

Consolidated Financial Statements and  
Independent Auditors' Report

**Mace Security International, Inc. and Subsidiaries**

December 31, 2021 and 2020

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
MACE SECURITY INTERNATIONAL, INC. AND SUBSIDIARIES

### *Opinion*

We have audited the consolidated financial statements of Mace Security International, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mace Security International, Inc. and Subsidiaries as of December 31, 2021 and 2020, and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mace Security International, Inc. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mace Security International, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mace Security International, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mace Security International, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

/s/MARCUM LLP

**Cleveland, OH**

March 28, 2022

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED BALANCE SHEETS**

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

<b>ASSETS</b>	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
Current assets:		
Cash and cash equivalents	\$ 239	\$ 767
Accounts receivable, less allowance for doubtful accounts of \$586 and \$544 at December 31, 2021 and 2020, respectively	1,570	2,831
Inventories	4,711	2,817
Other current assets	492	495
Total current assets	7,012	6,910
Property and equipment:		
Buildings and leasehold improvements	260	255
Machinery and equipment	2,234	2,056
Furniture and fixtures	111	110
Total property and equipment	2,605	2,421
Accumulated depreciation and amortization	(2,096)	(1,946)
Total property and equipment, net	509	475
Operating lease - right-of-use asset, net of amortization	334	545
Finance lease - right-of-use asset, net of amortization	66	27
Goodwill	1,031	1,031
Intangible assets, net	2,093	2,387
Other non-current assets	14	14
Total other assets	3,538	4,004
Total assets	<u>\$ 11,059</u>	<u>\$ 11,389</u>

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

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED BALANCE SHEETS**

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

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
Current liabilities:		
Current portion of long-term debt	\$ -	\$ 226
Paycheck Protection Program Loan - current portion	-	483
Bank line of credit	-	-
Current operating lease obligations	227	217
Current finance lease obligations	16	7
Accounts payable	855	1,017
Income taxes payable	59	57
Accrued expenses and other current liabilities	524	569
	<u>1,681</u>	<u>2,576</u>
Total current liabilities		
Long-term debt, net of current portion	-	58
Paycheck Protection Program Loan, net of current portion	-	139
Non-current operating lease obligations	118	346
Non-current finance lease obligations	50	20
	<u>1,849</u>	<u>3,139</u>
Total liabilities		
Commitments and contingencies see Note 14		
Shareholders' equity:		
Preferred stock, \$.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at December 31, 2021 and 2020	-	-
Common stock, \$.01 par value; authorized 100,000,000 shares, issued shares of 64,703,965 and 64,224,228, at December 31, 2021 and 2020, respectively	647	642
Additional paid-in capital	103,822	103,506
Accumulated deficit	(95,237)	(95,876)
	<u>9,232</u>	<u>8,272</u>
Less treasury stock at cost, 90,548 shares at December 31, 2021 and 2020	<u>(22)</u>	<u>(22)</u>
Total shareholders' equity	<u>9,210</u>	<u>8,250</u>
Total liabilities and shareholders' equity	<u>\$ 11,059</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**

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

	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Net sales	<b>\$ 13,072</b>	\$ 15,391
Cost of goods sold	<b>8,014</b>	9,195
Gross profit	<b>5,058</b>	6,196
Selling, general, and administrative expenses	<b>4,753</b>	4,108
Amortization of intangible assets	<b>294</b>	357
Operating income	<b>11</b>	1,731
Interest expense	<b>(25)</b>	(42)
Gain on forgiveness of PPP Loan and accrued interest	<b>625</b>	-
Gain on extinguishment of debt	<b>8</b>	-
Other income, net	<b>28</b>	15
Income before income tax provision	<b>647</b>	1,704
Income tax provision	<b>8</b>	3
Net income	<b>\$ 639</b>	\$ 1,701
Net income per share		
Basic	<b>\$ 0.01</b>	\$ 0.03
Diluted	<b>\$ 0.01</b>	\$ 0.03
Weighted average number of common shares (basic)	<b>64,505,716</b>	63,826,118
Weighted average number of common shares (diluted)	<b>64,937,285</b>	63,926,819

