

Consolidated Financial Statements  
**Mace Security International, Inc.**  
June 30, 2021 and 2020

# Contents

	<b><u>Page</u></b>
Consolidated Balance Sheets	2-3
Consolidated Statements of Income	4-5
Consolidated Statements of Shareholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-18

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED BALANCE SHEETS**

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

ASSETS	June 30, 2021 <u>(Unaudited)</u>	December 31, 2020 <u></u>
Current assets:		
Cash and cash equivalents	\$ 770	\$ 767
Accounts receivable, less allowance for doubtful accounts of \$579 and \$544 at June 30, 2021 and December 31, 2020, respectively	2,262	2,831
Inventories	4,234	2,817
Note receivable, net of allowance, and other current assets	<u>326</u>	<u>495</u>
Total current assets	7,592	6,910
Property and equipment:		
Buildings and leasehold improvements	260	255
Machinery and equipment	2,139	2,056
Furniture and fixtures	<u>112</u>	<u>110</u>
Total property and equipment	2,511	2,421
Accumulated depreciation and amortization	<u>(2,022)</u>	<u>(1,946)</u>
Total property and equipment, net	489	475
Operating lease - right-of-use asset, net of amortization	440	545
Finance lease - right-of-use asset, net of amortization	76	27
Goodwill	1,031	1,031
Intangible assets, net	2,224	2,387
Note receivable, net of allowance, and other non-current assets	<u>14</u>	<u>14</u>
Total other assets	3,785	4,004
Total assets	<u>\$ 11,866</u>	<u>\$ 11,389</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED BALANCE SHEETS**

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

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>June 30, 2021</b>	<b>December 31, 2020</b>
	<b>(Unaudited)</b>	
Current liabilities:		
Current portion of long-term debt	\$ -	\$ 226
Paycheck Protection Program Loan - current portion	-	483
Current operating lease obligation	222	217
Current finance lease obligation	18	7
Accounts payable	1,604	1,017
Income taxes payable	61	57
Accrued expenses and other current liabilities	413	569
	<u>2,318</u>	<u>2,576</u>
Total current liabilities	2,318	2,576
Long-term debt, net of current portion	-	58
Paycheck Protection Program Loan, net of current portion	-	139
Non-current operating lease obligations	233	346
Non-current finance lease obligations	58	20
Total liabilities	<u>2,609</u>	<u>3,139</u>
Shareholders' equity:		
Preferred stock, \$.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at June 30, 2021 and December 31, 2020	-	-
Common stock, \$.01 par value; authorized 100,000,000 shares, issued and outstanding shares of 64,601,303 and 64,224,228, at June 30, 2021 and December 31, 2020, respectively	646	642
Additional paid-in capital	103,698	103,506
Accumulated deficit	(95,065)	(95,876)
Less treasury stock at cost, 90,548 shares at June 30, 2021 and December 31, 2020	(22)	(22)
Total shareholders' equity	<u>9,257</u>	<u>8,250</u>
Total liabilities and shareholders' equity	<u>\$ 11,866</u>	<u>\$ 11,389</u>

The accompanying notes are an integral part of these consolidated financial statements.

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(Amounts in thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2021</b>	<b>2020</b>
	<u>          </u>	<u>          </u>
Net sales	\$ 6,700	\$ 6,223
Cost of goods sold	<u>4,099</u>	<u>3,742</u>
Gross profit	2,601	2,481
Selling, general, and administrative expenses	2,262	1,721
Amortization of intangible assets	<u>162</u>	<u>165</u>
Operating income	177	595
Interest expense	(11)	(22)
Gain on forgiveness of PPP Loan and accrued interest	625	-
Gain on extinguishment of debt	8	-
Other income, net	<u>19</u>	<u>-</u>
Income before income tax provision	818	573
Income tax provision	<u>7</u>	<u>-</u>
Net income	<u>\$ 811</u>	<u>\$ 573</u>
Net income per share		
Basic	\$ 0.01	\$ 0.01
Diluted	\$ 0.01	\$ 0.01
Weighted average number of common shares (basic)	64,379,488	63,166,263
Weighted average number of common shares (diluted)	65,032,404	63,185,837

The accompanying notes are an integral part of these consolidated financial statements.

