Consolidated Financial Statements

# Mace Security International, Inc.

March 31, 2020 and 2019

# Contents

Mace Security International, Inc. and Subsidiaries

## CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share information)

| ASSETS | March 31, 2020 (Unaudited) | December 31, 2019 |
|---|---|---|
| Current assets: | | |
| Cash | **$ 383** | $ 307 |
| Accounts receivable, less allowance for doubtful accounts of $529 and $536 at March 31, 2020 and December 31, 2019, respectively | **1,819** | 1,544 |
| Inventories | **1,662** | 1,591 |
| Notes receivable, net of allowance, and other current assets | **346** | 446 |
| Total current assets | **4,210** | 3,888 |
| Property and equipment: | | |
| Buildings and leasehold improvements | **250** | 245 |
| Machinery and equipment | **2,005** | 2,003 |
| Furniture and fixtures | **110** | 110 |
| Total property and equipment | **2,365** | 2,358 |
| Accumulated depreciation and amortization | **(1,836)** | (1,796) |
| Total property and equipment, net | **529** | 562 |
| Operating lease - right-of-use asset, net of amortization | **702** | 752 |
| Finance lease - right-of-use asset, net of amortization | **10** | 11 |
| Goodwill | **1,031** | 1,031 |
| Intangible assets, net | **2,675** | 2,744 |
| Notes receivable, net of allowance, and other assets | **14** | 14 |
| Total other assets | **4,432** | 4,552 |
| Total assets | $ 9,171 | $ 9,002 |

The accompanying notes are an integral part of these consolidated financial statements.

Mace Security International, Inc. and Subsidiaries

## CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share information)

| **LIABILITIES AND STOCKHOLDERS' EQUITY** | **March 31, 2020 (Unaudited)** | **December 31, 2019** |
|---|---|---|
| Current liabilities: | | |
| Current portion of long-term debt | **$ 217** | $ 215 |
| Bank line of credit | **600** | 600 |
| Current operating lease obligation | **212** | 209 |
| Current finance lease obligation | **3** | 3 |
| Accounts payable | **573** | 364 |
| Income taxes payable | **55** | 56 |
| Accrued expenses and other current liabilities | **329** | 412 |
| Total current liabilities | **1,989** | 1,859 |
| Long-term debt, net of current portion | **229** | 284 |
| Non-current operating lease obligation | **510** | 565 |
| Non-current finance lease obligation | **7** | 8 |
| Total liabilities | 2,735 | 2,716 |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at March 31, 2020 and December 31, 2019 | **-** | - |
| Common stock, $.01 par value; authorized 100,000,000 shares, issued and outstanding shares of 63,403,834 and 63,319,834 at March 31, 2020 and December 31, 2019, respectively | **634** | 633 |
| Additional paid-in capital | **103,281** | 103,252 |
| Accumulated deficit | **(97,457)** | (97,577) |
| | **6,458** | 6,308 |
| Less treasury stock at cost, 90,548 shares at both March 31, 2020 and December 31, 2019 | **(22)** | (22) |
| Total stockholders' equity | **6,436** | 6,286 |
| Total liabilities and stockholders' equity | **$ 9,171** | $ 9,002 |

The accompanying notes are an integral part of these consolidated financial statements.

Mace Security International, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(Amounts in thousands)

| | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 |
|---|---|---|
| Net sales | **$ 2,791** | $ 2,712 |
| Cost of goods sold | **1,710** | 1,672 |
| Gross profit | **1,081** | 1,040 |
| Selling, general, and administrative expenses | **881** | 1,818 |
| Amortization of intangible assets | **69** | 67 |
| Operating income (loss) | **131** | (845) |
| Interest expense | **(11)** | (14) |
| Interest income | **-** | 4 |
| Loss on sale of short-term investments | **-** | (1) |
| Income (loss) before income tax provision | **120** | (856) |
| Income tax provision | **-** | - |
| Net income (loss) | **$ 120** | $ (856) |

The accompanying notes are an integral part of these consolidated financial statements.

