

Mace Security International, Inc.

Quarterly Report

March 31, 2021

Forward-Looking Statements

Certain statements and information included in this Quarterly Information and Disclosure Statement constitute “forward-looking statements” within the meaning of the Federal Private Securities Litigation Reform Act of 1995. When used in this Quarterly 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 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: Michael Weisbarth
Phone: (216) 539-0485
Email: mweisbarth@mace.com
Address: Same as above

Item 2 Shares outstanding

Common Stock

(i)	Period end date:	March 31, 2021	December 31, 2020
(ii)	Number of shares authorized	100,000,000	100,000,000
(iii)	Number of shares outstanding	64,276,728	64,224,228
(iv)	Freely tradable (public float)	33,488,365	33,488,365
(v)	Total number of shareholders of record	92	96

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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:	March 31, 2021	December 31, 2020
(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 three months ended March 31, 2021 and 2020, including the unaudited interim Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Shareholders' Equity and Consolidated Statements of Cash Flows and Notes to the Consolidated Financial Statements, are filed separately and called Quarterly Report – First Quarter 2021 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 March 31, 2021 compared with three months ended March 31, 2020

Net Sales

Net sales comparative information for the three months ended March 31, 2021 and 2020, respectively, is as follows:

<u>Net Sales by Type of Customer</u>	<u>Three Months Ended</u>		<u>Increase (Decrease)</u>
	<u>2021</u>	<u>2020</u>	
Consumer	\$ 3,060	\$ 2,296	\$ 764
Tactical	70	111	(41)
International	118	334	(216)
Other	56	50	6
Total	<u>\$ 3,304</u>	<u>\$ 2,791</u>	<u>\$ 513</u>

Total net sales increased for the three months ended March 31, 2021 by 18.4%, compared with net sales for the three months ended March 31, 2020. Net sales to customers in the consumer market increased \$764, or 33.3%, in the three months ended March 31, 2021, compared with the same period in 2020. This increase in net sales was due 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, for the three months ended March 31, 2021 decreased \$41, or (36.9%), compared with the three months ended March 31, 2020, primarily due to the loss of one tactical private label customer in late 2020.

Sales to International customers decreased \$216, or (64.7%), for the three months ended March 31, 2021, compared with the three months ended March 31, 2020 due primarily to the impact of Covid-19 overseas and international freight issues impacting delivery of product.

Sales to other types of customers for the three months ended March 31, 2021, compared with the three months ended March 31, 2020, were comparable.

Cost of goods sold

Cost of goods sold increased for the three months ended March 31, 2021 by 18.6% to \$2,029, or 61.4% of net sales, compared with \$1,710, or 61.3% of net sales, for the three months ended March 31, 2020, primarily due to the 18.4% increase in net sales.

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Gross Profit

Gross profit increased \$194, or 17.9%, to \$1,275, or 38.6% of net sales, for the three months ended March 31, 2021, compared with \$1,081, or 38.7% of net sales, for the three months ended March 31, 2020, primarily due to increased sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$180 to \$1,061, or 32.1% of net sales, for the three months ended March 31, 2021, compared with \$881, or 31.6% of net sales for the three months ended March 31, 2020. The following table presents the significant expense items causing the increase in selling, general and administrative expenses for the three months ended March 31, 2021, compared with the same period in 2020.

<u>Selling, General and Administrative Expense Categories</u>	<u>Increase (Decrease)</u>
Variable commission expenses increase due to higher net sales in 2021	\$ 34
Legal and professional expenses increase primarily attributable to timing of annual audit and increased IT consulting expenses	48
Advertising and marketing expense increase primarily attributable to increased outside agency branding/marketing related advertising expenditures in 2021	59
Other factors, net	<u>39</u>
Net increase	<u><u>\$ 180</u></u>

Amortization of intangible assets

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

Interest expense

Interest expense was \$5 and \$11 for the three months ended March 31, 2021 and March 31, 2020, respectively, primarily related to the Company's debt.

Net income (loss)

Net income decreased by \$11 to net income of \$109 for the three months ended March 31, 2021, compared with a net income of \$120 in the three months ended March 31, 2020, due primarily to the factors noted above.