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(Amounts in thousands)

	<b>Three Months Ended June 30,</b>	
	<b>2021</b>	<b>2020</b>
Net sales	<b>\$ 3,396</b>	\$ 3,432
Cost of goods sold	<b>2,070</b>	2,032
Gross profit	<b>1,326</b>	1,400
Selling, general, and administrative expenses	<b>1,201</b>	841
Amortization of intangible assets	<b>66</b>	96
Operating income	<b>59</b>	463
Interest expense	<b>(6)</b>	(10)
Gain on forgiveness of PPP Loan and accrued interest	<b>625</b>	-
Gain on extinguishment of debt	<b>8</b>	-
Other income, net	<b>19</b>	-
Income before income tax provision	<b>705</b>	<b>453</b>
Income tax provision	<b>3</b>	-
Net income	<b>\$ 702</b>	<b>\$ 453</b>
Net income per share		
Basic	<b>\$ 0.01</b>	\$ 0.01
Diluted	<b>\$ 0.01</b>	\$ 0.01
Weighted average number of common shares (basic)	<b>64,482,808</b>	63,249,834
Weighted average number of common shares (diluted)	<b>65,297,236</b>	63,269,027

The accompanying notes are an integral part of these consolidated financial statements.

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(Unaudited)

(Amounts in thousands, except share information)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
	Shares	Amount				
<b>Balance at January 1, 2020</b>	63,319,834	\$ 633	\$ 103,252	\$ (97,577)	\$ (22)	\$ 6,286
Stock-based compensation	579,228	6	201	-	-	207
Issuance of common stock	325,166	3	53	-	-	56
Net income	-	-	-	1,701	-	1,701
<b>Balance at December 31, 2020</b>	<u>64,224,228</u>	<u>\$ 642</u>	<u>\$ 103,506</u>	<u>\$ (95,876)</u>	<u>\$ (22)</u>	<u>\$ 8,250</u>
<b>Balance at December 31, 2020</b>	64,224,228	\$ 642	\$ 103,506	\$ (95,876)	\$ (22)	\$ 8,250
Stock-based compensation	91,392	1	94	-	-	95
Exercise of stock options	285,683	3	98	-	-	101
Net income	-	-	-	811	-	811
<b>Balance at June 30, 2021</b>	<u>64,601,303</u>	<u>\$ 646</u>	<u>\$ 103,698</u>	<u>\$ (95,065)</u>	<u>\$ (22)</u>	<u>\$ 9,257</u>

The accompanying notes are an integral part of these consolidated financial statements.

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(Amounts in thousands)

	<b>Six Months Ended June 30,</b>	
	<u>2021</u>	<u>2020</u>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 811	\$ 573
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including right-of-use asset amortization	351	340
Stock-based compensation	95	77
Provision for losses on receivables	42	13
Provision for obsolete inventory	-	40
Gain on forgiveness of PPP Loan and accrued interest	(625)	-
Gain on extinguishment of debt	(8)	-
Changes in operating assets and liabilities:		
Accounts receivable	527	(714)
Inventories	(1,417)	(121)
Prepaid expenses and other assets	168	170
Accounts payable	587	540
Accrued expenses and other current liabilities	(153)	8
Operating lease obligations	(107)	(99)
Income taxes payable	4	(1)
Net cash provided by operating activities	<u>275</u>	<u>826</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(89)	(24)
Net cash used in investing activities	<u>(89)</u>	<u>(24)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from line of credit	200	-
Repayment of line of credit	(200)	-
Repayment of debt	(276)	(106)
Paycheck Protection Program Loan proceeds	-	619
Payments on financing lease obligations	(8)	(2)
Exercise of stock options	101	-
Net cash provided by (used in) financing activities	<u>(183)</u>	<u>511</u>
Net increase in cash and cash equivalents	3	1,313
Cash and cash equivalents at beginning of year	767	307
Cash and cash equivalents at end of period	<u>\$ 770</u>	<u>\$ 1,620</u>

The accompanying notes are an integral part of these consolidated financial statements.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

**NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

The accompanying consolidated financial statements include accounts of Mace Security International, Inc. and its wholly owned subsidiaries (collectively, the “Company”). All significant intercompany transactions have been eliminated in consolidation. The Company's independent auditors have not performed an audit or review of these consolidated financial statements.

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.

