Consolidated Financial Statements

Mace Security International, Inc.

September 30, 2020 and 2019

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Mace Security International, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

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

ASSETS	September 30, 2020 (Unaudited)	December 31, 2019
Current assets:		
Cash	**$ 549**	$ 307
Accounts receivable, less allowance for doubtful accounts of $538 $536 at September 30, 2020 and December 31, 2019,	**3,142**	1,544
Inventories	**2,663**	1,591
Note receivable, net of allowance, and other current assets	**573**	446
Total current assets	**6,927**	3,888
Property and equipment:		
Buildings and leasehold improvements	**255**	245
Machinery and equipment	**2,025**	2,003
Furniture and fixtures	**110**	110
Total property and equipment	**2,390**	2,358
Accumulated depreciation and amortization	**(1,910)**	(1,796)
Total property and equipment, net	**480**	562
Operating lease - right-of-use asset, net of amortization	**596**	752
Finance lease - right-of-use asset, net of amortization	**29**	11
Goodwill	**1,031**	1,031
Intangible assets, net	**2,482**	2,744
Note receivable, net of allowance, and other non-current assets	**14**	14
Total other assets	**4,152**	4,552
Total assets	**$ 11,559**	$ 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	September 30, 2020 (Unaudited)	December 31, 2019
Current liabilities:		
Current portion of long-term debt	$ 223	$ 215
Payroll Protection Program Loan - current portion	379	-
Bank line of credit	-	600
Current operating lease obligation	272	209
Current finance lease obligation	6	3
Accounts payable	1,468	364
Income taxes payable	54	56
Accrued expenses and other current liabilities	636	412
Total current liabilities	3,038	1,859
Long-term debt, net of current portion	116	284
Payroll Protection Program Loan, net of current portion	243	-
Non-current operating lease obligations	400	565
Non-current finance lease obligations	23	8
Total liabilities	3,820	2,716
Stockholders' equity:		
Preferred stock, $.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at September 30, 2020 and December 31, 2019	-	-
Common stock, $.01 par value; authorized 100,000,000 shares, issued and outstanding shares of 64,102,559 and 63,319,834, at September 30, 2020 and December 31, 2019, respectively	641	633
Additional paid-in capital	103,442	103,252
Accumulated deficit	(96,322)	(97,577)
	7,761	6,308
Less treasury stock at cost, 90,548 shares at both September 30, 2020 and December 31, 2019	(22)	(22)
Total stockholders' equity	7,739	6,286
Total liabilities and stockholders' equity	$ 11,559	$ 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)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net sales	**$ 10,980**	$ 8,126
Cost of goods sold	**6,544**	5,220
Gross profit	**4,436**	2,906
Selling, general, and administrative expenses	**2,904**	4,243
Amortization of intangible assets	**261**	205
Loss on disposal of property and equipment	**-**	37
Operating income (loss)	**1,271**	**(1,579)**
Interest expense	**(31)**	(46)
Interest income	**-**	4
Loss on short-term investments	**-**	(1)
Other income (expense), net	**15**	(1)
Income (loss) before income tax provision	**1,255**	(1,623)
Income tax provision	**-**	-
Net income (loss)	$ 1,255	$ (1,623)

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 September 30, 2020	Three Months Ended September 30, 2019
Net sales	**$ 4,757**	$ 2,447
Cost of goods sold	**2,802**	1,508
Gross profit	**1,955**	939
Selling, general, and administrative expenses	**1,183**	1,006
Amortization of intangible assets	**96**	71
Loss on disposal of property and equipment	**-**	8
Operating income (loss)	**676**	**(146)**
Interest expense	**(9)**	(14)
Other expense, net	**15**	(1)
Income (loss) before income tax provision	**682**	(161)
Income tax provision	**-**	-
Net income (loss)	**$ 682**	$ (161)

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

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(Amounts in thousands, except share information)

	Common Stock		Additional Paid-in	Accumulated	Treasury	
	Shares	Amount	Capital	Deficit	Stock	Total
Balance at January 1, 2019	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	**457,559**	**5**	**137**	**-**	**-**	**142**
Issuance of common stock	**325,166**	**3**	**53**	**-**	**-**	**56**
Net income	**-**	**-**	**-**	**1,255**	**-**	**1,255**
Balance at September 30, 2020	**64,102,559**	**$ 641**	**$ 103,442**	**$ (96,322)**	**$ (22)**	**$ 7,739**

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)