Mace Security International, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in thousands, except share information)

| | Common Stock | | | | Additional Paid-in | | Accumulated | | Treasury | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | | Amount | | Capital | | Deficit | | Stock | | Total |
| **Balance at January 1, 2018** | 63,054,834 | $ | 631 | $ | 102,927 | $ | (95,877) | $ | (22) | $ | 7,659 |
| Stock-based compensation | - | | - | | 259 | | - | | - | | 259 |
| Issuance of common stock | 265,000 | | 2 | | 66 | | - | | - | | 68 |
| Net loss | - | | - | | - | | (1,700) | | - | | (1,700) |
| **Balance at December 31, 2019** | 63,319,834 | $ | 633 | $ | 103,252 | $ | (97,577) | $ | (22) | $ | 6,286 |
| **Balance at December 31, 2019** | **63,319,834** | **$** | **633** | **$** | **103,252** | **$** | **(97,577)** | **$** | **(22)** | **$** | **6,286** |
| Stock-based compensation | **84,000** | | **1** | | **30** | | **-** | | **-** | | **31** |
| Net income | **-** | | **-** | | **-** | | **120** | | **-** | | **120** |
| **Balance at March 31, 2020** | **63,403,834** | **$** | **634** | **$** | **103,282** | **$** | **(97,457)** | **$** | **(22)** | **$** | **6,437** |

The accompanying notes are an integral part of these consolidated financial statements.

Mace Security International, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in thousands)

| | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| **Cash Flows from Operating activities:** | | |
| Net income (loss) | **$ 120** | $ (856) |
| Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities: | | |
| Depreciation | **40** | 43 |
| Amortization, including right-of-use asset amortization | **120** | 121 |
| Stock-based compensation | **30** | 236 |
| Provision for losses on receivables | **6** | 24 |
| Provision for obsolete inventory | **17** | 7 |
| Working capital adjustment from business acquisition | **-** | 25 |
| Losss on sale of short-term investments | **-** | 1 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | **(280)** | (363) |
| Inventories | **(88)** | (116) |
| Prepaid expenses and other assets | **99** | 231 |
| Accounts payable | **209** | 7 |
| Accrued expenses and other liabilities | **(83)** | 159 |
| Operating lease obligation | **(52)** | (58) |
| Finance lease obligation | **(1)** | - |
| Income taxes payable | **(1)** | - |
| Net cash provided by (used) in operating activities – continuing operations | **136** | (539) |
| **Cash Flows from Investing Activities:** | | |
| Purchase of property and equipment | **(7)** | (31) |
| Acquisition of business | **-** | (115) |
| Proceeds from sale of short-term investments | **-** | 121 |
| Net cash used in investing activities-continuing operations | **(7)** | (25) |
| Net cash provided by investing activities-discontinued operations | **-** | 9 |
| Net cash used in investing activities | **(7)** | (16) |
| **Cash Flows from Financing Activities:** | | |
| Proceeds from line of credit | **-** | 575 |
| Repayment of debt | **(53)** | (49) |
| Net cash provided by (used in) financing activities – continuing operations | **(53)** | **526** |
| Net increase (decrease) in cash | **76** | (29) |
| Cash at beginning of period | **307** | 198 |
| Cash at end of period | **$ 383** | $ 169 |

The accompanying notes are an integral part of these consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2020 and 2019
(Amounts in thousands, except share and per share amounts)

## NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

The accompanying consolidated financial statements include accounts of Mace Security International, Inc. and its wholly owned subsidiaries (collectively, the "Company"). All significant intercompany transactions have been eliminated in consolidation. The Company's independent auditors have not performed an audit or review of these consolidated financial statements.

Mace Security International, Inc. operates in one business segment, the Security Segment, which sells personal safety and security products to retailers, distributors, and individual consumers. The Company also sells tactical spray products and systems to law enforcement, security professionals, correctional institutions and military markets.

