

**Mace Security International, Inc.**

**Quarterly Report**

**March 31, 2020**

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## **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, (a) general economic and business conditions, including the impact of the 2019 (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](http://www.mace.com)

Investor Relations: Gary Medved  
Phone: (440) 424-5322  
Email: [gmedved@mace.com](mailto:gmedved@mace.com)  
Address: Same as above

### **Item 2 Shares outstanding**

#### **Common Stock**

(i) Period end date:	March 31, 2020	December 31, 2019
(ii) Number of shares authorized	100,000,000	100,000,000
(iii) Number of shares outstanding	63,403,834	63,319,834
(iv) Freely tradable (public float)	42,758,989	42,747,855
(v) Total number of shareholders of record	89	90

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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, 2020	December 31, 2019
(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, 2020 and 2019, 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 – First Quarter 2020 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 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, 2020 compared with three months ended March 31, 2019**

*Net Sales*

Net sales comparative information for the three months ended March 31, 2020 and 2019, respectively, is as follows:

<u>Net Sales by Type of Customer</u>	<u>Three Months Ended</u>		<u>Increase (Decrease)</u>
	<u>2020</u>	<u>2019</u>	
Consumer	\$ 2,296	\$ 2,231	\$ 65
Tactical	111	168	(57)
International	334	289	45
Other	50	24	26
	<u>50</u>	<u>24</u>	<u>26</u>
Total	<u>\$ 2,791</u>	<u>\$ 2,712</u>	<u>\$ 79</u>

Net sales in the three months ended March 31, 2020 increased by 2.9% to \$2,791, compared with \$2,712 in the three months ended March 31, 2019. Net sales to customers in the consumer market increased in the three months ended March 31, 2020, compared with the same period in 2019. This increase in net sales was due to primarily (a) \$97 increase to existing brick and mortar customers and (b) a \$75 decrease in net sales of private label product in the three months ended March 31, 2020, compared with the same period in 2019.

Tactical net sales, which include tactical spray products, in the three months ended March 31, 2020 decreased \$57, compared with the same period in 2019, primarily due to a decrease in tactical private label net sales.

Sales to International customers increased in the three months ended March 31, 2020, compared with the same period in 2019 due primarily to increased sales to customers in the European Union.

*Cost of goods sold*

Cost of goods sold increased in the three months ended March 31, 2020 by 2.3% to \$1,710, or 61.3% of net sales, compared with \$1,672 or 61.6% of net sales in the three months ended March 31, 2019, primarily due to the 2.9% increase in net sales.

*Gross Profit*

Gross profit increased \$41, or 3.9%, to \$1,081, or 38.7% of net sales, during the three months ended March 31, 2020, compared with \$1,040, or 38.3% of net sales, during the three months ended March 31, 2019, primarily due to increased sales.

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*Selling, General and Administrative Expenses*

Selling, general and administrative expenses decreased by \$937 to \$881, or 31.6% of net sales, during the three months ended March 31, 2020, compared with \$1,818, or 67.0% of net sales in the three months ended March 31, 2019. The following table presents the significant expense items causing the decrease in selling, general and administrative expenses in the three months ended March 31, 2020, compared with the same period in 2019.

<u>Selling, General and Administrative Expense</u> <u>Categories</u>	<u>Increase</u> <u>(Decrease)</u>
Salaries and related employee benefits expense primarily attributable to severance obligations in 2019 not recurring in 2020 and personnel reductions subsequent to March 31, 2019	\$ (345)
Legal and professional expense decrease primarily attributable to non-recurring recruiting, acquisition and employee matter costs in 2019	(240)
Advertising expense decrease primarily attributable to decreased e-commerce related advertising expenditures	(89)
Non-recurring vesting of stock options and stock awards in 2019 due to occurrence of Change of Control as defined in the 2012 Stock Option Plan in the first quarter of 2019	(182)
Other factors, net	<u>(81)</u>
Total net decrease from the three months ended March 31, 2019	<u><u>\$ (937)</u></u>

*Amortization of intangible assets*

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

*Interest income and expense*

Interest income decreased \$4 in the three months ended March 31, 2020 to \$0, compared with \$4 in the three months ended March 31, 2019, due primarily to the factors which led the Company to impair its two notes receivable in the fourth quarter of 2018. Interest expense was \$11 and \$14 in the three months ended March 31, 2020 and March 31, 2019, respectively, primarily related to the Company's debt.

*Net income (loss)*

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Net income (loss) improved by \$976 to net income of \$120 in the three months ended March 31, 2020, compared with a net loss of \$856 in the three months ended March 31, 2019, due primarily to the factors noted above.

### **Liquidity and Capital Resources**

Cash, cash equivalents and restricted cash increased by \$76 to \$383 at March 31, 2020, compared with \$307 at December 31, 2019. The Company's operating activities of continuing operations provided \$115 of cash in the three months ended March 31, 2020, compared with using \$539 in the three months ended March 31, 2019. In the three months ended March 31, 2020, depreciation and amortization, stock-based compensation and other non-cash charges totaled \$192. Changes in operating assets and liabilities used \$197 of cash due primarily to factors resulting from normal business conditions of the Company, including (1) higher accounts receivable and inventory due in part to higher net sales, and (2) higher net accounts payable and accrued liabilities due to timing of payments.

The Company's capital expenditures in the three months ended March 31, 2020 were \$7, compared with \$31 in the three months ended March 31, 2019. At this time, the Company anticipates total fiscal 2020 capital expenditures will be approximately \$50 and will relate principally to production equipment and fixtures or capital expenditures relating to new product. The Company anticipates funding future capital expenditures from operating cash flow. There were no commitments for capital expenditures at March 31, 2020.

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 (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 3.27% at March 31, 2020. \$600 was drawn upon the Credit Agreement at March 31, 2020. The Company was in discussions with the bank to voluntarily reduce the size of this credit agreement, but no action has been taken as of this date.

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 the Company's assets and is subordinated to the bank line of credit. \$446 was outstanding on this note payable at March 31, 2020.

The Company believes that funds provided by operations, existing working capital, proceeds from the Small Business Administration's Paycheck Protection Program Loan, and its bank credit agreement, would be sufficient to meet working capital needs for the next 12 months. However, 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 of additional financing and its timing is not known. The Company may be forced to obtain additional capital on terms that could limit its long-term ability to remain in business or otherwise materially restrict its operations.

**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 March 31, 2020, 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.

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**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 OTCQX Annual Information and Disclosure Statement December 31, 2016)
- 18.4      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)
- 18.5      Asset Purchase Agreement between Mace Security International, Inc., Robinhood Digital LLC and David A. Happe dated October 19, 2017 (incorporated herein by reference to OTCQX Annual Information and Disclosure Statement December 31, 2017)
- 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)
- 18.10     Employment Agreement dated April 2, 2020 by and between Mace Security International, Inc. and Sanjay Singh

**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: May 1, 2020

/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: May 1, 2020

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