

Mace Security International, Inc.

Quarterly Report

June 30, 2019

Forward-Looking Statements

Certain statements and information included in this Quarterly Report constitute “forward-looking statements” within the meaning of the Federal Private Securities Litigation Reform Act of 1995. When used in this Annual Information and Disclosure Statement, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “projected,” “intend to” or similar expressions are intended to identify “forward-looking statements” within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to several known and unknown risks and uncertainties that may cause our actual results, trends, performance or achievements, or industry trends and results, to differ materially from the future results, trends, performance or achievements expressed or implied by such forward-looking statements. Those risks and uncertainties may include, but are not limited to, (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. 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: Mark Barrus
Phone: (216) 539-0485
Email: mbarrus@mace.com
Address: Same as above

Item 2 Shares outstanding

Common Stock

(i)	Period end date:	June 30, 2019	December 31, 2018
(ii)	Number of shares authorized	100,000,000	100,000,000
(iii)	Number of shares outstanding	63,249,834	63,054,834
(iv)	Freely tradable (public float)	39,588,975	39,589,025
(v)	Total number of shareholders of record	86	82

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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:	June 30, 2019	December 31, 2018
(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 financial statements for the six months ended June 30, 2019 and 2018, including the unaudited interim Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Stockholders' Equity and Consolidated Statements of Cash Flows and Notes to the Consolidated Financial Statements, are filed separately and called Quarterly Report – Second Quarter 2019 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 sells consumer safety and personal defense products to retailers, distributors, and individual consumers. The Company also sells tactical spray products to law enforcement, correctional institutions and military markets. In June 2019, the Company decided to no longer offer less-lethal tactical munitions and weapons system products.

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Three months ended June 30, 2019 compared with three months ended June 30, 2018

Net Sales

Net sales in the three months ended June 30, 2019 increased by 4.4% to \$2,967, compared with \$2,843 in the three months ended June 30, 2018. Net sales comparative information for the three months ended June 30, 2019 and 2018, respectively, is as follows:

<u>Net Sales by Type of Customer</u>	<u>Three Months Ended</u>		<u>Increase</u> <u>(Decrease)</u>
	<u>2019</u>	<u>2018</u>	
Consumer	\$ 2,419	\$ 2,384	\$ 35
Tactical	165	165	-
International	314	276	38
Other	69	18	51
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 2,967</u>	<u>\$ 2,843</u>	<u>\$ 124</u>

Net sales to customers in the consumer market increased in the three months ended June 30, 2019, compared with the same period in 2018, due to the impact of sales to new customers and increased sales to certain existing customers. Tactical net sales, which include tactical spray products, in the three months ended June 30, 2019 were comparable to net sales in the same period in 2018. In June 2019, the Company decided to no longer offer less-lethal tactical munitions and weapons system products, and to continue to serve the tactical spray product market. Historical sales of less-lethal tactical munitions and weapon system products have not been significant. Sales to International customers increased in the three months ended June 30, 2019, compared with the same period in 2018, due to increased sales to customers in the European Union. Sales to other types of customers increased in the three months ended June 30, 2019, compared with the same period in 2018, primarily due to increased business to business sales.

Cost of goods sold

Cost of goods sold increased in the three months ended June 30, 2019 by 23.5% to \$2,010, or 67.7% of net sales, compared with \$1,627 or 57.2% of net sales in the three months ended June 30, 2018. During the three months ended June 30, 2019, the Company's provision for excess and obsolete inventory was \$182, compared with \$4 in the comparable period in 2018. \$124 of this increase is attributable to the Company's decision in 2019 to discontinue offering a line of less lethal munitions for sale to its law enforcement, corrections and military customers. Distribution and warehouse costs associated with the exited less lethal munition products were \$38 in the three months ended June 30, 2019, compared with \$6 in the comparable period in 2018. Cost of goods sold in the six months ended June 30, 2019 also was negatively impacted by a \$78 decrease in the amount of absorbed labor and overhead.

Gross Profit

Gross profit decreased \$259, or 21.3%, to \$957, or 32.3% of net sales, during the three months ended June 30, 2019, compared with \$1,216, or 42.8% of net sales, during the three months ended June 30, 2018, primarily due to the above noted factors impacting cost of goods sold, offset in part by the impact of increased sales.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$323 to \$1,408, or 47.5% of net sales, during the three months ended June 30, 2019, compared with \$1,085, or 38.2% of net sales in the three months ended June 30, 2018. The following table presents the significant expense items causing the increase in selling, general and administrative expenses in the three months ended June 30, 2019, compared with the same period in 2018.