These unaudited consolidated financial statements should be read in conjunction with the Company's December 31, 2019 Consolidated Financial Statements. The results of operations for any interim period are not necessarily indicative of the results to be expected for other interim periods or the full year.

## NOTE 2 – REVENUE

Virtually all the Company's net sales are products sold at a point in time through ship-and-bill performance obligations. Revenue is recognized at a point in time when obligations under the terms of a contract with the Company's customer are satisfied. Generally, this occurs with the transfer of control of the Company's products at the time of shipment of products. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring product. In some cases, the nature of the Company's contracts give rise to variable revenue as defined in Accounting Standards Codification ("ASC") topic 606, including rebates, credits, allowances for returns or other similar items that decrease the transaction price. These variable amounts generally are credited to the customer based on achieving certain levels of sales activity, product returns and making payments with specific terms. Variable revenue is estimated at the most likely amount that is expected to be earned. Such estimated amounts are recognized as revenue is recorded. Estimates of variable revenue and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the anticipated performance and all information (historical, current and forecasted) that is reasonable available.

Sales, value-added or other taxes collected by the Company concurrent with revenue producing activities are excluded from revenue. The Company allows customers to return product when the product is defective as manufactured. The Company accrues for estimated future warranty cost in the period in which the sale is recorded. The expected cost associated with the Company's warranties is recognized in cost of goods sold in the consolidated statements of operations. The Company calculates its warranty accrual based on historic warranty loss experience. Amounts billed to customers in sales transactions related to shipping and handling represent revenues earned for the product provided and are included in net sales. Costs of shipping and handling are included in cost of goods sold.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2020 and 2019
(Amounts in thousands, except share and per share amounts)

The following table disaggregates the Company's net sales revenue by type of customer.

| Net Sales by Type of Customer | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| Consumer | **$ 2,296** | $ 2,231 |
| Tactical | **111** | 168 |
| International | **334** | 289 |
| Other | **50** | 24 |
| Total | **$ 2,791** | $ 2,712 |

## NOTE 3 – ADOPTION OF NEW ACCOUNTING STANDARD

In January 2017 the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2017-04, "Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment". This standard eliminates Step 2 of the goodwill impairment test. Instead, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU is effective for annual and interim periods beginning after December 15, 2021. Early adoption is permitted. This ASU is to be adopted on a prospective basis. The Company adopted ASU No. 2017-04 effective January 1, 2020, and prospectively applied ASU No. 2017-04 as required with no impact on its consolidated financial position, results of operations, or cash flows.

## NOTE 4 – RECLASSIFICATIONS

Certain reclassifications have been made to the 2019 consolidated financial statements to conform to the 2020 consolidated financial statement presentation.

## NOTE 5 – IMPACT OF NEWLY ISSUED ACCOUNTING STANDARDS

There were no new accounting pronouncements in 2020 that had or are expected to have a material impact on the Company's Consolidated Financial Statements.

## NOTE 6 - SUPPLEMENTARY CASH FLOW INFORMATION

Interest paid on all indebtedness was $11 and $14 for the three months ended March 31, 2020 and 2019, respectively.

Income tax paid was $1 and $0 for the three months ended March 31, 2020 and 2019, respectively.

(Amounts in thousands, except share and per share amounts)

## NOTE 7 – BUSINESS ACQUISITION

In January 2019, the Company acquired the assets of Tornado Security Products, a personal self-defense business for $115 of cash, $65 of forgiven accounts receivable, and $1 of assumed liabilities. The purchase price for the business and related assets is subject to an earn-out calculation providing for additional consideration of up to $175 cash, with an acquisition date fair value of $130, which may be paid out through January 2022.