These unaudited consolidated financial statements should be read in conjunction with the Company's December 31, 2020 audited Consolidated Financial Statements. The results of operations for any interim period are not necessarily indicative of the results to be expected for other interim periods or the full year.

**NOTE 2 – REVENUE**

Virtually all the Company's net sales are generated from products sold at a point in time through ship-and-bill performance obligations. Revenue is recognized at a point in time when obligations under the terms of a contract with the Company's customer are satisfied. Generally, this occurs with the transfer of control of the Company's products at the time of shipment of products. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring product. In some cases, the nature of the Company's contracts give rise to variable revenue as defined in Accounting Standards Codification (“ASC”) topic 606, including rebates, credits, allowances for returns or other similar items that decrease the transaction price. These variable amounts generally are credited to the customer based on achieving certain levels of sales activity, product returns and making payments with specific terms. Variable revenue is estimated at the most likely amount that is expected to be earned. Such estimated amounts are recognized when revenue is recorded. Estimates of variable revenue and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the anticipated performance and all information (historical, current and forecasted) that is reasonably available.

Sales, value-added or other taxes collected by the Company concurrent with revenue producing activities are excluded from revenue. The Company allows some customers to return product when the product is defective as manufactured. The Company accrues for estimated future warranty cost in the period in which the sale is recorded. The expected cost associated with the Company's warranties is recognized in cost of goods sold in the consolidated statements of operations. The Company calculates its warranty accrual based on its historic warranty loss experience. Amounts billed to customers in sales transactions related to shipping and handling represent revenue earned for the product provided and are included in net sales. Costs of shipping and handling are included in cost of goods sold.

Mace Security International, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

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

The following table disaggregates the Company's net sales by type of customer.

<u>Net Sales by Type of Customer</u>	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Consumer	\$ 3,237	\$ 2,944	\$ 6,297	\$ 5,241
Tactical	83	251	154	362
International	27	191	144	524
Other	49	46	105	96
Total	<u>\$ 3,396</u>	<u>\$ 3,432</u>	<u>\$ 6,700</u>	<u>\$ 6,223</u>

**NOTE 3 – NET INCOME PER SHARE**

The Company's net income per share was computed by dividing net income by the weighted-average number of common shares outstanding for each respective period. Diluted earnings per share was calculated by dividing net income by the weighted-average number of all potentially dilutive common shares that were outstanding during the periods presented using the treasury stock method.

The calculation of basic and diluted earnings per share were as follows:

	<u>Three Months Ended June 30,</u>	
	<u>2021</u>	<u>2020</u>
Numerator		
Net income	\$ 702	\$ 453
Denominator		
Determination of shares		
Weighted-average common shares outstanding	64,482,808	63,249,834
Dilutive effect – share based awards	814,428	19,193
Diluted weighted-average common shares outstanding	<u>65,297,236</u>	<u>63,269,027</u>
Earnings per common share		
Basic	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Diluted	<u>\$ 0.01</u>	<u>\$ 0.01</u>

Outstanding stock options relating to approximately 0 and 2,963,412 weighted-average shares were excluded from the calculation of diluted earnings per share for the three months ended June 30, 2021 and

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

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

2020, respectively, as the impact of including such stock options in the calculation of diluted earnings per share would have an anti-dilutive effect.

	<b>Six Months Ended June 30</b>	
	<u>2021</u>	<u>2020</u>
Numerator		
Net income	\$ 811	\$ 573
Denominator		
Determination of shares		
Weighted-average common shares outstanding	64,379,488	63,166,263
Dilutive effect – share based awards	<u>652,916</u>	<u>19,574</u>
Diluted weighted-average common shares outstanding	<u>65,032,404</u>	<u>63,185,837</u>
Earnings per common share		
Basic	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Diluted	<u>\$ 0.01</u>	<u>\$ 0.01</u>

Outstanding stock options relating to approximately 11,786 and 2,879,512 weighted-average shares were excluded from the calculation of diluted earnings per share for the six months ended June 30, 2021 and 2020, respectively, as the impact of including such stock options in the calculation of diluted earnings per share would have an anti-dilutive effect.

**NOTE 4 – IMPACT OF NEWLY ISSUED ACCOUNTING STANDARDS**

There were no new accounting pronouncements in 2021 that had or are expected to have a material impact on the Company's Consolidated Financial Statements.

