# Mace Security International, Inc.

# Quarterly Report

# September 30, 2017

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

## 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 Quarterly Report, 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 a number of 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, (i) general economic and business conditions; (ii) competition; (iii) potential changes in customer spending; (iv) acceptance of our product offerings and designs; (v) the variability of consumer spending resulting from changes in domestic economic activity; (vi) a highly promotional retail environment; (vii) 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 (viii) the impact of current and potential hostilities in various parts of the world, as well as other geopolitical concerns. You are urged to consider all such factors. In light 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. (the "Company")
4400 Carnegie Avenue
Cleveland, OH 44103
Phone: (440) 424-5321
Fax: (216) 361-9555
Website: www.mace.com

Investor Relations: John J. McCann
Phone: (440) 424-5322
Email: jmccann@mace.com
Address: Same as above

### Item 2 Shares outstanding

**Common Stock**

| | | | |
|---|---|---|---|
| (i) | Period end date: | September 30, 2017 | December 31, 2016 |
| (ii) | Number of shares authorized | 100,000,000 | 100,000,000 |
| (iii) | Number of shares outstanding | 61,896,858 | 60,781,858 |
| (iv) | Freely tradable (public float) | 42,432,211 | 37,291,139 |
| (v) | Total number of shareholders of record | 81 | 82 |

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, 2017 | December 31, 2016 |
| (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 condensed consolidated for the nine months ended September 30, 2017 and 2016, including the unaudited interim Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Comprehensive Loss and Consolidated Statements of Cash Flows and Notes to the Consolidated Financial Statements, are attached hereto as Exhibit 3.1 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. currently operates in one business segment, the Security Segment, which manufactures and distributes consumer safety and personal defense products to retailers, distributors, and individual consumers. The Company also supplies less-lethal tactical munitions and weapons systems for law enforcement, correctional institutions and military markets.

In December 2015, the Company exited the electronic surveillance equipment market. In November 2016, the Company completed the sale of its electronic surveillance equipment business, consisting of inventory and a customer list. The financial results of the electronic surveillance business for the three years ended December 31, 2016, 2015 and 2014 were reported in discontinued operations and, accordingly, have been segregated from the net sales and expenses discussions below.

**<u>Three months ended September 30, 2017 compared with three months ended September 30, 2016</u>**

*Net Sales*

On March 22, 2017, the Company completed the purchase of the business and substantially all related operating assets of Washington Laboratories, LLC, a producer of high quality defense spray products. Net sales in the three months ended September 30, 2017 associated with the acquired business were $478. Net sales in the three months ended September 30, 2017 increased 4.5% to $2,828, compared with $2,706 in the three months ended September 30, 2016. Net sales comparative information for the three months ended September 30, 2017 and 2016, respectively, is as follows:

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

| Net Sales by Distribution Channel | Three Months Ended September 30, 2017 | 2016 | Increase (Decrease) |
|---|---|---|---|
| Consumer | 2,420 | 2,391 | 29 |
| Tactical | 145 | 79 | 66 |
| International | 219 | 206 | 13 |
| Other | 44 | 30 | 14 |
| Total | $ 2,828 | $ 2,706 | $ 122 |

Tactical distribution channel net sales in the three months ended September 30, 2017, compared with the three months ended September 30, 2016, increased due to new distribution and increased net sales from existing customers. The net increase in International distribution channel net sales in the three months ended September 30, 2017, compared with the same period in 2016, is primarily attributable to distribution of animal repellant products in Canada, partially offset by reduced demand in Europe.

*Cost of goods sold*

Cost of goods sold decreased in the three months ended September 30, 2017 by $5 to $1,535, or 54.3% of net sales, compared with $1,540, or 56.9% of net sales in the three months ended September 30, 2016, primarily due to lower freight out expense due primarily to the Company increasing its case-pack quantities with some key accounts.

*Gross Profit*

Gross profit increased $127, or 10.9%, to $1,293, or 45.7% of net sales, during the three months ended September 30, 2017, compared with $1,166, or 43.1% of net sales, during the three months ended September 30, 2016, primarily due to the factors noted above.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased by $2 to $942, or 33.3% of net sales, during the three months ended September 30, 2017, compared with $940, or 34.7% of net sales in the three months ended September 30, 2016. The following table presents the significant expense items causing the increase in Selling, General and Administrative Expenses in the three months ended September 30, 2017, compared with the same period in 2016.

