

Mace Security International, Inc.

Quarterly Report

September 30, 2020

Mace Security International, Inc.
Quarterly Report
For the Three Months Ended September 30, 2020

Forward-Looking Statements

Certain statements and information included in this Quarterly Report constitute “forward-looking statements” within the meaning of the Federal Private Securities Litigation Reform Act of 1995. When used in this Annual Information and Disclosure Statement, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “projected,” “intend to” or similar expressions are intended to identify “forward-looking statements” within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to several known and unknown risks and uncertainties that may cause our actual results, trends, performance or achievements, or industry trends and results, to differ materially from the future results, trends, performance or achievements expressed or implied by such forward-looking statements. Those risks and uncertainties may include, but are not limited to, (a) general economic and business conditions, including the impact of the 2020 (COVID-19) pandemic and other possible pandemics and similar outbreaks; (b) competition; (c) potential changes in customer spending; (d) acceptance of our product offerings and designs; (e) the variability of consumer spending resulting from changes in domestic economic activity; (f) a highly promotional retail environment; (g) any significant variations between actual amounts and the amounts estimated for those matters identified as our critical accounting estimates, as well as other significant accounting estimates made in the preparation of our financial statements; and (h) the impact of current and potential hostilities in various parts of the world, as well as other geopolitical or public health concerns. You are urged to consider all such factors. Because of the uncertainty inherent in such forward-looking statements, you should not consider their inclusion to be a representation that such forward-looking matters will be achieved. Mace Security International, Inc. assumes no obligation for updating any such forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Item 1 The exact name of the issuer and the address of its principal executive offices

Mace Security International, Inc. (“Company”)
4400 Carnegie Avenue
Cleveland, OH 44103
Phone: (440) 424-5321
Fax: (216) 361-9555
Website: www.mace.com

Investor Relations: Gary Medved
Phone: (440) 424-5322
Email: gmedved@mace.com
Address: Same as above

Item 2 Shares outstanding

Common Stock

(i)	Period end date:	September 30, 2020	December 31, 2019
(ii)	Number of shares authorized	100,000,000	100,000,000
(iii)	Number of shares outstanding	64,102,559	63,319,834
(iv)	Freely tradable (public float)	42,266,231	42,747,855
(v)	Total number of shareholders of record	95	90

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The number of beneficial shareholders of Mace Security International, Inc. owning at least 100 shares exceeds 50.

Preferred Stock

(vi)	Period end date:	September 30, 2020	December 31, 2019
(vii)	Number of shares authorized	10,000,000	10,000,000
(viii)	Number of shares outstanding	-	-
(ix)	Freely tradable (public float)	-	-
(x)	Total number of shareholders of record	-	-

Item 3 Interim financial statements

The Company's unaudited interim consolidated financial statements for the nine months ended September 30, 2020 and 2019, including the unaudited interim Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Stockholders' Equity and Consolidated Statements of Cash Flows and Notes to the Consolidated Financial Statements, are filed separately and called Quarterly Report – Third Quarter 2020 and are hereby incorporated by reference into this Quarterly Report.

Item 4 Management's discussion and analysis or plan of operation

A. Plan of operation

This item is not applicable, as the Company has had net sales in each of the last two fiscal years.

**B. Management's discussion and analysis of financial condition and results of operations
(amounts in thousands, except share and per share amounts)**

Mace Security International, Inc. operates in one business segment, the Personal Safety and 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.

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Three months ended September 30, 2020 compared with three months ended September 30, 2019

Net Sales

Net sales comparative information for the three months ended September 30, 2020 and 2019, respectively, is as follows:

<u>Net Sales by Type of Customer</u>	<u>Three Months Ended September 30,</u>		<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
	<u>2020</u>	<u>2019</u>		
Consumer	\$ 4,323	\$ 1,970	\$ 2,353	119.4%
Tactical	160	139	21	15.1%
International	222	286	(64)	(22.4%)
Other	<u>52</u>	<u>52</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,757</u>	<u>\$ 2,447</u>	<u>\$ 2,310</u>	94.4%

Net sales in the three months ended September 30, 2020 increased by 94.4% to \$4,757, compared with \$2,447 in the three months ended September 30, 2019. Net sales to customers in the consumer market increased \$2,353 in the three months ended September 30, 2020, compared with the same period in 2019. This increase in net sales was due to primarily to an increase in sales to existing brick and mortar retailers and e-commerce channels, driven by increased volume of existing items and the introduction of product line extensions, as well as preferred product placement in certain channels.