The purchase transaction was accounted for under the purchase method of accounting. The allocation of the purchase price, including amounts attributed to goodwill are as follows:

| | January 18, 2019 as Initially Reported | Measurement Period Adjustments | As Adjusted March 31, 2020 |
|---|---|---|---|
| Assets acquired: | | | |
| Inventory | $ 32 | $ 36 | **$ 68** |
| Property and equipment | - | 14 | **14** |
| Intangible assets | - | 75 | **75** |
| Goodwill | 278 | (124) | **154** |
| Total purchase price | $ 310 | $ 1 | **$ 311** |

The fair values of acquired assets and assumed liabilities were based on valuation calculations and additional information. Measurement period adjustments reflect new information obtained about facts and circumstances that existed as of the acquisition date. The Company believes that such information provided a reasonable basis for determining the fair values of the assets acquired and liabilities assumed. The measurement period for this acquisition closed during the first quarter of 2020.

The results of operation of the acquired business from the date of acquisition are included in the Company's 2019 consolidated statement of operations. Because Tornado Security Products had previously been a customer of the Company, the impact of the acquisition on the Company's net sales is nominal. However, the acquisition provides the Company with access to several key customer accounts and the opportunity to offer these accounts a wider array of products. Net income contributed by this acquisition is not separately identifiable due to the integration of the acquired business into the Company and is impracticable to provide. Because of the forgoing, quantification of unaudited pro forma information presenting a summary of the results of operations for the Company including the acquired business as if the acquisition had occurred on January 1, 2019 is impractical to provide.

(Amounts in thousands, except share and per share amounts)

## NOTE 8 – GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of:

| | Estimated Useful Life | Original Cost | Accumulated Amortization | Net Book Value |
|---|---|---|---|---|
| **March 31, 2020** | | | | |
| Goodwill | | **$ 1,031** | $ - | **$ 1,031** |
| Non-competition agreement | **4 years** | **20** | **(12)** | **8** |
| Trademarks | **15 years** | **630** | **(102)** | **528** |
| Customer Relationships | **9 years** | **1,936** | **(638)** | **1,298** |
| Licenses | **15 years** | **150** | **(30)** | **120** |
| Patents | **15 years** | **39** | **(3)** | **36** |
| Non-amortized trademark | | **685** | **-** | **685** |
| Total intangible assets | | **3,460** | **(785)** | **2,675** |
| Total goodwill and intangible assets | | **$ 4,491** | **$ (785)** | **$ 3,706** |

| | Estimated Useful Life | Original Cost | Accumulated Amortization | Net Book Value |
|---|---|---|---|---|
| **December 31, 2019** | | | | |
| Goodwill | | $ 1,031 | $ - | $ 1,031 |
| Non-competition agreement | 4 years | 20 | (11) | 9 |
| Trademarks | 15 years | 630 | (91) | 539 |
| Customer Relationships | 9 years | 1,936 | (584) | 1,352 |
| Licenses | 15 years | 150 | (28) | 122 |
| Patents | 15 years | 39 | (2) | 37 |
| Non-amortized trademark | | 685 | - | 685 |
| Total intangible assets | | 3,460 | (716) | 2,744 |
| Total goodwill and intangible assets | | $ 4,491 | $ (716) | $ 3,775 |

Amortization of intangible asset expense was $69 and $67 in the three months ended March 31, 2020 and 2019, respectively.

(Amounts in thousands, except share and per share amounts)

Amortization of intangible asset expense is expected to be as follows:

| | Amortization Expense |
|---|---|
| Fiscal year 2020 (remaining) | $ 206 |
| Fiscal year 2021 | 274 |
| Fiscal year 2022 | 270 |
| Fiscal year 2023 | 270 |
| Fiscal year 2024 | 269 |
| Thereafter | 701 |
| | $ 1,990 |

All of the goodwill is expected to be deductible for income tax purposes. The Company's goodwill and non-amortized trademarks are not amortized, but instead are subject to an annual impairment test. The most recent evaluation was performed as of December 31, 2019. As a result of this evaluation, it was determined that there was no impairment of the Company's intangible assets as of December 31, 2019.

