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, 2023

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 ☒

Registrant had 3,545,725 shares of its $2.50 par value Common Stock outstanding as of May 9, 2023.

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

	March 31, 2023 (unaudited)	December 31, 2022 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,764	$ 6,100
Accounts receivable, less allowance of $847 in 2023 and $1,061 in 2022	32,972	32,604
Inventories	58,488	63,325
Prepaid expenses and other current assets	4,210	2,821
Restricted cash	750	750
Total current assets	99,184	105,600
Property, plant and equipment:		
Land	1,982	1,979
Buildings	17,315	16,614
Machinery and equipment	31,529	31,492
	50,826	50,085
Less: accumulated depreciation	24,429	23,669
Net property, plant and equipment	26,397	26,416
Operating lease right-of-use asset, net	2,675	2,632
Goodwill	8,189	8,189
Intangible assets, less accumulated amortization	20,273	20,790
Other assets - restricted cash	750	750
Total assets	$ 157,468	$ 164,377

See Notes to Condensed Consolidated Financial Statements.

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

	March 31, 2023 (unaudited)	December 31, 2022 (Note 1)
LIABILITIES		
Current liabilities:		
Accounts payable	$ 10,597	$ 10,514
Operating lease liability - current portion	1,216	1,130
Current portion of mortgage payable	405	405
Other current liabilities	11,815	10,078
Total current liabilities	24,033	22,127
Non-current liabilities:		
Long-term debt	40,135	49,916
Mortgage payable, net of current portion	10,597	10,694
Operating lease liability - non-current portion	1,628	1,683
Deferred income taxes	305	305
Other non-current liabilities	654	622
Total liabilities	77,352	85,347
Commitments and contingencies (see note 2)		
STOCKHOLDERS' EQUITY		
Common stock, par value $2.50:		
authorized 8,000,000 shares;		
5,090,597 shares issued and 3,545,725 shares outstanding in 2023 and		
5,083,051 shares issued and 3,538,179 shares outstanding in 2022	12,717	12,699
Additional paid-in capital	13,914	13,448
Retained earnings	71,460	70,967
Treasury stock, at cost - 1,544,872 shares in 2023 and 2022	(15,996)	(15,996)
Accumulated other comprehensive loss:		
Translation adjustment	(1,979)	(2,088)
Total stockholders’ equity	80,116	79,030
Total liabilities and stockholders’ equity	$ 157,468	$ 164,377

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,	
	2023	**2022**
Net sales	$ 45,838	$ 43,333
Cost of goods sold	29,557	28,365
Gross profit	16,281	14,968
Selling, general and administrative expenses	14,093	13,597
Operating income	2,188	1,371
Non-operating items:		
Interest:		
Interest expense	919	309
Interest income	(17)	(4)
Interest expense, net	902	305
Other income, net	(23)	(2)
Total other expense, net	879	303
Income before income tax expense	1,309	1,068
Income tax expense	319	238
Net income	$ 990	$ 830
Basic earnings per share	$ 0.28	$ 0.24
Diluted earnings per share	$ 0.28	$ 0.22
Weighted average number of common shares outstanding-denominator used for basic per share computations	3,541	3,521
Weighted average number of dilutive stock options outstanding	-	327
Denominator used for diluted per share computations	3,541	3,848
Dividends declared per share	$ 0.14	$ 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,	
	2023	**2022**
Net income	$ 990	$ 830
Other comprehensive income:		
Foreign currency translation adjustment	109	27
Comprehensive income	$ 1,099	$ 857

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, 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 income					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

For the three months ended March 31, 2023

	Outstanding Shares of Common Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balances, December 31, 2022	3,538,179	$ 12,699	$ (15,996)	$ 13,448	$ (2,088)	$ 70,967	$ 79,030
Net income						990	990
Other comprehensive income					109		109
Stock compensation expense				424			424
Distributions to shareholders						(497)	(497)
Issuance of common stock	5,000	12		49			61
Net share settlement of stock options	2,546	6		(7)			(1)
Balances March 31, 2023	3,545,725	$ 12,717	$ (15,996)	$ 13,914	$ (1,979)	$ 71,460	$ 80,116