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

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(Amounts in thousands, except share information)

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Treasury</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Deficit</u>	<u>Stock</u>	
			<u>Capital</u>			
<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	<b>194,054</b>	<b>2</b>	<b>218</b>	-	-	<b>220</b>
Exercise of stock options	<b>285,683</b>	<b>3</b>	<b>98</b>	-	-	<b>101</b>
Net income	-	-	-	<b>639</b>	-	<b>639</b>
<b>Balance at December 31, 2021</b>	<u>64,703,965</u>	<u>\$ 647</u>	<u>\$ 103,822</u>	<u>\$ (95,237)</u>	<u>\$ (22)</u>	<u>\$ 9,210</u>

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

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

	<b>Years ended</b>	
	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<u>2021</u>	<u>2020</u>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 639	\$ 1,701
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization, including right-of-use asset amortization	679	711
Stock-based compensation	220	207
Provision for losses on receivables	123	42
Provision for obsolete inventory	22	-
Gain on settlement of contingent consideration related to business acquisition	-	(27)
Gain on forgiveness of PPP Loan and accrued interest	(625)	-
Gain on extinguishment of debt	(8)	-
Changes in operating assets and liabilities:		
Accounts receivable	1,139	(1,330)
Inventories	(1,917)	(1,226)
Prepaid expenses and other assets	2	(49)
Accounts payable	(162)	653
Accrued expenses and other current liabilities	(42)	264
Operating lease obligations	(216)	(203)
Income taxes payable	2	1
Net cash provided by (used in) operating activities	<u>(144)</u>	<u>744</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(191)	(63)
Net cash used in investing activities	<u>(191)</u>	<u>(63)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from line of credit	1,860	-
Repayment of line of credit	(1,860)	(600)
Repayment of debt	(276)	(215)
Paycheck Protection Program Loan proceeds	-	622
Payment of contingent consideration related to business acquisition	-	(23)
Payments on financing lease obligations	(18)	(5)
Exercise of stock options	101	-
Net cash used in financing activities	<u>(193)</u>	<u>(221)</u>
Net increase (decrease) in cash and cash equivalents	<u>(528)</u>	<u>460</u>
Cash and cash equivalents at beginning of year	<u>767</u>	<u>307</u>
Cash and cash equivalents at end of year	<u>\$ 239</u>	<u>\$ 767</u>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

(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.

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.

### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the Company's financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Significant accounting policies are those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. The Company's significant accounting policies are described below.

#### Revenue Recognition

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 income. 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2021 and 2020  
 (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>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Consumer	\$ 12,235	\$ 13,634
Tactical	294	641
International	355	933
Other	188	183
Total	<u>\$ 13,072</u>	<u>\$ 15,391</u>

**Cash and Cash Equivalents**

The Company maintains its cash accounts in regulated financial institutions. The Company considers all highly liquid short-term investments with original maturities at acquisition of three months or less to be cash equivalents. A portion of the Company's cash and cash equivalent balances exceeded FDIC insured amounts at December 31, 2021.

**Accounts Receivable**

The Company's accounts receivable are primarily due from trade customers. Credit is extended based on evaluation of customers' financial condition and, generally, collateral is not required. Customer credit terms vary. Amounts due from customers are stated in the financial statements net of an allowance for doubtful accounts. Accounts which are outstanding longer than the credit terms are considered past due. The Company determines its allowance by considering several factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry in which the Company operates. The Company writes off accounts receivable when they are deemed uncollectible. Any payments subsequently received on such receivables are credited to the Consolidated Statements of Income. International credit risk is managed by requiring most international customers to provide payment in advance of shipment. The Company believes that its accounts receivable credit risk exposure is limited and, other than the impairment of one significant account in 2019, it has not experienced significant write-offs of its trade accounts receivable balances.

During fiscal 2021 and 2020, \$92 and \$34 of accounts receivable were written off against the allowance for doubtful accounts, respectively. Bad debt expense was \$134 and \$42 in fiscal 2021 and 2020, respectively.