## NOTE 9 – INVENTORIES

Inventories consist of the following:

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Raw materials | **$ 1,119** | $ 897 |
| Finished goods and work in process | **543** | 694 |
| Total inventories | **$ 1,662** | $ 1,591 |

(Amounts in thousands, except share and per share amounts)

## NOTE 10 – LONG-TERM DEBT

Long-term debt consists of the following:

| | | March 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Line of credit | $ | **600** | $ | 600 |
| $1,000 secured note payable to seller of acquired business | | **446** | | 499 |
| Total debt | | **1,046** | | 1,099 |
| Less: current portion of debt | | **(817)** | | (815) |
| Total long-term debt | $ | **229** | $ | 284 |

The Company has a $1,500 line of credit agreement with a bank (the "Credit Agreement"), that is secured by substantially all the Company's assets and payable on demand. The Credit Agreement provides for monthly interest payments at a rate equal to LIBOR plus 1.75%. The interest rate was 3.27% at March 31, 2020. The Company recognized interest expense associated with this line of credit of $5 and $6 in the three months ended March 31, 2020 and 2019, respectively.

$1,000 secured note payable to seller of acquired business consists of a 5% $1,000 note payable due March 22, 2022 entered into in conjunction with the March 2017 acquisition. The note is subordinated to the Credit Agreement and is collateralized by all Company's assets. The Company recognized interest expense associated with this note of $6 and $8 in the three months ended March 31, 2020 and 2019, respectively. The Company makes monthly principal and interest payments on the note payable and the ending liability represents the unpaid principal due.

Minimum payments on long-term debt over the next 5 years are as follows:

| | | |
|---|---|---|
| Fiscal year 2020 (remaining) | **$** | **162** |
| Fiscal year 2021 | | **226** |
| Fiscal year 2022 | | **58** |
| Total | **$** | **446** |

(Amounts in thousands, except share and per share amounts)

## NOTE 11 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Accrued employee compensation | $ **43** | $ 107 |
| Warranty and returns reserves | **62** | 60 |
| Accrued commissions | **26** | 20 |
| Amounts due customers | **24** | 50 |
| Accrued non-income based taxes | **14** | 18 |
| Contingent consideration related to business acquisition at fair value | **107** | 107 |
| Other | **53** | 50 |
| Total accrued expenses and other current liabilities | $ **329** | $ 412 |

## NOTE 12 – STOCK-BASED COMPENSATION

The Company's stock option plans are administered by the Compensation Committee (the "Committee") of the Board of Directors.

In 1999, the Company's stockholders approved the 1999 Stock Option Plan (the "1999 Plan") providing for the granting of incentive stock options or nonqualified stock options to directors, officers, or employees of the Company. Under the 1999 Plan, 7,500,000 shares of common stock are reserved for issuance. Incentive stock options and nonqualified options have terms which are determined by the Committee with exercise prices not less than the market value of the shares on the date of grant. The options generally expire five to ten years from the date of grant and are exercisable based upon graduated vesting schedules as determined by the Committee. The Plan is terminated and no further options may be awarded under the 1999 plan.

In 2012, the Company adopted, with shareholder approval, the 2012 Stock Option Plan (the "2012 Plan"). The 2012 Plan provides for the granting of incentive stock options or nonqualified stock options to directors, officers, employees or vendors of the Company. Under the 2012 Plan, 15,000,000 shares of common stock are reserved for issuance. Incentive stock options and nonqualified options have terms which are determined by the Committee, with exercise prices not less than the market value of the shares on the date of grant. The options are exercisable no later than five (5) years after date of grant and vest either immediately or based upon graduated vesting schedules as determined by the Committee.

As of March 31, 2020, 3,500,649 stock options were outstanding under the 1999 and 2012 Plans. Newly issued shares or, to the extent possible, shares of treasury stock are used to satisfy requirements resulting from the exercise of stock options.

