandemic, the effect of measures taken by the Company to limit the spread of the disease at our offices and distribution centers, further actions that may be taken by governmental authorities or by businesses or individuals on their own initiative in response to the pandemic, including retail, office, school and restaurant closures, the pace of recovery when an effective vaccine is widely available or when the pandemic otherwise subsides and the heightened impact the pandemic has on many of the risks described herein, including without limitation risks relating to the on-going world-wide economic downturn and disruptions in our supply chain, any of which could 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, including the impact on the Company's suppliers and customers; (iii) changes in client needs and consumer spending habits including COVID-19 related changes; (iv) the impact of competition, (v) the impact of technological changes including, specifically, the growth of online marketing and sales activity; (vi) the Company's ability to manage its growth effectively, including its ability to successfully integrate any business it might acquire; (vii) the Company's ability to effectively manage its inventory in a rapidly changing business environment; (viii) currency fluctuations; (ix) 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 (x) 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 December 31, 2019 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 fiscal year ended December 31, 2019.

COVID-19 Pandemic Related Considerations

As noted above in the "Forward-Looking Statements", the spread of the coronavirus (COVID-19) through China, the United States, and other countries globally and the related ongoing economic downturn continue to present certain significant risks and uncertainties to the Company and its operations. Commencing late in the first quarter of the current fiscal year and continuing through the filing of this report, the COVID-19 pandemic has affected the Company's financial results and business operations. During this period, we experienced, and continue to experience, a significant increase in demand for many of the Company's first aid and safety products, as consumers and commercial enterprises stocked up on these products. On the other hand, while the Company gained market share in its Westcott craft products, it experienced weakness in the sales of its Westcott office and school supplies with the result that sales for the first nine months of 2020 were approximately the same as for the first nine months of 2019. The weakness in sales was due, in part, to pandemic-related continued or reimposed closures of retail stores, schools and offices and other COVID-19 related restrictions imposed in our domestic and international markets. The ultimate impact of these effects on the Company will depend on the duration and severity of the COVID-19 pandemic, the length of time it takes for normal economic and operating conditions to resume, whether commercial closures and other restrictions that have been imposed to date are extended or reimposed, and additional actions that may be taken by governmental authorities or by businesses or individuals of their own initiative in response to the pandemic.

Substantially all of our manufacturing facilities and distribution centers and those of our key suppliers currently remain open and continue to operate despite temporary closures. We monitor information on COVID-19 from the Centers for Disease Control and Prevention (“CDC”) and believe we are adhering to their recommendations regarding the health and safety of our personnel. To address the potential human impact of the virus, most of our administrative staff are telecommuting. For those administrative staff not telecommuting and our warehouse and domestic manufacturing employees, we have implemented social distancing and mask policies, instituted daily temperature checks and have increased facility cleaning at each location. Non-essential domestic and international travel for our employees has ceased.

As a result of the COVID-19 pandemic, commencing late in the first quarter of 2020 and continuing through the end of the third quarter, the Company (i) has had to acquire certain of its products at increased costs due to dramatic increases in demand for such products (while, to date, the Company has been successful in passing along such increased costs to its customers, there is no assurance that the Company will be able to continue to do so in the future); (ii) had to acquire additional inventory to minimize the impact of any potential disruption to our supply chain; (iii) has incurred increased labor costs as a result of the payment of additional compensation to employees at its warehouse and distribution centers; and (iv) has incurred costs associated with the additional cleaning and maintenance of its facilities including the temporary closures of facilities for those purposes. The Company continued to incur such costs as a result of these conditions in the third quarter and through the date of this report. In addition, the Company has increased reserves relating to outstanding receivables from approximately \$400,000 at June 30, 2020, to approximately \$800,000 at September 30, 2020, as a result of credit risks related to COVID. (The Company continuously evaluates credit risks relating to its customers and may need to increase its reserves relating to its receivables further or even, in the event that one or more significant customers should cease operations or declares bankruptcy, write off a substantial amount of receivables.)