Tactical net sales, which include tactical spray products, in the three months ended September 30, 2020 increased \$21, compared with the same period in 2019, primarily due to an increase in tactical private label net sales.

Sales to International customers decreased \$64 in the three months ended September 30, 2020, compared with the same period in 2019 due primarily to availability of product, which the company expects to rectify in the fourth quarter.

Sales to other types of customers in the three months ended September 30, 2020, compared with the same period in 2019, were comparable.

Cost of goods sold

Cost of goods increased in the three months ended September 30, 2020 to \$2,802, or 58.9% of net sales, compared with \$1,508 or 61.6% of net sales in the three months ended September 30, 2019. Cost of goods sold benefited in the three months ended September 30, 2020 from efficiencies gained from higher production due to higher net sales and disciplined spending.

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Gross Profit

Gross profit increased \$1,016, or 108.2%, to \$1,955 or 41.1% of net sales, during the three months ended September 30, 2020, compared with \$939, or 38.4% of net sales, during the three months ended September 30, 2019. Gross profit improved due to higher sales to existing and new e-commerce customers and line extensions with traditional retailers; and due to efficiencies gained from higher production due to higher sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$177 to \$1,183, or 24.9% of net sales, during the three months ended September 30, 2020, compared with \$1,006, or 41.1% of net sales in the three months ended September 30, 2019. The following table presents the significant expense items accounting for the increase in selling, general and administrative expenses in the three months ended September 30, 2020, compared with the same period in 2019.

<u>Selling, General and Administrative Expense Categories</u>	<u>Increase (Decrease)</u>
Salaries and related employee benefits expense increase primarily related to accrual of contractual and discretionary incentive	159
Variable commission expense increased due to higher net sales in 2020	77
Legal and professional expense decrease primarily attributable to non-recurring recruiting, acquisition and employee matter costs in 2019	(75)
Decrease in e-commerce fulfillment fees in 2020 attributable to lower Amazon seller central sales	(31)
Other factors, net	<u>47</u>
Total net increase from the three months ended September 30, 2019	<u><u>\$ 177</u></u>

Amortization of intangible assets

Amortization of intangible assets relates to the amortization of intangible assets associated with the Company's acquisitions.

Interest expense

Interest expense was \$9 and \$14 in the three months ended September 30, 2020 and 2019, respectively, primarily related to decrease of the Company's debt, as well as decrease in LIBOR based interest rate in 2020.

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Net income (loss)

Net income (loss) improved by \$843 to net income of \$682 in the three months ended September 30, 2020, compared with a net loss of \$161 in the three months ended September 30, 2019, due primarily to the factors noted above.

Nine months ended September 30, 2020 compared with nine months ended September 30, 2019

Net Sales

Net sales comparative information for the nine months ended September 30, 2020 and 2019, respectively, is as follows:

<u>Net Sales by Type of Customer</u>	<u>Nine Months Ended September 30,</u>		<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
	<u>2020</u>	<u>2019</u>		
Consumer	\$ 9,564	\$ 6,620	\$ 2,944	44.5%
Tactical	522	472	50	10.6%
International	746	889	(143)	(16.1%)
Other	148	145	3	2.1%
Total	<u>\$ 10,980</u>	<u>\$ 8,126</u>	<u>\$ 2,854</u>	<u>35.1%</u>

Net sales in the nine months ended September 30, 2020 increased by 35.1% to \$10,980, compared with \$8,126 in the nine months ended September 30, 2019. Net sales to customers in the consumer market increased \$2,944 in the nine months ended September 30, 2020, compared with the same period in 2019. This increase in net sales was due to primarily to an increase in sales to existing brick and mortar retailers and e-commerce channels, driven by increased volume of existing items and the introduction of product line extensions, as well as preferred product placement in certain channels.