**Concentration of Significant Customers**

At December 31, 2021, three customers accounted for 22%, 13% and 10% of the net accounts receivable balance. At December 31, 2020, three customers accounted for 14%, 13% and 10% of the net accounts receivable balance. During the year ended December 31, 2021, three customers accounted for 29%, 12%, and 10% of the Company's net sales. During the year ended December 31, 2020, three customers accounted for 14%, 14%, and 11% of the Company's net sales.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

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

### **Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in first-out (FIFO) method. Inventories consist of defense sprays and various other security and safety products and components used to make such products. The Company periodically reviews the book value of slow-moving inventory items, as well as discontinued product lines, to determine if inventory is properly valued. The Company identifies slow moving or discontinued product lines by a detail review of recent sales volumes of inventory items as well as a review of recent selling prices versus cost and assesses the ability to dispose of inventory items at a price greater than cost. If market value is less than cost, then an adjustment is made to adjust the inventory carrying amount to market value. Obsolete inventory expense was expense of \$22 and \$0 in fiscal 2021 and 2020, respectively.

### **Property and Equipment**

The Company leases its facility. Property and equipment are stated at cost. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets, which are generally as follows: leasehold improvements - 2 to 10 years; machinery and equipment - 3 to 10 years; and furniture and fixtures - 3 to 10 years. Significant additions or improvements extending assets' useful lives or their capabilities are capitalized; normal maintenance and repair costs are expensed as incurred. Depreciation and amortization expense was approximately \$156 and \$150 for the years ended December 31, 2021 and 2020, respectively. Maintenance and repairs are charged to expense as incurred and amounted to approximately \$58 and \$65 for the years ended December 31, 2021 and 2020, respectively.

### **Impairment of Long-Lived Assets**

The Company periodically reviews the carrying value of its (i) long-lived assets held and used and (ii) assets to be disposed of when events and circumstances warrant such a review. If significant events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable, the Company performs a test of recoverability by comparing the carrying value of the asset or asset group to its undiscounted expected future cash flows. Cash flow projections are sometimes based on a group of assets, rather than a single asset. If cash flows cannot be separately and independently identified for a single asset, the Company determines whether impairment has occurred for the group of assets for which it can identify the projected cash flows. If the carrying values are in excess of undiscounted expected future cash flows, the Company measures any impairment by comparing the fair value of the asset group to the carrying value. If the fair value of an asset or asset group is determined to be less than the carrying amount of the asset or asset group, impairment in the amount of the difference is recorded.

### **Intangible Assets**

Intangible assets consist primarily of goodwill, customer relationships, licenses and trademarks. The intangible assets which arose from the Company's business acquisitions are amortized over their respective estimated useful lives. The Mace Brand trademark is considered to have an indefinite life, and as such, is not subject to amortization. These assets along with the Company's goodwill are tested for impairment using a discounted cash flow methodology annually and whenever there is an impairment indicator. Estimating future cash flows requires significant judgment and projections may vary from cash flows eventually realized. Several impairment indicators are beyond the Company's control and, as a result, determining whether or not they will occur cannot be predicted with any certainty.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

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

### Income Taxes

Deferred income taxes are determined based on the difference between the financial accounting and tax basis of assets and liabilities. Deferred income tax expense (benefit) represents the change during the period in the deferred income tax assets and deferred income tax liabilities. In establishing the provision for income taxes and deferred income tax assets and liabilities, and valuation allowances against deferred tax assets, the Company makes judgments and interpretations based on enacted laws, published tax guidance and estimates of future earnings. Deferred income tax assets include tax loss and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

### Advertising and Marketing Costs

The Company expenses advertising costs, including advertising production cost, as the costs are incurred. Advertising expense was approximately \$672 and \$358 for the years ended December 31, 2021 and 2020, respectively.

### Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, short-term investments, trade receivables, notes receivable, contingent stock payable and debt instruments. The carrying values of the Company's financial instruments are considered to be representative of their respective fair values.

