Mace Security International, Inc.

Quarterly Report

June 30, 2018

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:	June 30, 2018	December 31, 2017
(ii)	Number of shares authorized	100,000,000	100,000,000
(iii)	Number of shares outstanding	62,938,062	62,896,858
(iv)	Freely tradable (public float)	39,589,025	42,432,211
(v)	Total number of shareholders of record	82	81

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

Preferred Stock

(vi)	Period end date:	June 30, 2018	December 31, 2017
(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 six months ended June 30, 2018 and 2017, 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 filed separately and called Quarterly Report – Second Quarter 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.

Three months ended June 30, 2018 compared with three months ended June 30, 2017

Net Sales

On October 19, 2017, the Company completed the purchase of the business and substantially all related operating assets of Vigilant Protection Systems, a top rated personal security and home medical product e-commerce marketing business. The Company's results for fiscal year 2017 include the results of the acquired business from the date of acquisition. Net sales in the three months ended June 30, 2018 associated with the acquired business were $737. Net sales in the three months ended June 30, 2018 increased 13.3% to $2,843, compared with $2,510 in the three months ended June 30, 2017. Net sales comparative information for the three months ended June 30, 2018 and 2017, respectively, is as follows:

Net Sales by Distribution Channel	Three Months Ended June 30, 2018	2017	Increase (Decrease)
Consumer	2,384	1,876	508
Tactical	165	225	(60)
International	276	401	(125)
Other	18	8	10
Total	$ 2,843	$ 2,510	$ 333

The net increase in Consumer distribution channel net sales in the three months ended June 30, 2018, compared with the same period in 2017, is primarily attributable to increased sales to existing customers, as well as the impact of the October 2017 acquisition. Tactical distribution channel net sales in the three months ended June 30, 2018, compared with the three months ended June 30, 2017, decreased primarily due to a decline in TG Guard Systems sales, due to timing related reductions in demand by the U.S. State Department. International distribution channel net sales in the three months ended June 30, 2018, compared with the three months ended June 30, 2017, decreased primarily due to new labeling requirements and tightened restrictions regarding pepper spray sales and use in Europe.

Cost of goods sold

Cost of goods sold increased in the three months ended June 30, 2018 by 8.7% to $1,627, or 57.2% of net sales, compared with $1,497, or 59.6% of net sales in the three months ended June 30, 2017, primarily due to the 13.3% increase in net sales, offset in part by efficiencies gained from higher production volumes.

Gross Profit

Gross profit increased $203, or 20.0%, to $1,216, or 42.8% of net sales, during the three months ended June 30, 2018, compared with $1,013, or 40.4% of net sales, during the three months ended June 30, 2017, primarily due to increased revenues and efficiencies gained from higher production volumes.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by $219 to $1,085, or 38.2% of net sales, during the three months ended June 30, 2018, compared with $866, or 34.5% of net sales in the three months ended June 30, 2017. The following table presents the significant expense items causing the increase in Selling, General and Administrative Expenses in the three months ended June 30, 2018, compared with the same period in 2017.

Selling, General and Administrative Expense Categories	**Increase (Decrease)**
Salaries and related employee benefits increase primarily attributable to the hiring of additional sales personnel	$ 74
Legal and other discretionary professional services expense increase attributable to higher legal costs and professional services related to introduction of non-lethal munitions products	64
Advertising expense increase primarily attributable to higher e-commerce related advertising expenditures	39
Increase in e-commerce fulfillment fees	53
Other factors	(11)
Total	$ 219

Depreciation

Depreciation expense in the three months ended June 30, 2018 was $48, compared with $50 in the three months ended June 30, 2017.

Interest income and expense

Interest expense increased to $13 in the three months ended June 30, 2018 compared with $12 in the three months ended June 30, 2017, due primarily to debt incurred in connection with the 2017 acquisitions. Interest income increased to $29 in the three months ended June 30, 2018, compared with $25 in the three months ended June 30, 2017, due primarily to an amendment of a note receivable in April 2018, offset in part by a decrease in investment income due to the liquidation of a portion of the Company's short-term investments to fund the 2017 acquisitions.

Amortization of intangible assets

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

Net income

Net income decreased by $46 to $41 in the three months ended June 30, 2018, compared with a net income of $87 in the three months ended June 30, 2017, due primarily to the factors noted above.

Six months ended June 30, 2018 compared with six months ended June 30, 2017

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 private label producer of high quality defense spray products. On October 19, 2017, the Company completed the purchase of the business and substantially all related operating assets of Vigilant Protection Systems, a top rated personal security and home medical product e-commerce marketing business. The Company's results for fiscal year 2017 include the results of the acquired businesses from the dates of acquisitions. Net sales in the six months ended June 30, 2018 associated with the acquired businesses were $1,506. Net sales in the six months ended June 30, 2017 increased by 23.4% to $5,207, compared with $4,220 in the six months ended June 30, 2017. Net sales comparative information for the six months ended June 30, 2018 and 2017, respectively, is as follows:

Net Sales by Distribution Channel	Six Months Ended June 30, 2018	2017	Increase (Decrease)
Consumer	4,347	3,292	1,055
Tactical	330	360	(30)
International	495	524	(29)
Other	35	44	(9)
Total	$ 5,207	$ 4,220	$ 987

The net increase in consumer distribution channel net sales in the six months ended June 30, 2018, compared with the same period in 2016, is primarily attributable to increased sales to existing customers, as well as the impact of the 2017 acquisitions.