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

| Selling, General and Administrative Expense Categories | Increase (Decrease) |
|---|---|
| Salaries and related employee benefits increase attributable primarily to the hiring of additional sales personnel | $ 67 |
| Commission expense decrease attributable to lower commissionable net sales | (33) |
| Legal and other discretionary professional services expense decrease | (28) |
| Advertising expense increase primarily attributable to higher Internet related advertising expenditures | 19 |
| Other factors | (23) |
| Net increase | $ 2 |

*Depreciation*

Depreciation expense in the three months ended September 30, 2017 increased $9 to $49, compared with $40 in the three months ended September 30, 2016, due primarily to the March 2017 acquisition of property and equipment.

*Other income, net*

Other expense, net was $106 in the three months ended September 30, 2017, compared with other income, net of $18 in the three months ended September 30, 2016, due primarily to recognition in the three months ended September 30, 2017 of $111 of amortization of intangible assets associated with the Company's March 2017 acquisition, as well as a decrease in investment income due to the liquidation of a portion of the Company's short-term investments to fund the 2017 acquisition.

*Net income*

Net income decreased by $54 to $196 in the three months ended September 30, 2017, compared with a net income of $250 in the three months ended September 30, 2016, due primarily to the factors noted above.

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

**Nine months ended September 30, 2017 compared with six months ended September 30, 2016**

*Net Sales*

On March 22, 2017, the Company completed the purchase of the business and substantially all related operating assets of Washington Laboratories, LLC, a producer of high quality defense spray products. The Company's net sales for the nine months ended September 30, 2017 include net sales from the acquired business from the date of its acquisition of $1,289. Net sales in the nine months ended September 30, 2017 increased by 3.4% to $7,048, compared with $6,816 in the nine months ended September 30, 2016. Net sales comparative information for the nine months ended September 30, 2017 and 2016, respectively, is as follows:

| Net Sales by Distribution Channel | Nine Months Ended September 30, 2017 | 2016 | Increase (Decrease) |
|---|---|---|---|
| Consumer | 5,712 | 5,610 | 102 |
| Tactical | 505 | 299 | 206 |
| International | 743 | 827 | (84) |
| Other | 88 | 80 | 8 |
| Total | $ 7,048 | $ 6,816 | $ 232 |

The net increase in consumer distribution channel net sales in the nine months ended September 30, 2017, compared with the same period in 2016, is primarily attributable to increased distribution, partially offset by (i) a net sales decline due to a single large purchase by a customer during the nine months ended September 30, 2016, which did not repeat in the comparable period in fiscal 2017 and (ii) the impact of recent retailer bankruptcies/closures. Tactical distribution channel net sales increased in the nine months ended September 30, 2017, compared to the same period in 2016, primarily due to new distribution and increased net sales from existing customers. International distribution channel did not see the same level of net sales during the nine months ended September 30, 2017 as was experienced during the corresponding period in 2016, due to reduced demand in Europe. This was partially offset in the nine months ended September 30, 2017 by distribution of animal repellant products in Canada.

*Cost of goods sold*

Cost of goods sold increased in the nine months ended September 30, 2017 by 1.9% to $4,068, or 57.7% of net sales, compared with $3,994, or 58.6% of net sales in the nine months ended September 30, 2016, primarily due to the 3.4% increase in net sales, partially off-set by the impact of lower freight out expense attributable primarily to the Company increasing its case-pack quantities with some key accounts.

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

*Gross Profit*

Gross profit increased $158, or 5.6%, to $2,980, or 42.3% of net sales, during the nine months ended September 30, 2017, compared with $2,822, or 41.4% of net sales, during the nine months ended September 30, 2016 primarily due to the factors noted above.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased by $1 to $2,773, or 39.3% of net sales, during the nine months ended September 30, 2017, compared with $2,772, or 40.7% of net sales in the nine months ended September 30, 2016. The following table presents the significant expense items causing the increase in Selling, General and Administrative Expenses in the nine months ended September 30, 2017, compared with the same period in 2016.

| Selling, General and Administrative Expense Categories | Increase (Decrease) |
|---|---|
| Salaries and related employee benefits increase primarily attributable to the hiring of additional sales personnel | $ 133 |
| Commission expense decrease attributable to lower commissionable net sales | (78) |
| Legal and other discretionary professional services expense decrease | (125) |
| Increase in business travel expenses | 35 |
| Advertising expense increase primarily attributable to higher Internet related advertising expenditures | 25 |
| Increase public company expenses primarily attributable to moving the listing of the Company's shares to OTCQX Best Market | 20 |
| Other factors | (9) |
| Total | $ 1 |

*Depreciation*

Depreciation expense in the nine months ended September 30, 2017 increased $23 to $139, compared with $116 in the nine months ended September 30, 2016, due primarily to the March 2017 acquisition of property and equipment.