	Nine Months Ended September 30, 2020	2019
Cash Flows from Operating Activities:		
Net income (loss)	**$ 1,255**	$ (1,623)
Adjustments to reconcile net income (loss) from operating activities to net cash provided by (used in) operating activities:		
Depreciation and amortization, including right-of-use asset amortization	**526**	492
Stock-based compensation	**142**	251
Provision for losses on receivables	**25**	399
Provision for obsolete inventory	**62**	223
Loss on disposal of property and equipment	**-**	37
Loss on short-term investments	**-**	1
Changes in operating assets and liabilities:		
Accounts receivable	**(1,624)**	191
Inventories	**(1,134)**	208
Prepaid expenses and other assets	**(127)**	111
Accounts payable	**1,104**	(177)
Accrued expenses and other current liabilities	**280**	10
Operating lease obligation	**(92)**	(164)
Finance lease obligation	**(3)**	(1)
Income taxes payable	**(2)**	(2)
Net cash provided by (used in) operating activities – continuing operations	**412**	(44)
Cash Flows from Investing Activities:		
Purchase of property and equipment	**(32)**	(65)
Acquisition of business	**-**	(115)
Proceeds from disposal of property and equipment	**-**	3
Proceeds from sale of short-term investments	**-**	252
Net cash provided by (used in) investing activities-continuing operations	**(32)**	75
Net cash provided by investing activities-discontinued operations	**-**	9
Net cash provided by (used in) investing activities	**(32)**	84
Cash Flows from Financing Activities:		
Proceeds from line of credit	**-**	775
Repayment of line of credit	**(600)**	(500)
Increase in debt	**-**	25
Payroll Protection Program Loan proceeds	**622**	-
Repayment of debt	**(160)**	(152)
Net cash provided by (used in)financing activities – continuing operations	**(138)**	148
Net increase in cash and cash equivalents	**242**	188
Cash and cash equivalents at beginning of period	**307**	198
Cash and cash equivalents at end of period	**$ 549**	$ 386

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 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 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.

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.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Net Sales by Type of Customer	2020	2019	2020	2019
Consumer	$ 4,323	$ 1,970	$ 9,564	$ 6,620
Tactical	160	139	522	472
International	222	286	746	889
Other	52	52	148	145
Total	$ 4,757	$ 2,447	$10,980	$ 8,126

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 approximately $31 and $46 for the nine months ended September 30, 2020 and 2019, respectively.

Income taxes paid was $2 and $2 for the nine months ended September 30, 2020 and 2019, respectively.

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

NOTE 7 – BUSINESS ACQUISITIONS

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. In the second quarter of 2020, the Company renegotiated the earn-out with the Sellers of the business and paid it in full it with a payment of $23 and issuance of 325,166 shares of common shares. This renegotiation resulted in the recognition of a gain of $27 in the second quarter of 2020.

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
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 OTHER INTANGIBLE ASSETS

Goodwill and intangible assets consist of:

	Estimated Useful Life	Original Cost	Accumulated Amortization	Net Book Value
September 30, 2020				
Goodwill		**$ 1,031**	$ -	**$ 1,031**
Non-competition agreement	**4 years**	**20**	**(15)**	**5**
Trademarks	**15 years**	**630**	**(123)**	**507**
Customer Relationships	**9 years**	**1,936**	**(746)**	**1 ,190**
License	**3 years**	**150**	**(90)**	**60**
Patents	**15 years**	**39**	**(4)**	**35**
Non-amortized trademark		**685**	**-**	**685**
Total intangible assets		**3,460**	**(978)**	**2,482**
Total goodwill and intangible assets		**$ 4,491**	**$ (978)**	**$ 3,513**

	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
License	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

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

Amortization of intangible asset expense was $96 and $71 in the three months ended September 30, 2020 and 2019, respectively, and $261 and $205 in the nine months ended September 30, 2020 and 2019, respectively. Amortization of intangible asset expense is expected to be as follows:

	Amortization Expense
Fiscal year 2020 (remaining)	$ 96
Fiscal year 2021	294
Fiscal year 2022	260
Fiscal year 2023	260
Fiscal year 2024	259
Thereafter	628
	$ 1,797

During the second quarter of 2020, the Company reassessed the estimated useful life of its License Intangible Asset based on the Company's plan to discontinue use of the license at the end of the first quarter of 2021. This change in estimate resulted in an increase in quarterly amortization to $10 from $2.5.

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:

	September 30, 2020	**December 31, 2019**
Raw materials	**$ 1,980**	$ 897
Finished goods	**683**	694
Total inventories	**$ 2,663**	**$** 1,591

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

NOTE 10 – LONG-TERM DEBT

Long-term debt consists of the following:

	September 30, 2020	December 31, 2019
Line of credit	$ **-**	$ 600
Payroll Protection Program Loan	**622**	-
$1,000 secured note payable to seller of acquired business	**339**	499
Total debt	**961**	1,099
Less: current portion of debt	**(602)**	(815)
Total long-term debt	$ **359**	$ 284

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%. The Company recognized interest expense associated with this line of credit of $3 and $7 in the three months ended September 30, 2020 and 2019, respectively, and $11 and $22 in the nine months ended September 30, 2020 and 2019, respectively. The Company is working with several banks to secure a replacement credit facility to fund its working capital needs.

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 recognized interest expense associated with the PPP Loan of $2 and $0 in the three months ended September 30, 2020 and 2019, respectively, and $3 and $0 in the nine months ended September 30, 2020 and 2019, respectively. 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.