The Company has also experienced obstacles and inefficiencies resulting from a number of pandemic-related factors such as travel restrictions imposed by governmental authorities which, e.g., inhibit sales and marketing activities, and inefficiencies resulting from many of the Company’s personnel working remotely. In addition, the Company experienced inefficiencies in its manufacturing and distribution due to social distancing measures imposed in its facilities, COVID related absenteeism, and higher than normal turnover and training of replacements, together with associated costs.

The increases and decreases in the demand for the Company’s products described above have continued to affect the Company’s operations in our third quarter and through the date of this report and are likely to continue to do so in the immediate future. For example, a decrease could occur in the demand for its first aid and safety products as a result of market saturation potentially resulting from customers having stockpiled those products. While there is no certainty that the current high levels of demand for our first aid and safety products will continue, we have increased our short-term manufacturing and sourcing capacity for these products. We also increased manufacturing and sourcing of other key components and finished goods to minimize the impact of any disruption to our supply chain in the event of a resurgence of an outbreak of the coronavirus in any of our key manufacturing or distribution facilities. The Company anticipates that it has sufficient inventory of its products to meet anticipated demand. However, any prolonged increase in the duration or severity of the COVID-19 pandemic or a resurgence of the pandemic in the future, 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.

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 September 30, 2020 were \$43,316,000 compared with \$36,995,000 in the same period in 2019, a 17% increase. Consolidated net sales for the nine months ended September 30, 2020 were \$123,133,000 compared with \$108,585,000 in the same period in 2019, a 13% increase. Net sales for the three and nine months ended September 30, 2020 in the U.S. segment increased 12% and 11%, respectively, compared with the same periods in 2019. Sales in the U.S. for the three and nine month periods increased compared to the same periods last year, primarily due to strong sales of first aid and safety products, continued market share gains in the industrial and safety channels, as well as the home improvement, mass market and ecommerce channels. Also contributing to the growth in first aid products was the continuation of a surge demand related to the COVID-19 pandemic which had commenced late in the first quarter. These sales amounted to approximately \$1.5 million in the three months ended September 30, 2020 and \$3.0 million in the nine months ended September 30, 2020.

Net sales in Canada, excluding First Aid Central products, for the three months ended September 30, 2020, increased 25% in both U.S. dollars and local currency compared to the same periods last year. The increase is primarily due to an easing of COVID-19 lockdown restrictions and a shift of back-to-school sales from the second quarter to the third quarter. Net sales for the nine months ended September 30, 2020 decreased 10% in both U.S. dollars and local currency compared with the same period in 2019. The decline in sales was primarily due to store and office closings earlier in the year. Sales of First Aid Central products were approximately \$1.2 million and \$3.3 million in the three and nine months ended September 30, 2020.

European net sales for the three and nine months ended September 30, 2020 increased 35% and 17%, respectively, in U.S. dollars (32% and 17% in local currency), compared with the same periods in 2019. The increases in net sales for the three and nine months were primarily due to increased sales of Westcott cutting products and Camillus knives in the e-commerce channel as well as continued growth of DMT sharpening products.

Gross profit

Gross profit for the three months ended September 30, 2020 was \$14,956,000 (34.5% of net sales) compared to \$13,134,000 (35.5% of net sales) in the same period in 2019. Gross profit for the nine months ended September 30, 2020 was \$44,539,000 (36.2% of net sales) compared to \$39,708,000 (36.6% of net sales) for the same period in 2019. The lower gross profit percentages were mainly due to incurring COVID-19 related costs.