*Other income, net*

Other expense, net was $81 in the nine months ended September 30, 2017, compared with other income, net of $67 in the nine months ended September 30, 2016, due primarily to recognition in the nine months ended September 30, 2017 of $111 of amortization of intangible assets associated with the Company's March 2017 acquisition, as well as a decrease in investment income due to the liquidation of a portion of the Company's short-term investments to fund the 2017 acquisition.

*Net income (loss)*

Net loss increased by $165 to a net loss of $35 in the nine months ended September 30, 2017, compared with a net income of $130 in the nine months ended September 30, 2016, due primarily to the factors noted above.

## Liquidity and Capital Resources

Cash, cash equivalents and restricted cash decreased by $698 to $332 at September 30, 2017, compared with $1,030 at December 31, 2016. The Company's operating activities of continuing operations provided $250 of cash in the nine months ended September 30, 2017, compared with cash used of $80 in the nine months ended September 30, 2016. In the nine months ended September 30, 2017, operating activities of continuing operations less effect of depreciation, equity compensation and other non-cash charges used $100. Working capital used $87 primarily attributable to (i) increase in accounts receivable as a result of higher net sales at the end of the third quarter 2017, (ii) higher inventory levels in support of the higher sales levels in 2017, (iii) offset in part by higher accounts payable in 2017 due to timing of payments and purchases of inventory.

The Company's capital expenditures in the nine months ended September 30, 2017 were $74, compared with $292 in the nine months ended September 30, 2016, when the Company was implementing some plant automation. The Company anticipates total fiscal 2017 capital expenditures will be less than $100 and will relate principally to manufacturing and production enhancements. The Company anticipates funding future capital expenditures from operating cash flow. There were no commitments for capital expenditures at September 30, 2017.

As discussed more fully in Note 4, Business Acquisition, to the unaudited consolidated financial statements, the Company acquired a business in March 2017 for approximately $3,418, subject to certain adjustments related principally to customer retention and a working capital adjustment. The acquisition was financed by using $2,028 of the Company's cash reserves, issuing 1,000,000 shares of common stock and a $1,000 note payable to the sellers of the business that bears interest at 5% and is due March 22, 2022. This promissory note is collateralized by all of the Company's assets and is subordinated to the below discussed bank credit agreement.

During the third quarter of fiscal year 2017, the Company entered into a $1,500 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 2.982% at September 30, 2017. No amount was drawn upon the Credit Agreement at September 30, 2017.

In October 2017, the Company acquired a business for approximately $1,205, subject to certain adjustments related principally to working capital and a earn-out calculation. The acquisition was financed by using $400 of the Company's cash reserves, issuing 1,400,000 shares of common stock (of which 400,000 were subject to a earn-out calculation), and a $300 six month unsecured note payable to the seller of the business that bears interest at 5%, which also is subject to a earn-out calculation.

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 of its earnings for the operation and expansion of its business.

The Company believes that funds provided by operations and existing working capital should be sufficient to meet working capital needs for the next 12 months.

### 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. This includes operating leases as described in Note 13 to the Company's December 31, 2016 consolidated financial statements, which primarily relate to the Company's primary facility in Cleveland, Ohio. 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 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 Annual Information and Disclosure Statement filed on March 30, 2017)

18.4 Employment Agreement dated as of November 21, 2012 by and between Mace Security International, Inc. and John J. McCann (incorporated herein by reference to Annual Information and Disclosure Statement filed on March 30, 2017)

18.5 Employment Agreement dated as of January 1, 2014 by and between Mace Security International, Inc. and Carl R. Smith (incorporated herein by reference to Annual Information and Disclosure Statement filed on March 30, 2017)

18.6 Asset Purchase Agreement by and among Washington Laboratories LLC, Larry W. Harris and Mace Security International, Inc. dated March 22, 2017 (incorporated herein by reference to the March 31, 2017 Quarterly Report)

## Item 9 Issuer's Certifications

I, John J. McCann, 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: November 14, 2017

/s/ John J. McCann
President and Chief Executive Officer

I, Carl R. Smith, Senior Vice President Corporate Finance, 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: November 14, 2017

/s/ Carl R. Smith
Senior Vice President Corporate Finance