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,	
	2023	**2022**
Cash flows from operating activities:		
Net income	$ 990	$ 830
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	720	652
Amortization of intangible assets	517	374
Non-cash lease adjustment	(12)	-
Stock compensation expense	424	400
Provision for bad debt	26	-
Amortization of deferred financing costs	9	6
Changes in operating assets and liabilities:		
Accounts receivable	(666)	(389)
Inventories	4,987	(7,139)
Prepaid expenses and other assets	(1,405)	(1,143)
Accounts payable	73	1,885
Other accrued liabilities	2,013	(955)
Total adjustments	6,686	(6,309)
Net cash provided by (used in) operating activities	7,676	(5,479)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(701)	(518)
Net cash used in investing activities	(701)	(518)
Cash flows from financing activities:		
Net borrowings of long-term debt	(9,787)	7,114
Cash settlement of stock options	-	(108)
Repayments on mortgage	(101)	(98)
Proceeds from issuance of common stock	61	-
Distributions to shareholders	(497)	(458)
Net cash (used in) provided by financing activities	(10,324)	6,450
Effect of exchange rate changes on cash, cash equivalents and restricted cash	13	11
Net change in cash, cash equivalents and restricted cash	(3,336)	464
Cash, cash equivalents and restricted cash at beginning of period	7,600	4,843
Cash, cash equivalents and restricted cash at end of period	$ 4,264	$ 5,307
Supplemental cash flow information:		
Cash paid for income taxes	$ 122	$ -
Cash paid for interest	$ 919	$ 286

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 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, 2022 for such disclosures. The condensed consolidated balance sheet as of December 31, 2022 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 2022 Annual Report on Form 10-K.

The Company has evaluated events and transactions subsequent to March 31, 2023 and through the date these condensed consolidated financial statements were issued.

Recently Adopted Accounting Standards

In June 2016, the FASB issued ASU *2016-13,* Financial Instruments-Credit Losses (“ASU *2016-13”*), which provides new authoritative guidance with respect to the measurement of credit losses on financial instruments. This update changes the impairment model for most financial assets and certain other instruments by introducing a current expected credit loss (“CECL”) model. The CECL model is a more forward-looking approach based on expected losses rather than incurred losses, requiring entities to estimate and record losses expected over the remaining contractual life of an asset. ASU *2016-13* is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years for smaller reporting companies. The Company adopted *ASU 2016-13* on January 1, 2023. The adoption did not have an impact on our condensed 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: (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, upon 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."

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, 2023

	United States	**Canada**	**Europe**	**Total**
Cutting, Sharpening and Measuring	$ 14,083	$ 1,405	$ 3,361	$ 18,849
First Aid and Medical	24,770	1,852	367	26,989
Total Net Sales	**$ 38,853**	**$ 3,257**	**$ 3,728**	**$ 45,838**

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**

4. Debt and Shareholders' Equity

Long-term debt consists of (i) borrowings under the Company's revolving loan agreement with HSBC Bank, N.A.("HSBC") 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 $65 million at an interest rate of Secured Overnight Financing Rate ("SOFR") plus 1.75%; interest is payable monthly. The credit facility has an expiration date of May 31, 2026. The Company must pay a facility fee, payable quarterly, in an amount equal to one eighth of one percent (.125%) per annum of the average daily unused portion of the revolving credit line. The facility is intended to provide liquidity for growth, share repurchases, dividends, acquisitions, and other business activities. Under the revolving loan agreement, the Company is required to maintain specific amounts of funded debt to EBITDA, a fixed charge coverage ratio and must have annual net income greater than $0, measured as of the end of each fiscal year. On November 8, 2022, the revolving loan agreement was amended to increase the ratio of funded debt to EBITDA. The amendment is in effect for four quarters commencing in the third quarter of 2022 and includes an increase in the funded debt to EBITDA ratio for those four quarters ranging from a low of 4.75 to 1 to a high of 5.75 to 1. The amendment also increases the interest rate from SOFR +1.75% up to a high of SOFR + 2.35% on a basis that varies on a quarterly basis with the funded debt to EBITDA ratio. As of March 31, 2023, the Company was in compliance with the covenants under the revolving loan agreement, as amended.