(Amounts in thousands, except share and per share amounts)

Activity with respect to these plans is as follows:

| | Number | Weighted Average Exercise Price |
|---|---|---|
| Options outstanding at December 31, 2019 | 3,869,649 | $ 0.36 |
| Options granted | - | $ - |
| Options expired | (369,000) | $ 0.39 |
| Options outstanding at March 31, 2020 | 3,500,649 | $ 0.35 |
| Options exercisable | 2,354,649 | $ 0.38 |
| Shares available for granting of options | 9,192,685 | |

The Company recognizes compensation expense for all share-based awards on a straight-line basis over the vesting period of the instruments, based upon the grant date fair value of the stock options and stock-based awards issued. Total stock compensation expense was $30 and $236 for the three months ended March 31, 2020 and 2019, respectively. No tax benefit was recognized for this compensation expense. At March 31, 2020, total unrecognized stock-based compensation expense is $105, which has a weighted average period to be recognized of approximately 3.4 years. The Company has elected to recognize forfeitures as they occur.

The following table provides additional information regarding options outstanding as of March 31, 2020:

| | Options Exercisable | | Options Outstanding | | Options Vested or Expected to Vest | |
|---|---|---|---|---|---|---|
| Option Exercise Price Range | Number Outstanding | Weighted Average Exercise Price | Number Outstanding | Weighted Average Exercise Price | Number Outstanding | Weighted Average Exercise Price |
| $0.01 to $0.39 | 2,140,738 | $ 0.37 | 3,286,738 | $ 0.35 | 3,286,738 | $ 0.35 |
| $0.40 to $1.00 | 213,911 | $ 0.49 | 213,911 | $ 0.49 | 213,911 | $ 0.49 |
| | 2,354,649 | | 3,500,649 | | 3,500,649 | |

| | Options Exercisable | Options Outstanding | Options Vested or Expected to Vest |
|---|---|---|---|
| Weighted average years remaining term | 2.5 | 2.8 | 2.8 |
| Aggregate intrinsic value | $ - | $ - | $ - |

(Amounts in thousands, except share and per share amounts)

## NOTE 13 – LEASES

The Company determines whether an arrangement is a lease at inception and whether that lease meets the classification criteria of a finance or operating lease. Some of the Company's lease arrangements contain lease components (e.g. minimum rent payments) and non-lease components (real estate tax, maintenance, etc.). The Company leases its facilities and certain office equipment. All such leases are operating leases. For real estate leases, the Company accounts for lease components together with non-lease components.

As the Company's leases do not provide an implicit interest rate. The Company uses its incremental borrowing rate, which is based on the lease term and adjusted for impacts of collateral, in determining the present value of lease payments.

The Company's leases have remaining lease terms of 1.6 to 3.3 years, some of which include options to extend the lease for up to three additional 5-year terms. The exercise of lease renewal options is at the Company's discretion. Renewals to extend the lease term are not included in the Company's Right-of-use asset and Lease liabilities as they are not reasonably certain of exercise. The Company's leases do not contain any material residual value guarantees or material restrictive covenants. Lease expense is recognized on a straight-line basis over the term of the lease.

The following table presents information about the amount, timing and cash flows arising from the Company's operating leases.

| | Three Months Ended | |
|---|---|---|
| | March 31, 2020 | March 31, 2019 |
| **Components of lease cost:** | | |
| Operating lease cost | **$ 57** | $ 65 |
| Variable lease cost | **-** | - |
| Short-term lease cost | **3** | 5 |
| Finance lease cost: | | |
| Amortization of right-of-use asset | **1** | - |
| Interest | **-** | - |
| Total | **$ 61** | $ 70 |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2020 and 2019
(Amounts in thousands, except share and per share amounts)

| | Three Months Ended | |
|---|---|---|
| | **March 31, 2020** | **March 31, 2019** |
| **Operating cash flow information** | | |
| Cash paid for amounts included in the measurement of operating lease liabilities | **$ 37** | $ 50 |
| **Financing cash flow information:** | | |
| Cash paid for amounts included in the measurement of finance lease liabilities | **$ 1** | $ - |
| **Non-cash activity:** | | |
| **Right-of-use asset obtained in exchange for finance lease liability** | **$ -** | $ - |