Selling, general and administrative expenses

Selling, general and administrative ("SG&A") expenses for the three months ended September 30, 2020 were \$12,832,000 (29.6% of net sales) compared with \$11,408,000 (30.8% of net sales) in the same period in 2019, an increase of \$1,424,000. SG&A expenses for the nine months ended September 30, 2020 were \$36,023,000 (29.3% of net sales) compared with \$32,679,000 (30.1% of net sales) for the same periods of 2019, an increase of \$3,344,000. The increases in SG&A expenses for three and nine months ended September 30, 2020, compared to the same periods in 2019 were primarily due to higher personnel related costs, commissions and shipping costs related to higher sales, provision for bad debt primarily related to the impact of COVID-19 on our customers, as well as added expenses related to the acquisition of First Aid Central partially offset by lower travel and marketing expenses.

Operating income

Operating income for the three months ended September 30, 2020 was \$2,124,000 compared with \$1,726,000 in the same period of 2019. Operating income for the nine months ended September 30, 2020 was \$8,516,000 compared with \$7,029,000 in the same period of 2019. Operating income in the U.S. segment decreased by \$192,000 and increased \$500,000 for the three and nine months ended September 30, 2020, respectively, compared to the same periods in 2019.

Operating income in the Canadian segment increased by \$320,000 and \$427,000 for the three and nine months ended September 30, 2020, respectively, compared to the same periods in 2019.

Operating income in the European segment increased by \$270,000 and \$560,000 for the three and nine months ended September 30, 2020, respectively, compared to the same periods in 2019.

Interest expense, net

Interest expense, net for the three months ended September 30, 2020 was \$168,000 compared with \$469,000 in the same period of 2019, a \$301,000 decrease. Interest expense, net for the nine months ended September 30, 2020 was \$722,000 compared with \$1,463,000 for the same period of 2019, a \$741,000 decrease. The decrease in interest expense resulted from a lower average interest rate as well as lower average debt outstanding, under the Company's revolving credit facility.

Other (income) expense, net

Other income, net was \$35,000 in the three months ended September 30, 2020 compared to other expense, net of \$40,000 in the same period of 2019. The increase in other income, net for the three months ended September 30, 2020 was primarily due to gains from foreign currency transactions. Other expense, net was \$2,000 compared to \$52,000 in the same period of 2019.

Income taxes

The Company's effective tax rates for the three and nine months ended September 30, 2020 were 21% and 22%, respectively, compared to 13% and 18% in the same periods in 2019. In the three and nine months ended September 30, 2019, the Company recorded approximately \$100,000 in excess tax benefits resulting from the exercise of stock options. No such credits were recorded in the three and nine months ended September 30, 2020.

Financial Condition

Liquidity and Capital Resources

During the first nine months of 2020, working capital increased approximately \$5.3 million compared to December 31, 2019. Inventory increased approximately \$9.1 million at September 30, 2020 compared to December 31, 2019. The increase was primarily due to anticipated growth in our business as well as the acquisition of product to offset the impact of potential supply chain interruptions related to COVID-19. Inventory turnover, calculated using a twelve-month average inventory balance, was 2.4 at September 30, 2020 compared to 2.3 at December 31, 2019. Receivables increased by approximately \$6.7 million at September 30, 2020 compared to December 31, 2019. The average number of days sales outstanding in accounts receivable was 60 days at September 30, 2020 compared to 64 days at December 31, 2019. Accounts payable and other current liabilities increased by approximately \$7.4 million at September 30, 2020 compared to December 31, 2019.

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

Working capital	\$	61,937	\$56,563	
Current ratio		3.61	4.41	
Long term debt to equity ratio		61.4%	65.4	%

During the first nine months of 2020, total debt outstanding under the Company's revolving credit facility decreased by approximately \$2.5 million, compared to total debt thereunder at December 31, 2019. As of September 30, 2020, \$30,703,167 was outstanding and \$19,296,833 was available for borrowing under the Company's credit facility.

Long-term debt consists of borrowings under the Company's revolving loan agreement with HSBC Bank, N.A. as well as amounts outstanding under the variable rate mortgage related on the Company's manufacturing and distribution facility in Vancouver, WA. At September 30, 2020, there was approximately \$3.2 million outstanding on the mortgage. 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, dividends, acquisitions, share repurchases 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 September 30, 2020, the Company was in compliance with the covenants then in effect under the loan agreement.