In accordance with ASC topic 820, "Fair Value Measurement", a hierarchy is established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring the fair value. The hierarchy defines three levels of inputs that may be used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets for identical unrestricted assets and liabilities that the reporting entity could access at the measurement date.

Level 2 – Inputs other than the quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market data for substantially the entire contractual term of the asset or liability.

Level 3 – Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in the pricing of an asset or liability and are consequently not based on market activity but rather through valuation techniques. The fair value of the Company's notes receivable is determined by calculating the expected amount of cash to be received. Given the relative short-term nature of the notes receivable, discount rate and prepayments were not considered in determining the fair value of the notes receivable. The contingent stock payable fair value was based on a discounted cash flow analysis reflecting the possible achievement of specified performance measures and capturing the contractual nature of the contingencies, commercial risk and the time value of money.

There were no short-term investments and debt instruments recorded at fair value outstanding at December 31, 2021 and 2020.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2021 and 2020

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

The following table summarizes the changes in liabilities measured at fair value using Level 3 inputs for the years ended December 31, 2021 and 2020:

	<b>Year ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Balance at January 1	\$ -	\$ 107
Decrease in contingent earnout payable	-	(27)
Payments	-	(24)
Payment by issuance of stock	-	(56)
Balance at December 31	<u>\$ -</u>	<u>\$ -</u>

**NOTE 3 – ADOPTION OF NEW ACCOUNTING STANDARDS**

In January 2017, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2017-04, “Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment.” This standard eliminates Step 2 of the goodwill impairment test. Instead, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with the carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU is effective for annual and interim periods beginning after December 15, 2021. Early adoption is permitted. This ASU is to be adopted on a prospective basis. The Company adopted ASU No. 2017-04 effective January 1, 2020, and prospectively applied ASU No. 2017-04 as required with no impact on its consolidated financial position, results of operations, or cash flows.

**Impact of Newly Issued Accounting Standards**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2021 and 2020

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

**NOTE 4 – 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>Year ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Numerator		
Net income	\$ 639	\$ 1,701
Denominator		
Determination of shares		
Weighted-average common shares outstanding	64,505,716	63,826,118
Dilutive effect – share based awards	431,569	100,701
Diluted weighted-average common shares outstanding	<u>64,937,285</u>	<u>63,926,819</u>
Earnings per common share		
Basic	<u>\$ 0.01</u>	<u>\$ 0.03</u>
Diluted	<u>\$ 0.01</u>	<u>\$ 0.03</u>

Outstanding stock options relating to approximately 589,962 and 1,609,137 weighted-average shares were excluded from the calculation of diluted earnings per share for the year ended December 31, 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 5 - SUPPLEMENTARY CASH FLOW INFORMATION**

Interest paid on all indebtedness was approximately \$26 and \$41 for the years ended December 31, 2021 and 2020, respectively. Income taxes paid totaled approximately \$13 and \$2 for the years ended December 31, 2021 and 2020, respectively. In the second quarter of 2020, the Company renegotiated the contingent consideration related to a business acquisition and paid it in full with a payment of \$24 and issuance of 325,166 shares of common shares with a fair market value of \$56.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2021 and 2020

(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>December 31, 2021</u></b>				
Goodwill		\$ 1,031	\$ -	\$ 1,031
Non-competition agreement	4 years	20	(20)	-
Trademarks	15 years	630	(176)	454
Customer Relationships	9 years	1,936	(1,014)	922
License	3 years	150	(150)	-
Patents	15 years	39	(7)	32
Non-amortized trademarks		<u>685</u>	<u>-</u>	<u>685</u>
Total intangible assets		<u>3,460</u>	<u>(1,367)</u>	<u>2,093</u>
Total goodwill and intangible assets		<u>\$ 4,491</u>	<u>\$ (1,367)</u>	<u>\$ 3,124</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>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2021 and 2020  
 (Amounts in thousands, except share and per share amounts)

Amortization expense for intangible assets was \$294 and \$357 for the years ended December 31, 2021 and 2020, respectively. Future amortization expense for intangible assets is expected to be as follows:

	<u>Amortization Expense</u>
Fiscal year 2022	\$ 260
Fiscal year 2023	260
Fiscal year 2024	260
Fiscal year 2025	260
Fiscal year 2026	101
Thereafter	267
	<u>\$ 1,408</u>

All goodwill is expected to be deductible for income tax purposes. The Company's goodwill and non-amortized trademarks are not amortized but are instead subject to an annual impairment test. The most recent evaluation was performed as of December 31, 2021. As a result of this evaluation, it was determined that there was no impairment of the Company's intangible assets as of December 31, 2021.