Liquidity and Capital Resources

Cash, cash equivalents increased by \$77 to \$844 at March 31, 2021, compared with \$767 at December 31, 2020. The Company's operating activities provided \$200 of cash in the three months ended March 31, 2021, compared with providing \$137 in the three months ended March 31, 2020. In the three months ended March 31, 2021, depreciation and amortization, stock-based compensation and other non-cash charges totaled \$251. Changes in operating assets and liabilities used \$160 of cash due primarily to factors resulting from normal business conditions of the Company, including (1) higher inventory due in part to higher net sales, and (2) lower net accounts payable and accrued liabilities due to timing of payments.

The Company's capital expenditures in the three months ended March 31, 2021 were \$66, compared with \$7 in the three months ended March 31, 2020. At this time, the Company anticipates total fiscal 2021 capital expenditures will be approximately \$150 and will relate principally to production fixtures, capital expenditures relating to new products and IT equipment. The Company anticipates funding future capital expenditures from operating cash flow. There were no commitments for capital expenditures at March 31, 2021.

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 foreseeable future. The Company currently intends to retain all earnings for the operation and expansion of its business.

In December 2020, the Company entered into a \$2,000 line of credit agreement with a bank (the "2020 Credit Agreement"), that is secured by substantially all the Company's assets and which matures on November 30, 2021. The 2020 Credit Agreement provides for monthly interest payments at a rate equal to LIBOR plus 2.0% with a floor of 2.50%. The interest rate was 2.50% at March 31, 2021.

The \$1,000 secured note payable to the seller of an acquired business (the "Subordinated Note") consists of a 5% note payable due March 22, 2022 entered into in conjunction with the March 2017 acquisition. The note is subordinated to the 2020 Credit Agreement and is collateralized by all of the Company's assets. The Company makes monthly principal and interest payments on the note payable. At March 31, 2021, \$228 was outstanding on this note payable. In January 2021, the Company entered into an amendment to the Subordinated Note providing for the repayment of the note by June 30, 2021 for a \$7 discount.

On April 21, 2020, the Company was granted a loan (the "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 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 March 31, 2021. The Paycheck Protection Program Flexibility Act of 2020 extended the deferment period for the payment of principal and interest to the date on which the lender is reimbursed by the SBA for the forgivable portion of the Loan. However, if an eligible recipient fails to apply for Loan forgiveness within 10 months after the last day of the covered period, such borrower would begin to make payments of principal, interest, and fees on such covered Loan no earlier than the aforementioned 10th month, which for the Company is August 6, 2021. The Company may prepay the loan at any time prior to maturity with no prepayment penalties. The Company may only use funds from the 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 used the entire Loan amount for qualifying expenditures. Under the terms of the Loan, certain amounts of the Loan may be forgiven if they are used for qualifying expenditures, as described

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in the CARES Act, during the 24-week period commencing on the date of receipt of the Loan proceeds. The Company has not yet applied for forgiveness of the Loan but intends to do so.

The Company's 2020 Credit Agreement matures on November 30, 2021. Should the Company be unable to renew or secure a replacement credit facility, this could have a material adverse effect on the Company's ability to acquire inventory in support of anticipated 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 is party to certain arrangements that are not reflected in the Consolidated Balance Sheets. 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

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. 2012 Stock Incentive Plan (incorporated herein by reference to Form DEF 14A filed on May 18, 2012)
- 18.2 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)
- 18.3 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)
- 18.4 Bonus Agreement between Mace Security International, Inc., George C. Gehrisch, Jr. and Sanjay Singh dated March 9, 2018 (incorporated herein by reference to OTCQX Annual Information and Disclosure Statement December 31, 2017)
- 18.5 Shareholder Agreement dated March 9, 2018 (incorporated herein by reference to OTCQX Annual Information and Disclosure Statement December 31, 2017)
- 18.6 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)
- 18.7 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)
- 18.8 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)
- 18.9 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)

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: April 30, 2021

/s/ Gary Medved
President and Chief Executive Officer

I, Michael Weisbarth, Chief Financial 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: April 30, 2021

/s/ Michael Weisbarth
Chief Financial Officer