**NOTE 5 - SUPPLEMENTARY CASH FLOW INFORMATION**

Interest paid on all indebtedness was approximately \$12 and \$21 for the six months ended June 30, 2021 and 2020, respectively.

Income taxes paid was \$3 and \$0 for the six months ended June 30, 2021 and 2020, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

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

**NOTE 6 – GOODWILL AND INTANGIBLE ASSETS**

Goodwill and intangible assets consist of:

	<u>Estimated Useful Life</u>	<u>Original Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
<b><u>June 30, 2021</u></b>				
Goodwill		\$ 1,031	\$ -	\$ 1,031
Non-competition agreement	4 years	20	(18)	2
Trademarks	15 years	630	(155)	475
Customer Relationships	9 years	1,936	(907)	1,029
License	3 years	150	(150)	-
Patents	15 years	39	(6)	33
Non-amortized trademarks		<u>685</u>	<u>-</u>	<u>685</u>
Total intangible assets		<u>3,460</u>	<u>(1,236)</u>	<u>2,224</u>
Total goodwill and intangible assets		<u>\$ 4,491</u>	<u>\$ (1,236)</u>	<u>\$ 3,255</u>

	<u>Estimated Useful Life</u>	<u>Original Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
<b><u>December 31, 2020</u></b>				
Goodwill		\$ 1,031	\$ -	\$ 1,031
Non-competition agreement	4 years	20	(16)	4
Trademarks	15 years	630	(134)	496
Customer Relationships	9 years	1,936	(799)	1,137
License	3 years	150	(120)	30
Patents	15 years	39	(4)	35
Non-amortized trademarks		<u>685</u>	<u>-</u>	<u>685</u>
Total intangible assets		<u>3,460</u>	<u>(1,073)</u>	<u>2,387</u>
Total goodwill and intangible assets		<u>\$ 4,491</u>	<u>\$ (1,073)</u>	<u>\$ 3,418</u>

Mace Security International, Inc. and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

Amortization of intangible asset expense was \$66 and \$96 for the three months ended June 30, 2021 and 2020, respectively, and \$162 and \$165 for the six months ended June 30, 2021 and 2020, respectively.

Future amortization of intangible asset expense is expected to be as follows:

	<b>Amortization Expense</b>
Fiscal year 2021 (remaining)	\$ 131
Fiscal year 2022	260
Fiscal year 2023	259
Fiscal year 2024	260
Fiscal year 2025	259
Thereafter	367
	<u>\$ 1,536</u>

All of the goodwill is expected to be deductible for income tax purposes. The Company's goodwill and non-amortized trademarks are not amortized, but instead are subject to an annual impairment test. The most recent evaluation was performed as of December 31, 2020. As a result of this evaluation, it was determined that there was no impairment of the Company's intangible assets as of December 31, 2020.

**NOTE 7 – INVENTORIES**

Inventories consist of the following:

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
Raw materials	<u>\$ 2,366</u>	<u>\$ 1,882</u>
Finished goods	<u>1,868</u>	<u>935</u>
Total inventories	<u>\$ 4,234</u>	<u>\$ 2,817</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

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

**NOTE 8 – LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>June 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Line of credit	\$ -	\$ -
Paycheck Protection Program Loan	-	622
\$1,000 secured note payable to seller of acquired business	-	284
Total debt	<u>-</u>	<u>906</u>
Less: current portion of debt	<u>-</u>	<u>(709)</u>
Total long-term debt	<u>\$ -</u>	<u>\$ 197</u>

The Company has a \$2,000 line of credit agreement with a bank (the “2020 Credit Agreement”) which 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 June 30, 2021. The Company recognized \$1 and \$0 interest expense associated with this line of credit for the three months ended June 30, 2021 and 2020, respectively, and \$1 and \$0 for the six months ended June 30, 2021 and 2020, respectively. No amount was drawn under the 2020 Credit Agreement at June 30, 2021 and December 31, 2020.