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

$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 $5 and $7 in the three months ended September 30, 2020 and 2019, respectively, and $16 and $24 in the nine months ended September 30, 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)	**$**	**124**
Fiscal year 2021		**640**
Fiscal year 2022		**197**
Total	**$**	**961**

NOTE 11– ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

		September 30, 2020		**December 31, 2019**
Accrued employee compensation	$	**302**	$	107
Warranty and returns reserves		**79**		60
Accrued commissions		**44**		20
Amounts due customers		**130**		50
Accrued non-income-based taxes		**21**		18
Contingent consideration related to business acquisition at fair value		**-**		107
Other		**60**		50
Total accrued expenses and other current liabilities	$	**636**	$	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.

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

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 September 30, 2020, 5,031,581 and nil stock options were outstanding under the 2012 and 1999 Plans, respectively. Newly issued shares or, to the extent possible, shares of treasury stock are used to satisfy requirements resulting from the exercise of stock options.

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	1,625,000	$ 0.23
Options expired	(463,068)	$ 0.43
Options outstanding at September 30, 2020	5,031,581	$ 0.31
Options exercisable	2,363,581	$ 0.36
Shares available for granting of options	7,628,419	

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 $65 and $9 in the three months ended September 30, 2020 and 2019, respectively, and $142 and $251 in the nine months ended September 30, 2020 and 2019, respectively. No tax benefit was recognized for this compensation expense. At September 30, 2020, total unrecognized stock-based compensation expense is $243, which has a weighted average period to be recognized of approximately 3.5 years. The Company has elected to recognize forfeitures as they occur.

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

The following table provides additional information regarding options outstanding as of September 30, 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 $0.39	**2,208,004**	**$ 0.36**	**4,876,004**	**$ 0.31**	**4,876,004**	**$ 0.31**
$0.40 to $1.00	**155,577**	**$ 0.41**	**155,577**	**$ 0.41**	**155,577**	**$ 0.41**
	2,363,581		**5,031,581**		**5,031,581**	

	Options Exercisable	Options Outstanding	Options Vested or Expected to Vest
Weighted average years remaining term	**2.6**	**3.6**	**3.6**
Aggregate intrinsic value	**$ 202**	**$ 690**	**$ 690**

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 building and certain office equipment. 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 2.7 to 4.7 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.

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

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Components of lease cost:		
Operating lease cost	**$ 60**	$ 63
Variable lease cost	**2**	-
Short-term lease cost	**1**	3
Finance lease cost:		
Amortization of right-of-use asset	**2**	-
Interest	**-**	-
Total	**$ 65**	$ 66

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Components of lease cost:		
Operating lease cost	**$ 183**	$ 203
Variable lease cost	**2**	33
Short-term lease cost	**6**	11
Finance lease cost:		
Amortization of right-of-use asset	**4**	1
Interest	**-**	-
Total	**$ 195**	$ 248

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

	Three Months Ended	
	September 30, 2020	September 30, 2019
Operating cash flow information		
Cash paid for amounts included in the measurement of operating lease liabilities	**$ 1**	$ 61
Financing cash flow information:		
Cash paid for amounts included in the measurement of finance lease liabilities	**$ 2**	$ 1
Non-cash activity:		
Right-of-use asset obtained in exchange for finance lease liability	**$ -**	$ -

	Nine Months Ended	
	September 30, 2020	September 30, 2019
Operating cash flow information		
Cash paid for amounts included in the measurement of operating lease liabilities	**$ 104**	$ 208
Financing cash flow information:		
Cash paid for amounts included in the measurement of finance lease liabilities	**$ 3**	$ 1
Non-cash activity:		
Right-of-use asset obtained in exchange for finance lease liability	**$ 21**	$ -

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

	September 30, 2020	December 31, 2019
Operating lease information:		
Weighted-average remaining operating lease term	**33 months**	42 months
Weighted-average operating lease discount rate	**4.26%**	4.26%
Operating lease amortization of right-of-use asset	**$ 147**	$ 215
Finance lease information:		
Weighted-average remaining finance lease term	**47 months**	41 months
Weighted-average finance lease discount rate	**3.72%**	4.31%
Finance lease amortization of right-of-use asset	**$ 4**	$ 2

	September 30, 2020	
	Operating lease	Finance lease
Maturity of lease liabilities:		
2020 (remaining)	$ 117	$ 2
2021	236	8
2022	237	8
2023	120	6
Thereafter	-	7
Total undiscounted lease payments	710	31
Less imputed interest	(38)	(2)
Present value of lease liabilities	$ 672	$ 29

NOTE 14 – LIQUIDITY AND MANAGEMENT'S PLANS

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 and nature, availability and cost of future additional financing and its timing are not known.

The Company has concluded that while it is reasonably possible that the COVID-19 pandemic could in the future 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 September 30, 2020 financial statements for subsequent events through October 28, 2020, the date the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.