Tactical net sales, which include tactical spray products, in the nine months ended September 30, 2020 increased \$50, compared with the same period in 2019, primarily due to an increase in tactical private label net sales.

Sales to International customers decreased \$143 in the nine months ended September 30, 2020, compared with the same period in 2019 due to availability of product, which the company expects to rectify in the third quarter, as well as the impact of Covid-19 which caused some international customers to shut down for a period of time.

Sales to other types of customers in the nine months ended September 30, 2020, compared with the same period in 2019, were comparable.

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Cost of goods sold

Cost of goods in the nine months ended September 30, 2019 was impacted by a \$124 provision for excess and obsolete inventory related to the Company's decision in 2019 to discontinue offering a line of less lethal munitions for sale to its law enforcement, corrections and military customers. In addition, cost of goods sold in the nine months ended September 30, 2019 was impacted by \$75 of distribution and warehouse costs associated with the exited less lethal munitions products. Without these 2019 expenses, cost of goods sold increased in the nine months ended September 30, 2020 to \$6,544, or 59.7% of net sales, compared with \$5,021 or 61.8% of net sales in the nine months ended September 30, 2019. Cost of goods sold benefited in the nine months ended September 30, 2020 from efficiencies gained from higher production due to higher net sales.

Gross Profit

Without the above discussed 2019 costs associated with the exited less lethal munitions products, gross profit increased \$1,331, or 42.9%, to \$4,436, or 40.4% of net sales, during the nine months ended September 30, 2020, compared with \$3,105, or 38.2% of net sales, during the nine months ended September 30, 2019. Gross profit improved due to higher sales to existing and new e-commerce customers and line extensions with traditional retailers; and due to efficiencies gained from higher production due to higher sales and disciplined spending.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by \$1,339 to \$2,904, or 26.4% of net sales, during the nine months ended September 30, 2020, compared with \$4,243, or 52.2% of net sales in the nine months ended September 30, 2019. The following table presents the significant expense items causing the decrease in selling, general and administrative expenses in the nine months ended September 30, 2020, compared with the same period in 2019.

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<u>Selling, General and Administrative Expense Categories</u>	<u>Increase (Decrease)</u>
Salaries and related employee benefits expense primarily attributable to severance obligations in 2019 not recurring in 2020; change in stock compensation due primarily to non-recurring vesting of stock options and stock awards in 2019 due to occurrence of Change of Control as defined in the 2012 Stock Option Plan in the first quarter of 2019; accrual of contractual and discretionary incentive and impact of personnel changes which occurred subsequently to September 30, 2019	\$ (446)
Legal and professional expense decrease primarily attributable to non-recurring recruiting, acquisition and employee matter costs in 2019	(324)
Advertising expense decrease primarily attributable to decreased outside agency branding/marketing related advertising expenditures	(242)
Variable commission expense increased due to higher net sales in 2020	139
Provision for loss on receivables in 2019	(374)
Decrease in e-commerce fulfillment fees in 2020 attributable to lower Amazon seller central sales	(91)
Other factors, net	<u>(1)</u>
Total net decrease from the nine months ended September 30, 2019	<u>\$ (1,339)</u>

Interest income and expense

Interest income was \$0 in the nine months ended September 30, 2020, compared with \$4 in the nine months ended September 30, 2019, due primarily to the factors which led the Company to impair its two notes receivable in the fourth quarter of 2018 and also to the liquidation of the Company's short-term investments in the second quarter of 2019. Interest expense was \$31 and \$46 in the nine months ended September 30, 2020 and, 2019, respectively, primarily related to decrease of the Company's debt, as well as decrease in LIBOR based interest rate in 2020.

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Amortization of intangible assets

Amortization of intangible assets relates to the amortization of intangible assets associated with the Company's 2017 acquisitions.