As of March 31, 2023 and December 31, 2022, the Company had outstanding borrowings of $40,135,000 and $49,916,000, 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 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, 2023 and December 31, 2022, long-term debt related to the mortgage consisted of the following (amounts in '000's):

	March 31, 2023	December 31, 2022
Mortgage payable - HSBC Bank N.A.	$ 11,133	$ 11,233
Less debt issuance costs	(131)	(134)
	11,002	11,099
Less current maturities	405	405
Long-term mortgage payable less current maturities	$ 10,597	$ 10,694

During the three months ended March 31, 2023, the Company issued a total of 5,000 shares of common stock and received aggregate proceeds of $61,350 upon exercise of employee stock options. Also, during the three months ended March 31, 2023, the Company issued 2,546 shares of common stock to optionees who had elected a net share 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 maker 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 maker reviews the financial results of both, on a consolidated basis, and as such, 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, New Hampshire 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 products 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, 2023 and 2022, respectively.

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 the three months ended March 31, 2023 and 2022:

Financial data by segment:
(in thousands)

	Three Months Ended March 31,	
Sales to external customers:	2023	2022
United States	$ 38,853	$ 35,741
Canada	3,257	3,615
Europe	3,728	3,977
Consolidated	$ 45,838	$ 43,333
Operating income:		
United States	$ 1,781	$ 811
Canada	217	386
Europe	190	174
Consolidated	$ 2,188	$ 1,371
Interest expense, net	902	305
Other income, net	(23)	(2)
Consolidated income before income taxes	$ 1,309	$ 1,068

Assets by segment:
(in thousands)

	March 31, 2023	December 31, 2022
United States	$ 136,010	$ 144,466
Canada	10,720	9,078
Europe	10,738	10,833
Consolidated	$ 157,468	$ 164,377

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 $424,000 for the three months ended March 31, 2023 compared to approximately $400,000 for the three months ended March 31, 2022.

As of March 31, 2023, there was a total of $3,214,002 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. The Company's contingent liability related to the acquisition of Safety Made is recorded at its fair value of approximately $1.4 million, of which $750,000 is recorded in other current liabilities and $630,000 is recorded in other non-current liabilities on the condensed consolidated balance sheet as of March 31, 2023. Changes in the fair value of the liability are recorded in earnings. There was an increase in the liability of $50,000 during the three month period ended March 31, 2023.

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.

Operating lease cost was $0.3 million for the three months ended March 31, 2023 and 2022, of which $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 statements of operations.

Information related to leases (in thousands):

Operating cash flow information:	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Operating lease cost	$ 334	$ 311
Operating lease - cash flow	$ 346	$ 322
Non-cash activity:		
ROU assets obtained in exchange for lease liabilities	$ 341	$ 211

	March 31, 2023	March 31, 2022
Weighted-average remaining lease term	3.0 years	3.0 years
Weighted-average discount rate	5%	5%

Future minimum lease payments under non-cancellable leases as of March 31, 2023:

2023 (remaining)	$ 1,005
2024	1,041
2025	813
2026	165
Total future minimum lease payments	$ 3,024
Less: imputed interest	(180)
Present value of lease liabilities - current	1,216
Present value of lease liabilities - non-current	$ 1,628

9. Other Accrued Liabilities

Other current and non-current accrued liabilities consisted of (in thousands):

	March 31, 2023	December 31, 2022
Customer rebates	$ 5,972	$ 5,534
Contingent liability - Safety Made	1,380	1,330
Accrued compensation	1,556	791
Dividend payable	496	495
Income tax payable	776	534
Other	2,288	2,016
Total:	$ 12,469	$ 10,700

10. Cash, Cash Equivalents and Restricted Cash

(in thousands):

	March 31, 2023	December 31, 2022
Cash and cash equivalents	$ 2,764	$ 6,100
Restricted Cash - current	750	750
Restricted Cash - non-current	750	750
Total cash, cash equivalents and restricted cash	$ 4,264	$ 7,600

Restricted cash, which is reported within other short-term and long term assets in the condensed consolidated balance sheets consists of the contingent payment held in escrow related to the acquisition of Safety Made.