In 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 had an interest rate of 1% per annum. Interest payments were deferred for six months and were added to principal resulting in a loan balance of \$622 at December 31, 2020. 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 will 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 Loan was prepayable at any time prior to maturity with no prepayment penalties. Funds from the Loan may only be used 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 applied for forgiveness of the Loan and received complete forgiveness during the second quarter of 2021. As a result, the Company recognized a non-operating gain on forgiveness of debt during the six months ended June 30, 2021 of \$625 consisting of forgiven debt and accrued interest. 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 in the CARES Act, during the 24-week period commencing on the date of receipt of the Loan proceeds. The Company recognized interest expense associated with the Loan of \$1 and \$0 for the three months ended June 30, 2021 and 2020, respectively, and \$2 and \$0 for the six-month period ended June 30, 2021 and 2020, respectively.

The \$1,000 secured note payable to seller of 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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

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

is subordinated to the 2020 Credit Agreement and is collateralized by all Company's assets. The Company recognized interest expense associated with this note of \$2 and \$5 for the three months ended June 30, 2021 and 2020, respectively, and \$5 and \$11 for the six months ended June 30, 2021 and 2020. In January 2021, the Company entered into an amendment to the Subordinated Note providing for the early repayment of the note by June 30, 2021 for a \$8 discount. During the second quarter of 2021, the Company paid off this note in full and recognized a non-operating gain on extinguishment of debt of \$8.

**NOTE 9 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the following:

	<b>June 30,</b>		<b>December 31,</b>
	<b>2021</b>		<b>2020</b>
Accrued employee compensation	\$ 152	\$	327
Warranty and returns reserves	76		82
Accrued commissions	33		46
Amounts due customers	64		16
Accrued non-income-based taxes	14		20
Other	74		78
	<hr/>		<hr/>
Total accrued expenses and other current liabilities	\$ 413	\$	569
	<hr/> <hr/>		<hr/> <hr/>

**NOTE 10 – STOCK-BASED COMPENSATION**

The Company's stock option plans are administered by the Compensation Committee (the "Committee") of the Board of Directors.

In 2012, the Company adopted, with shareholder approval, the 2012 Stock Option Plan (the "2012 Plan"). The 2012 Plan provides for the granting of incentive stock options or nonqualified stock options to directors, officers, employees or vendors of the Company. Under the 2012 Plan, 15,000,000 shares of common stock are reserved for issuance. Incentive stock options and nonqualified options have terms which are determined by the Committee, with exercise prices not less than the market value of the shares on the date of grant. The options are exercisable no later than five (5) years after date of grant and vest either immediately or based upon graduated vesting schedules as determined by the Committee. The 2012 Plan terminates on June 21, 2022.

As of June 30, 2021, 4,722,600 stock options were outstanding under the 2012 Plan. Newly issued shares or shares of treasury stock may be used to satisfy requirements resulting from the exercise of stock options.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

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

Activity with respect to this plan is as follows:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Options outstanding at December 31, 2020	4,832,081	\$ 0.31
Options granted	500,000	\$ 0.42
Options expired	(254,500)	\$ 0.40
Options exercised	(354,981)	\$ 0.40
Options outstanding at June 30, 2021	<u>4,722,600</u>	\$ 0.31
Options exercisable	<u>2,104,100</u>	\$ 0.35
Shares available for granting of options	<u>7,582,419</u>	

The Company recognizes compensation expense for all share-based awards on a straight-line basis over the vesting period of the instruments, based upon the grant date fair value of the stock options and stock-based awards issued. Total stock compensation expense was \$52 and \$47 for the three months ended June 30, 2021 and 2020, respectively, and \$95 and \$77 for the six months ended June 30, 2021 and 2020, respectively. No tax benefit was recognized for this compensation expense. At June 30, 2021, total unrecognized stock-based compensation expense is \$286, which has a weighted average period to be recognized of approximately 2.8 years. The Company has elected to recognize forfeitures as they occur.

The following table provides additional information regarding options outstanding as of June 30, 2021:

	Options Exercisable		Options Outstanding		Options Vested or Expected to Vest	
<u>Option Exercise Price Range</u>	<u>Number Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Number Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Number Outstanding</u>	<u>Weighted Average Exercise Price</u>
\$0.01 to \$0.39	2,084,100	\$ 0.34	4,202,600	\$ 0.30	4,202,600	\$ 0.30
\$0.40 to \$1.00	20,000	\$ 0.41	520,000	\$ 0.42	520,000	\$ 0.42
	<u>2,104,100</u>		<u>4,722,600</u>		<u>4,722,600</u>	
Weighted average years remaining term			Options Exercisable	Options Outstanding	Options Vested or Expected to Vest	
			2.1	2.4	2.4	
Aggregate intrinsic value			\$ 577	\$ 1,349	\$ 1,349	