Net income (loss)

Net income (loss) increased by \$2,878 to net income of \$1,255 in the nine months ended September 30, 2020, compared with a net loss of \$1,623 in the nine months ended September 30, 2019, due primarily to the factors noted above.

Liquidity and Capital Resources

Cash and cash equivalents increased by \$242 to \$549 at September 30, 2020, compared with \$307 at December 31, 2019. The Company's operating activities of continuing operations provided \$412 of cash in the nine months ended September 30, 2020, compared with using \$44 in the nine months ended September 30, 2019. In the nine months ended September 30, 2020, depreciation and amortization, stock-based compensation and other non-cash charges totaled \$755. Changes in operating assets and liabilities used \$1,878 of cash due primarily to factors resulting from normal business conditions of the Company, including (1) higher accounts receivable and inventory due to higher net sales, and (2) higher net accounts payable and accrued liabilities due to timing of payments and higher inventory purchases.

The Company's capital expenditures in the nine months ended September 30, 2020 were \$32, compared with \$65 in the nine months ended September 30, 2019. At this time, the Company anticipates total fiscal 2020 capital expenditures will be approximately \$50 and will relate principally to production equipment and fixtures, capital expenditures relating to new product and IT equipment. The Company anticipates funding future capital expenditures from operating cash flow. There were no commitments for capital expenditures at September 30, 2020.

The Company has not declared or paid any cash dividends within the last two (2) fiscal years and does not anticipate paying any such dividends in the next twelve months. The Company currently intends to retain all earnings for the operation and expansion of its business.

In response to a Notice of Demand for Payment in Full, on September 21, 2020 ("the Notice"), the Company repaid its \$600 outstanding balance under its \$1,500 line of credit agreement with a bank (the "Credit Agreement") on September 30, 2020. Because the Credit Agreement was payable on demand, the bank was able to call the Credit Agreement for any reason or no reason. The bank's Notice did not indicate or assert the occurrence of any event of default by the Company under terms of the Credit Agreement. The Company was current with all reporting and principal and interest payment requirements under the Credit Agreement. In the Notice, the bank notified the Company of the bank's election to demand payment of the Credit Agreement in accordance with its terms, to declare that all amounts due in respect of the Credit Agreement shall be due and payable on September 30, 2020, and to cease any further advances under the Credit Agreement. The line of credit was secured by substantially all the Company's assets. The Credit Agreement provided for monthly interest payments at a rate equal to LIBOR plus 1.75%.

In connection with its March 2017 acquisition, the Company entered into a 5% \$1,000 secured note payable to the seller of acquired business due March 22, 2022. The note is collateralized by all the Company's assets and is subordinated to the bank line of credit. \$339 was outstanding on this note payable at September 30, 2020.

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On April 21, 2020, the Company was granted a loan (the “PPP Loan”) from a bank in the amount of \$619 pursuant to the Paycheck Protection Program (the “PPP”) under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The PPP Loan bears interest at a rate of 1% per annum. Interest payments are deferred for six months and are added to principal resulting in a loan balance of \$622 at September 30, 2020. Interest and principal payments commence November 1, 2020. The Company may prepay the loan at any time prior to maturity with no prepayment penalties. The Company may only use funds from the PPP Loan for purposes specified in the CARES Act and related PPP rules, which include payroll costs, including group health care benefits, rent and utilities.

The Company intends to use the entire PPP Loan amount for qualifying expenditures. Under the terms of the PPP, certain amounts of the PPP Loan may be forgiven if they are used for qualifying expenditures, as described in the CARES Act, during the 24-week period commencing on the date of receipt of the PPP Loan proceeds.

The Company believes that funds provided by operations and existing working capital, proceeds from the Small Business Administration’s Paycheck Protection Program Loan, alone may not be sufficient to support the Company’s working capital needs during the next twelve months. The Company is working with several banks to secure a replacement credit facility to fund its working capital needs and is evaluating several term sheets. Should the Company be unable to secure a replacement credit facility in the next six to twelve months, this could have a material adverse effect on the Company’s ability to acquire inventory in support of continuing sales increases.