**NOTE 7 – INVENTORIES**

Inventories consist of the following:

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
Raw materials	\$ 2,840	\$ 1,882
Finished goods	<u>1,871</u>	<u>935</u>
Total inventories	<u>\$ 4,711</u>	<u>\$ 2,817</u>

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**NOTE 8 – LONG-TERM DEBT**

Long-term debt consists of the following:

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

The Company has a \$3,000 line of credit agreement with a bank (the “2021 Credit Agreement”) which replaced its previous \$2,000 line of credit agreement with a bank (the “2020 Credit Agreement”). The 2021 Credit Agreement is secured by substantially all the Company’s assets and matures on November 30, 2022. The 2021 Credit Agreement provides for monthly interest payments at a rate equal to SOFR plus 2.0%, with a floor of 2.50%. The interest rate was 2.50% at December 31, 2021. The Company recognized \$8 and \$0 interest expense associated with the 2021 and 2020 Credit Agreements for the years ended December 31, 2021 and 2020, respectively. 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 December 31, 2021.

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 10<sup>th</sup> 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 year ended December 31, 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, 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 recognized interest expense associated with the Loan of \$3 and \$4 for the years ended December 31, 2021 and 2020, respectively.

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The \$1,000 secured note payable to seller of acquired business (the “Subordinated Note”) consisted of a 5% note payable due March 22, 2022 entered into in conjunction with a March 2017 acquisition. The note was subordinated to the 2020 Credit Agreement and was collateralized by all 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 an \$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. The Company recognized interest expense associated with this note of \$5 and \$20 for the years ended December 31, 2021 and 2020, respectively.

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

Accrued expenses and other current liabilities consist of the following:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
Accrued compensation	\$ 47	\$ 327
Vendor provided financing	171	2
Warranty and return reserves	74	82
Accrued commissions	20	47
Amounts due customers	160	16
Accrued non-income-based taxes	11	20
Other	41	76
	<hr/>	<hr/>
Total accrued expenses and other current liabilities	<b>\$ 524</b>	<b>\$ 570</b>

**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 December 31, 2021, 5,126,000 nonqualified stock options were outstanding under the 2012 Plan. Newly issued shares or, to the extent possible, shares of treasury stock are used to satisfy requirements resulting from the exercise of stock options.

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Activity with respect to these plans was as follows:

	2021		2020	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options outstanding beginning of period	4,832,081	\$ 0.31	3,869,649	\$ 0.36
Options granted	1,150,000	\$ 0.53	1,625,000	\$ 0.23
Options forfeited	(100,000)	\$ 0.40	(162,000)	\$ 0.29
Options expired	(401,100)	\$ 0.40	(500,568)	\$ 0.43
Options exercised	(354,981)	\$ 0.40	-	-
Options outstanding end of period	<u>5,126,000</u>	<u>\$ 0.34</u>	<u>4,832,081</u>	<u>\$ 0.31</u>
Options exercisable	<u>2,601,500</u>	<u>\$ 0.33</u>	<u>2,584,581</u>	<u>\$ 0.36</u>
Shares available for granting of options	<u>7,179,019</u>		<u>7,827,919</u>	

The Company recognizes compensation expense for all stock-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 \$220 and \$207 for the years ended December 31, 2021 and 2020, respectively. No tax benefit was recognized for this compensation expense. At December 31, 2021, total unrecognized stock-based compensation expense was \$451, which has a weighted average period to be recognized of approximately 2.9 years. The Company has elected to recognize forfeitures as they occur.