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

Information related to stock options exercised is as follows:

	<u>Six months ended June 30,</u>	
	<u>2021</u>	<u>2020</u>
Proceeds from the exercise of stock options	\$ 101	\$ -
Intrinsic value of stock options exercised	85	-
Income tax benefit related to stock options exercised	85	-

**NOTE 11 – LEASES**

The Company determines whether an arrangement is a lease at inception and whether that lease meets the classification criteria of a finance or operating lease. Some of the Company's lease arrangements contain lease components (e.g., minimum rent payments) and non-lease components (real estate tax, maintenance, etc.). The Company leases its facility and certain office/plant equipment. The Company's facility and a certain equipment lease are operating leases. For its facility lease, the Company accounts for lease components together with non-lease components.

Whenever the Company's leases do not provide an implicit interest rate, the Company uses its incremental borrowing rate, which is based on the lease term and adjusted for impacts of collateral, in determining the present value of lease payments.

At June 30, 2021, the Company's leases have remaining lease terms of 1.9 to 4.4 years, some of which include options to extend the lease for up to three additional 5-year terms. The exercise of lease renewal options is at the Company's discretion. Renewals to extend the lease term are not included in the Company's Right-of-use asset and Lease obligations as they are not reasonably certain of exercise. The Company's leases do not contain any material residual value guarantees or material restrictive covenants. Short-term lease expense is recognized on a straight-line basis over the term of the lease.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

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

The following table presents information about the amount, timing and cash flows arising from the Company's operating leases:

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
<b>Components of lease cost:</b>				
Operating lease cost	\$ 59	\$ 66	\$ 113	\$ 123
Variable lease cost	1	-	2	-
Short-term lease cost	2	2	6	5
Finance lease cost:				
Amortization of right-of-use asset	2	1	5	2
Interest	2	-	2	-
	<u>2</u>	<u>-</u>	<u>2</u>	<u>-</u>
Total	<u>\$ 66</u>	<u>\$ 69</u>	<u>\$ 128</u>	<u>\$ 130</u>

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
<b>Operating lease cash flow information:</b>				
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 63	\$ 66	\$ 116	\$ 103
<b>Finance lease cash information:</b>				
Cash paid for amounts included in the measurement of finance lease liabilities	4	1	4	2
<b>Non-cash activity:</b>				
Right-of-use asset obtained in exchange for finance lease liability	34	-	56	-

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
<b>Operating lease information:</b>		
Weighted-average remaining operating lease term	<b>24 months</b>	36 months
Weighted-average operating lease discount rate	<b>4.26%</b>	4.26%
Operating lease amortization of right-of-use asset	<b>\$ 104</b>	\$ 97
<b>Finance lease information:</b>		
Weighted-average remaining finance lease term	<b>45 months</b>	50 months
Weighted-average finance lease discount rate	<b>3.35%</b>	3.72%
Finance lease amortization of right-of-use asset	<b>\$ 8</b>	\$ 2

	<u>June 30, 2021</u>	
	<u>Operating leases</u>	<u>Finance leases</u>
<b>Maturity of lease obligations:</b>		
2021 (remaining)	\$ 118	\$ 11
2022	237	23
2023	120	20
2024	-	19
Thereafter	-	10
Total undiscounted lease payments	<u>475</u>	<u>83</u>
Less imputed interest	<u>(20)</u>	<u>(7)</u>
Present value of lease obligations	<u>\$ 455</u>	<u>\$ 76</u>

**NOTE 12 – INCOME TAXES**

For each interim reporting period, the Company makes an estimate of the effective tax rate it expects to be applicable for the full fiscal year for its operations. This estimated effective tax rate is used in providing for income taxes on a year-to-date basis. The Company's estimated effective tax rate through the first six months of fiscal 2021 was 3.6% and differs from U.S. federal statutory rate due primarily to (i) the impact of valuation allowances against the Company's deferred tax assets and (ii) U.S. state and local income taxes.

**NOTE 13 – SUBSEQUENT EVENTS**

The Company evaluated its June 30, 2021 financial statements for subsequent events through August 2 2021, the date the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.