The Company continues to monitor the impact of the COVID-19 pandemic on its results of operations. The extent to which the Company’s operations may be impacted by the pandemic depends on future developments, which are highly uncertain and cannot be accurately predicted, including new information which may emerge concerning the severity, or reemergence, of the pandemic and actions by government authorities to contain the pandemic or treat its impact. 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, nature, availability and cost of future additional financing and its timing are not known.

C. Off-balance sheet arrangements

In the ordinary course of business, the Company may be a party to certain arrangements that are not reflected in the Consolidated Balance Sheets. At September 30, 2020, the Company does not have any obligations that meet the definition of an off-balance sheet arrangement that have had, or are reasonably likely to have, a material effect on the Company’s financial condition or results of operations.

Item 5 Legal proceedings

None

Item 6 Defaults upon senior securities

None

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Item 7 Other information

Amended and Restated Certificate of Incorporation of Mace Security International, Inc. was previously filed with the Securities and Exchange Commission as Exhibit 3.7 to the Company's Registration Statement on Form S-3 on June 16, 2004 and is incorporated herein by reference.

Amended and Restated Bylaws of Mace Security International, Inc. were previously filed with the Securities and Exchange Commission as Exhibit 3.1 to the Company's Annual Report on Form 8-K filed on April 21, 2010 and is incorporated herein by reference.

Item 8 Exhibits

- 18.1 Mace Security International, Inc. 1999 Stock Option Plan (incorporated herein by reference to Exhibit 10.98 to the June 30, 1999 Form 10-QSB dated August 13, 1999)
- 18.2 Mace Security International, Inc. 2012 Stock Incentive Plan (incorporated herein by reference to Form DEF 14A filed on May 18, 2012)
- 18.3 Asset Purchase Agreement between Mace Security International, Inc. and SecureCheck LLC dated September 28, 2016 (incorporated herein by reference to OTCQX Annual Information and Disclosure Statement December 31, 2016)
- 18.4 Asset Purchase Agreement between Washington Laboratories, LLC, Larry W. Harris and Mace Security International, Inc. dated March 22, 2017 (incorporated herein by reference to OTCQX Annual Information and Disclosure Statement December 31, 2017)
- 18.5 Asset Purchase Agreement between Mace Security International, Inc., Robinhood Digital LLC and David A. Happe dated October 19, 2017 (incorporated herein by reference to OTCQX Annual Information and Disclosure Statement December 31, 2017)
- 18.6 Bonus Agreement between Mace Security International, Inc., George C. Gehrisch and Sanjay Singh dated March 9, 2018 (incorporated herein by reference to OTCQX Annual Information and Disclosure Statement December 31, 2017)
- 18.7 Shareholder Agreement dated March 9, 2018 (incorporated herein by reference to OTCQX Annual Information and Disclosure Statement December 31, 2017)
- 18.8 Employment Agreement dated January 20, 2019 by and between Mace Security International, Inc. and Gary Medved (incorporated herein by reference to OTCQX Annual Information and Disclosure Statement dated December 31, 2018)
- 18.9 Asset Purchase Agreement between Mace Security International, Inc., Bigfoot Holdings Ltd. and Persons constituting the beneficial holders of a majority of the issued and outstanding shares of voting capital stock of Bigfoot Holdings Ltd dated January 18, 2019 (incorporated herein by reference to OTCQX Quarterly Report dated March 31, 2019)
- 18.10 Employment Agreement dated April 2, 2020 by and between Mace Security International, Inc. and Sanjay Singh (incorporated herein by reference to OTCQX Quarterly Report dated March 31, 2020)
- 18.11 Amendment to Employment Agreement dated July 30, 2020 by and between Mace Security International, Inc. and Sanjay Singh (incorporated herein by reference to OTCQX Quarterly Report dated June 30, 2020)

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Item 9 Issuer's Certifications

I, Gary Medved, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report of Mace Securities International, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make this statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for the periods presented in this disclosure statement.

Date: October 28, 2020

/s/ Gary Medved
President and Chief Executive Officer