The following table provides additional information regarding options outstanding as of December 31, 2021:

Option Exercise Price Range	Options Exercisable		Options Outstanding		Options Vested or Expected to Vest	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
\$0.01 to \$0.39	2,516,500	\$ 0.32	4,056,000	\$ 0.30	4,056,000	\$ 0.30
\$0.40 to \$1.00	85,000	\$ 0.56	1,070,000	\$ 0.54	1,070,000	\$ 0.54
	<u>2,601,500</u>		<u>5,126,000</u>		<u>5,126,000</u>	

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	Options Exercisable	Options Outstanding	Options Vested or Expected to Vest
Weighted-average years remaining term	2.0	2.4	2.4
Aggregate intrinsic value	\$ 18	\$ 70	\$ 70

Information related to stock options exercised follows:

	Year Ended December 31,	
	2021	2020
Proceeds from the exercise of stock options	101	-
Intrinsic value of stock options exercised	85	-
Income tax benefit related to stock options exercised	85	-

The following table details the weighted-average grant-date fair values and the assumptions used for estimating the fair values of the Company's options at the dates of grant using a Black-Scholes option pricing model:

	Year Ended December 31,	
	2021	2020
Weighted-average per share grant-date fair value	\$0.33659	\$0.09917
Total grant-date fair value	\$387	\$161
Expected term (years)	5	5
Risk-free interest rate	0.66%	0.35%
Volatility	79.6%	49.06%
Dividend yield	0%	0%
Forfeiture rate	0%	0%

**Expected term** - The Company's expected term is based on the period the options are expected to remain outstanding. The Company estimated this amount based on historical experience of similar awards, considering the contractual terms of the awards, vesting requirements and expectations of future behavior.

**Risk-free interest rate** - The Company uses the risk-free interest rate of a U.S. Treasury Note with a similar term on the date of the grant.

**Volatility** - The Company calculates the volatility of the stock price based on historical value and corresponding volatility of the Company's stock price over the prior five years.

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**Dividend yield** - The Company uses a 0% expected dividend yield, as the Company does not have a history of paying dividends and does not anticipate declaring dividends in the foreseeable future.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

**NOTE 11 – INCOME TAXES**

A reconciliation of income taxes computed at the U.S. federal statutory tax rates to total income tax provision applicable to continuing operations expense is as follows:

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Tax at U.S. federal statutory rate	\$ 136	\$ 358
State taxes, net of federal benefit	5	8
Benefit of Paycheck Protection Program loan forgiveness	(131)	-
Exercise of stock options	(5)	-
Expiration of net operating loss carryforward	354	418
Other	(1)	38
Decrease in valuation allowance	(350)	(819)
	<u>\$ 8</u>	<u>\$ 3</u>
Total income tax provision		

The components of income tax provision are:

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Current US state and local income tax provision	<u>\$ 8</u>	<u>\$ 3</u>

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2021 and 2020 are as follows:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
Deferred tax assets:		
Allowance for doubtful accounts	\$ 306	\$ 296
Inventories	160	120
Net operating and capital loss carryforwards	12,326	12,706
Vesting stock options	602	602
Other, net	50	87
Total deferred tax assets	<u>13,444</u>	<u>13,811</u>
Valuation allowance for deferred tax assets	<u>(13,330)</u>	<u>(13,680)</u>
Deferred tax asset after valuation allowance	114	131
Deferred tax liabilities:		
Property, equipment and intangibles	<u>(114)</u>	<u>(131)</u>
<b>Net deferred tax assets</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Under the Tax Cuts and Jobs Act enacted in 2017, net operating loss carryforwards generated after 2017 do not expire but are subject to utilization limitations. At December 31, 2021, the Company had U.S. federal net operating loss carryforwards ("NOLs") of approximately \$49,646 expiring as follows:

Fiscal year 2022	\$ 2,797
Fiscal year 2023	4,114
Fiscal year 2024	5
Fiscal year 2025	862
Fiscal years 2026 - 2030	26,304
Fiscal years 2031 - 2035	15,445
Fiscal years 2036 - 2037	119
	<hr/>
Total	<u><u>\$ 49,646</u></u>

At December 31, 2021, the Company had \$1,712 of non-expiring NOLs which may be carried forward indefinitely until the loss is fully recovered, but which are limited to 80% of the taxable income in any one tax period.