Cost of goods sold

Cost of goods sold increased in the six months ended June 30, 2018 by 18.6% to $3,003, or 57.7% of net sales, compared with $2,533, or 60.0% of net sales in the six months ended June 30, 2017, primarily due to the 23.4% increase in net sales, offset in part by efficiencies gained from higher production volumes.

Gross Profit

Gross profit increased $517, or 30.6%, to $2,204, or 42.3% of net sales, during the six months ended June 30, 2018, compared with $1,687, or 40.0% of net sales, during the six months ended June 30, 2017 primarily due to the factors noted above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by $467 to $2,298, or 44.1% of net sales, during the six months ended June 30, 2018, compared with $1,831, or 43.4% of net sales in the six months ended June 30, 2017. The following table presents the significant expense items causing the increase in Selling, General and Administrative Expenses in the six months ended June 30, 2018, compared with the same period in 2017.

Selling, General and Administrative Expense Categories	Increase (Decrease)
Salaries and related employee benefits increase primarily attributable to the hiring of additional sales personnel	$ 167
Advertising expense increase primarily attributable to higher e-commerce related advertising expenditures and other advertising expenditures	145
Increase in e-commerce fulfillment fees	118
Legal and other discretionary professional services expense increase attributable to higher legal costs and professional services related to introduction of non-lethal munitions products	88
Bad debts expense decrease primarily attributable to collection of amounts previously reserved	(25)
Other factors	(26)
Total	$ 467

Depreciation

Depreciation expense in the six months ended June 30, 2018 increased $7 to $97, compared with $90 in the six months ended June 30, 2017, due primarily to the March 2017 acquisition of property and equipment.

Interest income and expense

Interest expense increased to $28 in the six months ended June 30, 2018 compared with $18 in the six months ended June 30, 2017, due primarily to debt incurred in connection with the 2017 acquisitions. Interest income decreased to $49 in the three months ended June 30, 2018, compared with $54 in the three months ended June 30, 2017, due primarily to the liquidation of a portion of the Company's short-term investments to fund its 2017 acquisitions.

Amortization of intangible assets

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

Net loss

Net loss increased by $62 to a loss of $293 in the six months ended June 30, 2018, compared with a net loss of $231 in the six months ended June 30, 2017, due primarily to the factors noted above.

<u>Liquidity and Capital Resources</u>

Cash, cash equivalents and restricted cash decreased by $480 to $182 at June 30, 2018, compared with $662 at December 31, 2017. The Company's operating activities of continuing operations used $500 of cash in the six months ended June 30, 2018, compared with providing $501 in the six months ended June 30, 2017. In the six months ended June 30, 2018, depreciation, equity compensation and other non-cash charges totaled $312. Working capital increased $519 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) lower accounts payable and accrued liabilities due to timing of payments, and (3) lower notes receivable and other assets due to note repayment and amortization of prepaid expenses.

The Company's capital expenditures in the six months ended June 30, 2018 were $122, compared with $57 in the six months ended June 30, 2017. The Company anticipates total fiscal 2018 capital expenditures will be approximately $150 and will relate principally to enhancements to the Company's website and manufacturing and production equipment. The Company anticipates funding future capital expenditures from operating cash flow. At June 30, 2018, the Company had capital expenditure commitments of $25 outstanding.

The Company has 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 3.732% and $75 was drawn upon the Credit Agreement at June 30, 2018.

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 subordinated to the bank line of credit and is collateralized by all of the Company's assets. The outstanding balance at June 30, 2018 was $773.

In connection with its October 2017 acquisition, the Company entered into a 5% $300 unsecured contingent note payable to seller of acquired business which matured on April 19, 2018. This obligation is subordinated to the bank line of credit. In the second quarter of 2018, the Company determined that the financial objectives with respect to the $300 contingent note payable were met and that the fair market value of this obligation at June 30, 2018 was $300. This obligation will be paid to the seller of the acquired business during the third quarter of 2018.

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 14 to the Company's December 31, 2017 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)

18.7 Asset Purchase Agreement between Mace Security International, Inc., Robinhood Digital LLC and David A. Happe dated October 19, 2017 (incorporated herein by reference to Annual Information and Disclosure Statement filed on March 28, 2018)

18.8 Bonus Agreement between Mace Security International, Inc., George C. Gehrisch and Sanjay Singh dated March 9, 2018 (incorporated herein by reference to Annual Information and Disclosure Statement filed on March 28, 2018 and as supplemented on July 10, 2018)

18.9 Shareholder Agreement dated March 9, 2018 (incorporated herein by reference to Annual Information and Disclosure Statement filed on March 28, 2018 and as supplemented on July 10, 2018)

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: August 6, 2018

/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: August 6, 2018

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