| | **March 31, 2020** | **December 31, 2019** |
|---|---|---|
| **Operating lease information:** | | |
| Weighted-average remaining operating lease term | **39 months** | 42 months |
| Weighted-average operating lease discount rate | **4.26%** | 4.26% |
| Operating lease amortization of right-of-use asset | **$50** | $215 |
| **Finance lease information:** | | |
| Weighted-average remaining operating lease term | **38 months** | 41 months |
| Weighted-average operating lease discount rate | **4.31%** | 4.31% |

(Amounts in thousands, except share and per share amounts)

| | March 31, 2020 | |
|---|---|---|
| | Operating lease | Finance lease |
| **Maturity of lease liabilities:** | | |
| 2020 | $ 178 | $ 2 |
| 2021 | 239 | 4 |
| 2022 | 237 | 4 |
| 2023 | 120 | 1 |
| Thereafter | - | - |
| Total undiscounted lease payments | 774 | 11 |
| Less imputed interest | (52) | (1) |
| Present value of lease liabilities | $ 722 | $ 10 |

## NOTE 14 – LIQUIDITY AND MANAGEMENT'S PLANS

The Company believes that funds provided by operations, existing working capital, proceeds from the Small Business Administration's Paycheck Protection Program Loan, and its bank credit agreement, would be sufficient to meet working capital needs for the next 12 months. However, given the uncertainty associated with the COVID-19 pandemic, including potential further slowing of accounts receivable collections, decreases in orders and sales, and potential agreement modifications with customers, the afore described sources of working capital may not be sufficient to satisfy the Company's cash requirements over the next twelve months and the Company may require significant external financing. The magnitude and nature of additional financing and its timing is not known. The Company may be forced to obtain additional capital on terms that could limit its long-term ability to remain in business or otherwise materially restrict its operations.

Management is currently evaluating the impact of the COVID-19 pandemic on the industry and has concluded that while it is reasonably possible that the virus could have a negative effect on the Company's financial position, and/or results of its operations, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## NOTE 15 – SUBSEQUENT EVENTS

The Company evaluated its March 31, 2020 financial statements for subsequent events through April 30, 2020, the date the financial statements were available to be issued.

On April 21, 2002, the Company received a Paycheck Protection Program Loan through the U.S. Small Business Administration in the amount of $619. The loan may be fully or partially forgiven if the funds are used for eligible payroll costs, rent, and utilities. The loan is not collateralized. The amount of loan forgiveness is based on the Company maintaining employees and reaching certain salary levels. Loan forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease. This loan has a maturity of 2 years and an interest rate of 1%. The Company is still studying the impact of forgiveness of this loan on its consolidated financial position, results of operations, or cash flows.

Effective April 2, 2020, the Company entered into an employment agreement with Sanjay Singh, as the Company's Executive Chairman (the "Singh Employment Agreement"). The Singh Employment Agreement has an initial term ending December 31, 2024. The Singh Agreement provides for an annual salary commencing January 1, 2021, for the issuance of 25,000 shares of stock per month in 2020 and the awarding of 1,000,000 stock options. The Singh Agreement provides for the continuation of the Bonus Agreement between Mace Security International, Inc., George C. Gehrisch and Sanjay Singh (the "Bonus Agreement") and provides for eligibility of a bonus payment during the remaining term of the Singh Employment Agreement on the same terms and conditions applicable to his receipt of a bonus set forth in the Bonus Agreement. The Company is required to provide Mr. Singh certain other typical benefits starting January 1, 2021. If Mr. Singh's employment is terminated by the Company without cause during the term of the agreement, he will be entitled to severance as defined in the Singh Employment Agreement

The Company is not aware of any other subsequent events which would require recognition or disclosure in the consolidated financial statements.