As described above, commencing late in the first quarter, the Company has encountered challenges as a result of the COVID-19 pandemic and related economic downturn that could have adverse consequences for our liquidity as a result of a number of factors. Commencing late in the first quarter, the Company experienced a surge in the ordering of its first aid and safety products. It is uncertain whether such increases will continue and, in fact, decreases could occur if the market becomes saturated with unused first aid and safety products. Further, as stated above, the Company continues to experience weakened sales of school and office products. Additionally, as noted above, the Company has incurred and continues to incur increased operational and other expenses as a result of the COVID-19 pandemic. As discussed above, it is possible that the Company's sourcing of products may be disrupted if the operations of the Company's suppliers particularly those located in China, are interrupted by the effects of COVID-19. In order to address problems that may arise as a result of any such potential disruption, the Company is planning to increase its inventory of Westcott cutting and other products above customary levels.

On May 7, 2020, the Company received a loan (the "PPP Loan") from HSBC Bank, N.A. in the amount of \$3,508,047 under the Paycheck Protection Program established by the Coronavirus Aid, Relief and Economic Security Act. Subject to potential forgiveness, as described below, the PPP Loan matures in two years on May 8, 2022, bears interest at a rate of 1.00% per year and is evidenced by a promissory note dated May 7, 2020 (the "Note"). Monthly payments of principal and interest are deferred until after any application for forgiveness submitted by the Company has been acted upon, as described below. The PPP Loan is unsecured and federally guaranteed. The Note contains customary events of default relating to, among other things, failure to make payments of principal and interest and breaches of representations and warranties. The Company may prepay the PPP Loan at any time prior to maturity with no penalty.

All or a portion of the PPP Loan may be eligible to be forgiven by the U.S. Small Business Administration ("SBA") and the lender upon application by the Company, provided that the Company shall have used the loan proceeds for eligible purposes, including the payment of payroll, benefits, rent, mortgage interest and utilities, during the 24 week period beginning on the date of funding of the loan (the "covered period"). Not more than 40% of the amount forgiven may be for non-payroll costs.

Consistent with the requirements of the PPP for loan forgiveness, the Company used the loan proceeds solely for payment of payroll and otherwise in a manner which it believes satisfy the requirements for loan forgiveness. In August 2020, the Company submitted an application for forgiveness of the entire amount of the PPP loan to HSBC Bank, N.A. (the Lender). The lender approved the forgiveness application and, on August 26, 2020, submitted the Company's application to the SBA for its approval. The application is presently pending; the SBA is required to act up the application within 90 days. No assurance can be given that the Company's application for loan forgiveness will be approved by the SBA, in whole or in part.

On April 28, 2020, the U.S. Department of the Treasury stated that the SBA will review each PPP loan over \$2.0 million. In order to apply for the PPP Loan, we were required to certify, among other things, that the then current uncertainty made the PPP Loan request necessary to

support our ongoing operations. We made this certification in good faith after analyzing, among other things, our financial situation and access to alternative sources of capital. Following this analysis, we believe that we satisfied all eligibility criteria for the PPP Loan, and that our receipt of the PPP Loan is consistent with the objectives of the PPP of the CARES Act. If it is later determined that we were ineligible to receive the PPP Loan, we may be required to repay the PPP Loan in its entirety and/or be subject to additional penalties, which could have a material adverse effect on our business, results of operations and financial condition.

The Company believes that cash generated from operating activities, together with proceeds of the PPP Loan and 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 September 30, 2020. 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 September 30, 2020, 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, 2019.

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: November 6, 2020

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

Dated: November 6, 2020

**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: November 6, 2020

**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: November 6, 2020

**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 September 30, 2020 (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: November 6, 2020

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.

**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 September 30, 2020 (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: November 6, 2020

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.