

**Mace Security International, Inc.**

**Quarterly Report**

**September 30, 2021**

## **Forward-Looking Statements**

Certain statements and information included in this Quarterly Information and Disclosure Statement constitute “forward-looking statements” within the meaning of the Federal Private Securities Litigation Reform Act of 1995. When used in this Quarterly 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 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; (h) the impact of current and potential hostilities in various parts of the world, as well as other geopolitical or public health concerns; (i) the impact of international supply chain disruptions and delays; (j) the impact on the Company of changes in U.S. Federal and State income tax regulations; and (k) the impact of inflation and the ability of the Company to pass on rising prices to its customers. 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: Michael Weisbarth  
Phone: (216) 539-0485  
Email: [mweisbarth@mace.com](mailto:mweisbarth@mace.com)  
Address: Same as above

### **Item 2 Shares outstanding**

#### **Common Stock**

		September 30, 2021	December 31, 2020
(i)	Period end date:	September 30, 2021	December 31, 2020
(ii)	Number of shares authorized	100,000,000	100,000,000
(iii)	Number of shares outstanding	64,636,219	64,224,228
(iv)	Freely tradable (public float)	38,504,286	33,488,365
(v)	Total number of shareholders of record	94	96

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

**Preferred Stock**

		September 30, 2021	December 31, 2020
(vi)	Period end date:		
(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 nine months ended September 30, 2021 and 2020, including the unaudited interim Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Shareholders' Equity and Consolidated Statements of Cash Flows and Notes to the Consolidated Financial Statements, are filed separately and called Quarterly Report – Third Quarter 2021 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 September 30, 2021 compared with three months ended September 30, 2020**

*Net Sales*

Net sales comparative information for the three months ended September 30, 2021 and 2020, respectively, is as follows:

<u>Net Sales by Type of Customer</u>	<u>Three Months Ended September 30,</u>		<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
	<u>2021</u>	<u>2020</u>		
Consumer	\$ 3,524	\$ 4,323	\$ (799)	(18.5%)
Tactical	60	160	(100)	(62.5)%
International	202	222	(20)	(9.0%)
Other	<u>33</u>	<u>52</u>	<u>(19)</u>	<u>(36.5%)</u>
Total	<u>\$ 3,819</u>	<u>\$ 4,757</u>	<u>\$ (938)</u>	<u>( 19.7%)</u>

Total net sales for the three months ended September 30, 2021, decreased \$938, or 19.7%, compared with net sales for the three months ended September 30, 2020. Net sales to customers in the consumer market decreased \$799, or 18.5%, in the three months ended September 30, 2021, compared with the same period in 2020 due primarily to the loss of a consumer products private label customer in the first quarter of 2021.

Tactical net sales, which include tactical spray products, for the three months ended September 30, 2021, decreased \$100, or 62.5%, compared with the three months ended September 30, 2020, primarily due to the loss at the end of the third quarter 2020 of a tactical private label customer.

Sales to International customers for the three months ended September 30, 2021, compared with the three months ended September 30, 2020 decreased \$20, or 9.0% due primarily to the loss in late 2020 of a couple of international private label customers and the ongoing impact of Covid-19 overseas.

Sales to other types of customers for the three months ended September 30, 2021, compared with the three months ended September 30, 2020, decreased \$19, or 36.5% due primarily to a new consignment customer in 2020 not reordering additional product in 2021.

*Cost of goods sold*

Cost of goods sold for the three months ended September 30, 2021, decreased by 17.9% to \$2,300, or 60.2% of net sales, compared with \$2,802, or 58.9% of net sales, for the three months ended September 30, 2020 due primarily to the 19.7% decrease in net sales. Increased component and transportation costs contributed to an increase in cost of goods sold as a percentage of net sales for the three months ended September 30, 2021.

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*Gross Profit*

Gross profit decreased \$436, or 22.3%, to \$1,519, or 39.8% of net sales, for the three months September 30, 2021, compared with \$1,955, or 41.1% of net sales, for the three months ended September 30, 2020, primarily due to lower net sales and the impact of increasing costs on cost of goods sold.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased by \$128 to \$1,311, or 34.3% of net sales, for the three months ended September 30, 2021, compared with \$1,183, or 24.9% of net sales for the three months ended September 30, 2020. The following table presents the significant expense items causing the increase in selling, general and administrative expenses for the three months ended September 30, 2021, compared with the same period in 2020.