11. Intangible Assets and Goodwill

The Company's intangible assets and goodwill consisted of (in thousands):

	March 31, 2023	December 31, 2022
Tradename	$ 10,008	$ 10,008
Customer list	18,502	18,502
Non-compete	1,248	1,248
Slice license agreement	380	380
Patents	2,272	2,272
Subtotal	32,409	32,409
Less: Accumulated amortization	12,136	11,619
Intangible assets	$ 20,273	$ 20,790
Goodwill	$ 8,189	$ 8,189
Total:	$ 28,462	$ 28,979

The useful lives of the identifiable intangible assets range from 5 years to 15 years.

12. Inventories

Inventories consisted of (in thousands):

	March 31, 2023	December 31, 2022
Finished goods	$ 41,187	$ 45,371
Work in process	334	408
Materials and supplies	16,967	17,546
	$ 58,488	$ 63,325

Inventories are stated at the lower of cost or net realizable value, determined by the first-in, first-out method.

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 and the heightened impact the pandemic has on many of the risks described herein, including, without limitation, risks relating to disruptions in our domestic and global supply chains, 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, natural disasters, or otherwise, including trucker shortages, port closures and delays, and delays with container ships themselves; (iv) labor 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 inflation, including product costs, and interest rates; (vi) potential adverse effects on the Company, its customers, and suppliers resulting from the war in Ukraine; (vii) currency fluctuations including, for example, the fluctuation of the dollar against the euro; (viii) the Company's ability to effectively manage its inventory in a rapidly changing business environment, including the additional inventory the Company acquired in anticipation of supply chain disruptions and uncertainties; (ix) changes in client needs and consumer spending habits; (x) the impact of competition; (xi) the impact of technological changes including, specifically, the growth of online marketing and sales activity; (xii) the Company's ability to manage its growth effectively, including its ability to successfully integrate any business it might acquire; (xiii) 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 (xiv) 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, 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, 2022.

Critical Accounting Estimates

There have been no material changes to the Company's critical accounting estimates as previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Results of Operations

Traditionally, the Company's sales of its cutting, sharpening, and measuring products 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, 2023 were $45,838,000 compared with $43,333,000 in the same period in 2022, a 6% increase.

Net Sales in the U.S. for the three months ended March 31, 2023 increased 9%, compared to the same period in 2022. The increase in net sales is primarily due to higher sales of first aid and medical products compared to the same period in 2022. Such increases were partially offset by inventory reductions by customers for certain back to school items.

Net sales in Canada for the three months ended March 31, 2023 decreased 10% (5% in local currency), compared to the same period last year. The decline in net sales in the three months ended March 31, 2023 was mainly due to retailer inventory reductions.

European net sales for the three months ended March 31, 2023 decreased 6% (2% in local currency) compared to the same period in 2022.

Gross profit

Gross profit for the three months ended March 31, 2023 was $16,281,000 (35.5% of net sales) compared to $14,968,000 (34.5% of net sales) in the same period in 2022. The increase was primarily due to (i) cost saving initiatives and (ii) productivity improvements implemented late in the third quarter of 2022 at our manufacturing and distribution facilities.

Selling, general and administrative expenses

Selling, general and administrative ("SG&A") expenses for the three months ended March 31, 2023 were $14,093,000 (30.7% of net sales) compared with $13,597,000 (31.4% of net sales) in the same period in 2022, an increase of $496,000.

Operating income

Operating income for the three months ended March 31, 2023 was $2,188,000 compared with $1,371,000 in the same period of 2022.