<u>Selling, General and Administrative Expense</u> <u>Categories</u>	<u>Increase</u> <u>(Decrease)</u>
Salaries and related employee benefits decrease primarily attributable to personnel changes	\$ (90)
Advertising expense increase primarily attributable to higher e-commerce related advertising expenditures	127
Variable commission expense decrease	(38)
Provision for loss on receivables, primarily related to one customer account	356
Other factors, net	<u>(32)</u>
 Total net increase from the three months ended June 30, 2018	 <u><u>\$ 323</u></u>

Depreciation

Depreciation expense in the three months ended June 30, 2019 decreased \$7 to \$41, compared with \$48 in the three months ended June 30, 2018, due primarily to several fixed assets acquired in 2013 becoming fully depreciated in 2018.

Interest income and expense

Interest income decreased \$29 in the three months ended June 30, 2019 to \$0, compared with \$29 in the three months ended June 30, 2018, due primarily to the factors which led the Company to impair its two notes receivable in the fourth quarter of 2018 and also to the liquidation of the Company's short-term investments in the second quarter of 2019. Interest expense was \$17 and \$13 in the three months ended June 30, 2019 and 2018, respectively, primarily related to the Company's debt.

Amortization of intangible assets

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

Net income (loss)

The Company recognized a net loss of \$606 in the three months ended June 30, 2019, compared with net income of \$41 in the three months ended June 30, 2018, due primarily to the factors noted above.

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Six months ended June 30, 2019 compared with six months ended June 30, 2018

Net Sales

Net sales in the six months ended June 30, 2019 increased by 9.1% to \$5,679, compared with \$5,207 in the three months ended June 30, 2018. Net sales comparative information for the three months ended June 30, 2019 and 2018, respectively, is as follows:

<u>Net Sales by Type of Customer</u>	<u>Six Months Ended</u>		<u>Increase</u> <u>(Decrease)</u>
	<u>2019</u>	<u>2018</u>	
Consumer	\$ 4,650	\$ 4,347	\$ 303
Tactical	333	330	3
International	603	495	108
Other	93	35	58
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 5,679</u>	<u>\$ 5,207</u>	<u>\$ 472</u>

Net sales to customers in the consumer market increased in the six months ended June 30, 2019, compared with the same period in 2018, due to the impact of sales to new customers and increased sales to certain existing customers. Tactical net sales, which include tactical spray products, in the six months ended June 30, 2019 were comparable to net sales in the same period in 2018. In June 2019, the Company decided to no longer offer less-lethal tactical munitions and weapons system products, and to continue to serve the tactical spray product market. Historical sales of less-lethal tactical munitions and weapon system products have not been significant. Sales to International customers increased in the six months ended June 30, 2019, compared with the same period in 2018, due to increased sales to customers in the European Union. Sales to other types of customers increased in the six months ended June 30, 2019, compared with the same period in 2018, primarily due to increased business to business sales.

Cost of goods sold

Cost of goods sold increased in the six months ended June 30, 2019 by 21.6% to \$3,652, or 64.3% of net sales, compared with \$3,003 or 57.7% of net sales in the six months ended June 30, 2018. During the six months ended June 30, 2019, the Company's provision for excess and obsolete inventory was \$189, compared with \$7 in the comparable period in 2018. \$124 of this increase is attributable to the Company's decision in 2019 to discontinue offering a line of less lethal munitions for sale to its law enforcement, corrections and military customers. Distribution and warehouse costs associated with the exited less lethal munition products were \$75 in the six months ended June 30, 2019, compared with \$6 in the comparable period in 2018. Cost of goods sold in the six months ended June 30, 2019 also was negatively impacted by a \$67 decrease in the amount of absorbed labor and overhead.

Gross Profit

Gross profit decreased \$177, or 8.0%, to \$2,027, or 35.7% of net sales, during the six months ended June 30, 2019, compared with \$2,204, or 42.3% of net sales, during the six months ended June 30, 2018, primarily due to the above noted factors impacting cost of goods sold, offset in part by the impact of increased sales.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$915 to \$3,213, or 56.6% of net sales, during the six months ended June 30, 2019, compared with \$2,298, or 44.1% of net sales in the six months ended June 30, 2018. The following table presents the significant expense items causing the increase in selling, general and administrative expenses in the six months ended June 30, 2019, compared with the same period in 2018.

<u>Selling, General and Administrative Expense</u> <u>Categories</u>	<u>Increase</u> <u>(Decrease)</u>
Salaries and related employee benefits increase primarily attributable to severance obligations	\$ 96
Legal and professional expense increase primarily attributable to recruiting, acquisition and employee matter costs	232
Advertising expense increase primarily attributable to higher e-commerce related advertising expenditures	155
Variable commission expense	(57)
Provision for loss on receivables, primarily related to one customer account	395
Vesting of stock options and stock awards related to Selling, General and Administrative Expense upon occurrence of Change of Control as defined in the 2012 Stock Option Plan, net of decrease in stock option expense	150
Other factors, net	<u>(56)</u>
 Total net increase from the six months ended June 30, 2018	 <u><u>\$ 915</u></u>

Depreciation

Depreciation expense in the six months ended June 30, 2019 decreased \$13 to \$84, compared with \$97 in the six months ended June 30, 2018, due primarily to several fixed assets acquired in 2013 becoming fully depreciated in 2018.