<b><u>Selling, General and Administrative Expense Categories</u></b>	<b><u>Increase (decrease)</u></b>
Salaries and related employee benefits expense primarily related to accrual of contractual and discretionary incentive in 2020	\$ (129)
Advertising and marketing expense increase primarily attributable to increased outside agency branding/marketing related online advertising expenditures in 2021	145
Professional services expense increase primarily attributable digital marketing strategy and increased IT support	54
Provision for loss on trade accounts receivable	47
Research and development expenditure increase related to new products	34
Insurance expense increase due to higher market rates	29
Other factors, net	<u>(52)</u>
Net increase	<u><u>\$ 128</u></u>

*Amortization of intangible assets*

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

*Interest expense*

Interest expense was \$5 and \$9 for the three months ended September 30, 2021 and 2020, respectively, primarily related to the Company's debt.

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*Net income*

Net income decreased by \$540 to \$142 for the three months ended September 30, 2021, compared with net income of \$682 in the three months ended September 30, 2020, due primarily to the factors noted above.

**Nine months ended September 30, 2021 compared with nine months ended September 30, 2020**

*Net Sales*

Net sales comparative information for the nine months ended September 30, 2021 and 2020, respectively, is as follows:

<u>Net Sales by Type of Customer</u>	<u>Nine Months Ended September 30,</u>		<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
	<u>2021</u>	<u>2020</u>		
Consumer	\$ 9,821	\$ 9,564	\$ 257	2.7%
Tactical	214	522	(308)	(59.0%)
International	346	746	(400)	(53.6%)
Other	<u>138</u>	<u>148</u>	<u>(10)</u>	(6.8%)
Total	<u>\$ 10,519</u>	<u>\$ 10,980</u>	<u>\$ (461)</u>	(4.2%)

Total net sales for the nine months ended September 30, 2021, decreased \$461, or 4.2%, compared with net sales for the nine months ended September 30, 2020. Net sales to customers in the consumer market increased \$257, or 2.7%, in the nine months ended September 30, 2021, compared with the same period in 2020. This increase in net sales was due primarily to an increase in sales to existing brick and mortar retailers and e-commerce channels, driven by increased volume of existing items and the introduction of product line extensions, as well as preferred product placement in certain channels. Net sales to customers in the consumer market were negatively impacted by the loss of a consumer products private label customer in the first quarter of 2021 and product returns and sell-through pricing adjustments.

Tactical net sales, which include tactical spray products, for the nine months ended September 30, 2021, decreased \$308, or 59.0%, compared with the nine months ended September 30, 2020, primarily due to the loss of one tactical private label customer in late 2020.

Sales to International customers decreased \$400, or 53.6%, for the nine months ended September 30, 2021, compared with the nine months ended September 30, 2020 due primarily to the loss in late 2020 of a couple of international private label customers and the ongoing impact of Covid-19 overseas.

Sales to other types of customers for the nine months ended September 30, 2021, compared with the nine months ended September 30, 2020, decreased \$10, or 6.8%.

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*Cost of goods sold*

Cost of goods sold for the nine months ended September 30, 2021, decreased by 2.2% to \$6,399, or 60.8% of net sales, compared with \$6,544, or 59.6% of net sales, for the nine months ended September 30, 2020, primarily to the 4.2% decrease in net sales. Increased component and transportation costs contributed to an increase in cost of goods sold as a percentage of net sales for the nine months ended September 30, 2021.

*Gross Profit*

Gross profit decreased \$316, or 7.1%, to \$4,120, or 39.2% of net sales, for the nine months September 30, 2021, compared with \$4,436, or 40.4% of net sales, for the nine months ended September 30, 2020, primarily due to the factors noted above.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased by \$669 to \$3,573, or 34.0% of net sales, for the nine months ended September 30, 2021, compared with \$2,904, or 26.4% of net sales for the nine months ended September 30, 2020. The following table presents the significant expense items causing the increase in selling, general and administrative expenses for the nine months ended September 30, 2021, compared with the same period in 2020.

<b><u>Selling, General and Administrative Expense Categories</u></b>	<b><u>Increase</u></b>
Advertising and marketing expense increase primarily attributable to increased outside agency branding/marketing related online advertising expenditures in 2021	\$ 280
Professional services expense increase primarily attributable digital marketing strategy and IT support	144
Insurance expense increase due to higher market rates	83
Provision for loss on trade accounts receivable	76
Research and development expenditure increase related to new products	63
Other factors, net	<u>23</u>
Net increase	<u><u>\$ 669</u></u>

*Amortization of intangible assets*

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

*Interest expense*

Interest expense was \$15 and \$31 for the nine months ended September 30, 2021 and 2020, respectively, primarily related to the Company's debt.

*Other income*

The Company applied for forgiveness of its Paycheck Protection Program Loan and received complete forgiveness during the nine months ended September 30, 2021. As a result, the Company recognized a non-operating gain on forgiveness of debt during the nine months ended September 30, 2021, of \$625 consisting of forgiven debt and accrued interest.