Operating income in the U.S. segment increased by $970,000 for the three months ended March 31, 2023, compared to the same period in 2022. The increase in operating income for the three months ended March 31, 2023 was primarily due to increased sales and cost savings initiatives which included lowering SG&A expenses as well as productivity improvements in our manufacturing and distribution facilities.

Operating income in the Canadian segment decreased by $169,000 for the three months ended March 31, 2023, compared to the same period in 2022.

Operating income in the European segment increased by $16,000 for the three months ended March 31, 2023, compared to the same period in 2022.

Interest expense, net

Interest expense, net for the three months ended March 31, 2023 was $902,000 compared with $305,000 in the same period of 2022, a $597,000 increase. The increase in interest expense resulted from a higher average interest rate on the outstanding debt under the Company’s revolving loan agreement.

Other income, net

Other income, net was $23,000 in the three months ended March 31, 2023 compared to $2,000 in the same period of 2022.

Income taxes

The effective income tax rate for the three months ended March 31, 2023 was 24% compared to 22% in the same period of 2022.

Financial Condition

Liquidity and Capital Resources

During the first three months of 2023, working capital decreased approximately $8.3 million. Inventory decreased approximately $4.8 million during this three-month period. The decline in inventory is due to planned reductions as the risk of supply chain disruptions has diminished. Inventory turnover, calculated using a twelve-month average inventory balance, was 2.1 at March 31, 2023 compared to 2.0 at December 31, 2022. Receivables remained constant at March 31, 2023 compared to December 31, 2022. The average number of days sales outstanding in accounts receivable was 61 days at March 31, 2023 compared to 62 days at December 31, 2022. Accounts payable and other current liabilities increased by approximately $1.8 million at March 31, 2023 compared to December 31, 2022.

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

	March 31, 2023	December 31, 2022
Working capital	$ 75,151	$ 83,473
Current ratio	4.13	4.77
Long term debt to equity ratio	63.3%	76.7%

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 $65 million, at an interest rate of SOFR plus 1.75%; interest is payable monthly. The loan agreement has an expiration date of May 31, 2026. The Company must pay a facility fee, payable quarterly, in an amount equal to one eight of one percent (.125%) per annum of the average daily unused portion of the revolving credit line. The facility is intended to provide liquidity for growth, share repurchases, dividends, acquisitions, and other business activities. Under the revolving loan agreement, the Company is required to maintain specific amounts of funded debt to EBITDA, a fixed charge coverage ratio and must have annual net income greater than $0, measured as of the end of each fiscal year.

On November 8, 2022, the revolving loan agreement was amended to increase the ratio of funded debt to EBITDA. The amendment is in effect for four quarters commencing in the third quarter of 2022 and includes an increase in the funded debt to EBITDA ratio for those four quarters ranging from a low of 4.75 to 1 to a high of 5.75 to 1. The amendment also increases the interest rate from SOFR +1.75% up to a high of SOFR + 2.35% on a basis that varies on a quarterly basis with the funded debt to EBITDA ratio. As of March 31, 2023, the Company was in compliance with the covenants under the revolving loan agreement, as amended.

During the first three months of 2023, total debt outstanding under the Company's revolving credit facility decreased by approximately $9.8 million, compared to total debt thereunder at December 31, 2022. As of March 31, 2023, $40,135,000 was outstanding and $24,865,000 was available for borrowing under the Company's credit facility.

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, 2023, there was approximately $11.1 million outstanding on the mortgage.

In response to the challenges encountered by the Company commencing with the COVID-19 pandemic, the Company has implemented a series of cost reduction initiatives that are expected to generate over $5.0 million in savings in 2023. These initiatives have included a reduction of SG&A expenses and other costs and the implementation of a wide range of productivity improvements in our manufacturing and distribution facilities.

The Company believes that cash generated from operating activities, together with funds available under its revolving loan agreement, 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, 2023. 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, 2023, 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, 2022.

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, 2023

By /s/ Paul G. Driscoll

Paul G. Driscoll
Vice President and
Chief Financial Officer

Dated: May 9, 2023

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, 2023

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, 2023

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, 2023 (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, 2023

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, 2023 (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, 2023

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.