Interest income and expense

Interest income decreased \$45 in the six months ended June 30, 2019 to \$4, compared with \$49 in the six months ended June 30, 2018, due primarily to the factors which led the Company to impair its two notes receivable in the fourth quarter of 2018 and also to the liquidation of the Company's short-term investments in the second quarter of 2019. Interest expense was \$31 and \$28 in the six months ended June 30, 2019 and, 2018, respectively, primarily related to the Company's debt.

Amortization of intangible assets

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

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Net loss

Net loss increased by \$1,169 to a loss of \$1,462 in the six months ended June 30, 2019, compared with a net loss of \$293 in the six months ended June 30, 2018, due primarily to the factors noted above.

Liquidity and Capital Resources

Cash and cash equivalents decreased by \$63 to \$135 at June 30, 2019, compared with \$198 at December 31, 2018. The Company's operating activities of continuing operations used \$651 of cash in the six months ended June 30, 2019, compared with using \$500 of cash in the six months ended June 30, 2018. In the six months ended June 30, 2019, depreciation and amortization, stock-based compensation and other non-cash charges totaled \$1,152. Changes in operating assets and liabilities used \$341 of cash due primarily to factors resulting from normal business conditions of the Company, including (1) higher accounts receivable due in part to higher net sales, and (2) lower prepaid expenses and other assets due to timing of payments and lower amount of outstanding vendor deposits.

The Company's capital expenditures in the six months ended June 30, 2019 were \$60, compared with \$122 in the six months ended June 30, 2018. The Company anticipates total fiscal 2019 capital expenditures will be approximately \$100 and will relate principally to production equipment and IT assets. The Company anticipates funding future capital expenditures from operating cash flow. There were no commitments for capital expenditures at June 30, 2019.

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.

The Company has a \$1,500 credit agreement with a bank ("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%. At June 30, 2019, the interest rate was 4.15% and \$850 was drawn upon the Credit Agreement.

In connection with its March 2017 acquisition, the Company entered into a 5% \$1,000 secured note payable to the seller of acquired business due March 22, 2022. The note is collateralized by all Company's assets and is subordinated to the Credit Agreement. The outstanding balance at June 30, 2019 was \$603.

In January 2019, the Company acquired the assets of Tornado Security Products, a personal self-defense business based in Ferndale, Washington, for \$115 of cash and \$65 of forgiven accounts receivable, \$1 of assumed liabilities, including \$5 paid to the seller for the relocation of certain inventory. 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.

The Company believes that funds provided by operations and existing working capital and line of credit 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 may be a party to certain arrangements that are not reflected in the Consolidated Balance Sheets. At June 30, 2019, the Company does not have any

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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. 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 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 Annual Information and Disclosure Statement filed on March 28, 2018)
- 18.5 Asset Purchase Agreement between Mace Security International, Inc., Robinhood Digital LLC and David A. Happe dated October 19, 2017 (incorporated herein by reference to Annual Information and Disclosure Statement filed on March 28, 2018)
- 18.6 Bonus Agreement between Mace Security International, Inc., George C. Gehrisch and Sanjay Singh dated March 9, 2018 (incorporated herein by reference to OTCQX Annual Information and Disclosure Statement December 31, 2017)
- 18.7 Shareholder Agreement dated March 9, 2018 (incorporated herein by reference to OTCQX Annual Information and Disclosure Statement December 31, 2017)
- 18.8 Employment Agreement dated January 20, 2019 by and between Mace Security International, Inc. and Gary Medved (incorporated herein by reference to OTCQX Annual Information and Disclosure Statement dated December 31, 2018)
- 18.9 Asset Purchase Agreement between Mace Security International, Inc., Bigfoot Holdings Ltd. and Persons constituting the beneficial holders of a majority of the issued and outstanding shares of voting capital stock of Bigfoot Holdings Ltd dated January 18, 2019 (incorporated herein by reference to OTCQX Quarterly Report dated March 31, 2019)

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: August 8, 2019

/s/ Gary Medved
President and Chief Executive Officer

I, Mark Barrus, Senior Vice President, Chief Financial Officer and Secretary, certify that:

4. I have reviewed this quarterly report of Mace Securities International, Inc.;
5. 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
6. 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 8, 2019

/s/ Mark Barrus
Senior Vice President, Chief Financial Officer and Secretary