During the nine months ended September 30, 2021, the Company paid off in full the remaining balance on its \$1,000 secured note payable to the seller of an acquired business and recognized a non-operating gain on extinguishment of debt of \$8.

*Net income*

Net income decreased by \$302 to \$953 for the nine months ended September 30, 2021, compared with net income of \$1,255 in the nine months ended September 30, 2020, due primarily to the factors noted above.

**Liquidity and Capital Resources**

Cash and cash equivalents decreased by \$389 to \$378 on September 30, 2021, compared with \$767 on December 31, 2020. The Company's operating activities used \$66 of cash in the nine months ended September 30, 2021, compared with providing \$415 in the nine months ended September 30, 2020. In the nine months ended September 30, 2021, depreciation and amortization, stock-based compensation, and other non-cash charges totaled \$769, while non-cash gain on forgiveness of PPP Loan and accrued interest and gain on extinguishment of debt totaled (\$633). Changes in operating assets and liabilities used \$1,155 of cash due primarily to factors resulting from normal business conditions of the Company, including (1) higher inventory and (2) higher net accounts payable and accrued liabilities due to timing of payments, (3) partially offset by lower accounts receivable due to collection of receivables from customers.

The Company's capital expenditures in the nine months ended September 30, 2021 were \$135, compared with \$32 in the nine months ended September 30, 2020. At this time, the Company anticipates total fiscal 2021 capital expenditures will be approximately \$290 and will relate principally to production fixtures, capital expenditures relating to new products and IT equipment. The Company anticipates funding future capital expenditures from operating cash flow. There were no commitments for capital expenditures on September 30, 2021.

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.

In December 2020, the Company entered into a \$2,000 line of credit agreement with a bank (the "2020 Credit Agreement"), that 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% on September 30, 2021. From time to time, the Company may draw against its line of credit as business conditions warrant. No amount was drawn against the bank line of credit at September 30, 2021. The Company is working with several banks, including its current bank, to secure a credit facility once the current credit agreement matures to fund its working capital needs.

The \$1,000 secured note payable to the seller of an 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 is subordinated to the 2020 Credit Agreement and is collateralized by all of the Company’s assets. 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.

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 on 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 was 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 nine months ended September 30, 2021 of \$625 consisting of forgiven debt \$622 and accrued interest \$3. The Company used the entire Loan amount for qualifying expenditures. Under the terms of the Loan, the Loan may be forgiven to the extent its proceeds were 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’s 2020 Credit Agreement matures on November 30, 2021. Should the Company be unable to renew or secure a replacement credit facility, this could have a material adverse effect on the Company’s ability to acquire inventory in support of anticipated sales increases.

The Company continues to monitor the impact of the COVID-19 pandemic on its results of operations. The extent to which the Company’s operations may be impacted by the pandemic depends on future developments, which are highly uncertain and cannot be accurately predicted, including new information which may emerge concerning the severity, or reemergence, of the pandemic and actions by government authorities to contain the pandemic or treat its impact. 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, nature, availability and cost of future additional financing and its timing are not known.

### **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. 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.

**Item 8 Exhibits**

- 18.1 Mace Security International, Inc. 2012 Stock Incentive Plan (incorporated herein by reference to Form DEF 14A filed on May 18, 2012)
- 18.2 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)
- 18.3 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)
- 18.4 Bonus Agreement between Mace Security International, Inc., George C. Gehrisch, Jr. and Sanjay Singh dated March 9, 2018 (incorporated herein by reference to OTCQX Annual Information and Disclosure Statement December 31, 2017)
- 18.5 Shareholder Agreement dated March 9, 2018 (incorporated herein by reference to OTCQX Annual Information and Disclosure Statement December 31, 2017)
- 18.6 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)
- 18.7 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)
- 18.8 Employment Agreement dated April 2, 2020 by and between Mace Security International, Inc. and Sanjay Singh (incorporated herein by reference to OTCQX Quarterly Report dated March 31, 2020)
- 18.9 Amendment to Employment Agreement dated July 30, 2020 by and between Mace Security International, Inc. and Sanjay Singh (incorporated herein by reference to OTCQX Quarterly Report dated June 30, 2020)

**Item 9 Issuer's Certifications**

I, Gary Medved, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report of Mace Security International, Inc.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make this statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for the periods presented in this disclosure statement.

Date: November 1, 2021

/s/ Gary Medved  
President and Chief Executive Officer

I, Michael Weisbarth, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report of Mace Security International, Inc.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make this statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for the periods presented in this disclosure statement.

Date: November 1, 2021

/s/ Michael Weisbarth  
Chief Financial Officer