Realization of the future tax benefits related to the deferred tax assets is dependent upon many factors, including the Company's ability to generate taxable income in future years. Under the applicable GAAP rules, the ability to assume future income is heavily influenced by the recent history of financial reporting income. The Company performed a detailed review of the considerations influencing its ability to realize the future benefit of the NOLs, including the extent of recently used NOLs, the turnaround of future deductible temporary differences, and the duration of the NOL carryforward period. Utilization of the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Company's net operating loss and tax credit carryforwards may be subject to annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss or tax credits before utilization. In 2021, \$1,584 of net operating loss carryforwards expired. The Company decreased its total valuation allowance against deferred tax assets by \$350 in 2021 resulting in a total valuation allowance of \$13,330 at December 31, 2021, representing the amount of its deferred income tax assets in excess of the Company's deferred income tax liabilities. The valuation allowance was recorded because the Company's management was unable to conclude that realization of the net deferred income tax asset was more likely than not. This determination was a result of the Company's history of operating losses, and the uncertainty of and the ultimate extent of growth in the Company's business.

The Company follows the appropriate accounting pronouncements which prescribe a model for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on recognition, classification, interest and penalties, disclosure and transition. At December 31, 2021 and 2020, the Company did not have any significant unrecognized tax benefits. The total amount of interest and penalties recognized in the Consolidated Statements of Income for the years ended December 31, 2021 and 2020 was insignificant and when incurred is reported as interest or penalties expense, as applicable.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various state and local jurisdictions. The Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for fiscal years prior to 2018.

### NOTE 12 – DEFINED CONTRIBUTION RETIREMENT PLAN

Substantially all employees of the Company are eligible to participate in the Company's defined contribution retirement plan ("Plan"). The Company's matching contributions to the Plan were \$33 and \$0 for the years ended December 31, 2021 and 2020, respectively.

### NOTE 13 – 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 December 31, 2021, the Company's leases have remaining lease terms of 1.5 to 3.5 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

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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.

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

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
<b>Components of lease cost:</b>		
Operating lease cost	\$ 231	\$ 243
Variable lease cost	3	2
Short-term lease cost	9	8
Finance lease cost:		
Amortization of right-of-use asset	17	5
Interest	4	1
	<hr/>	<hr/>
Total	<u>\$ 264</u>	<u>\$ 259</u>
	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
<b>Operating cash flow information</b>		
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 237	\$ 226
<b>Financing cash flow information:</b>		
Cash paid for amounts included in the measurement of finance lease liabilities	\$ 20	\$ 5
<b>Non-cash activity:</b>		
Right-of-use asset obtained in exchange for finance lease liability	\$ 56	\$ 21
	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
<b>Operating lease information:</b>		
Weighted-average remaining operating lease term	18 months	30 months
Weighted-average operating lease discount rate	4.26%	4.26%
Operating lease amortization of right-of-use asset	\$ 211	\$ 199
<b>Finance lease information:</b>		
Weighted-average remaining finance lease term	39 months	44 months
Weighted-average finance lease discount rate	3.35%	3.72%
Finance lease amortization of right-of-use asset	\$ 18	\$ 5

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	<b>December 31, 2021</b>	
	<u>Operating leases</u>	<u>Finance leases</u>
<b>Maturity of lease obligations:</b>		
2022	\$ 237	\$ 23
2023	120	20
2024	-	19
2025	-	10
Thereafter	-	-
Total undiscounted lease payments	<u>357</u>	<u>72</u>
Less imputed interest	<u>(12)</u>	<u>(6)</u>
Present value of lease obligations	<u>\$ 345</u>	<u>\$ 66</u>

**NOTE 14 – COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Company is involved in legal actions. The Company cannot reasonably estimate future costs, if any, related to these matters; however, it does not believe any such matters are material to its financial condition or results of operations. The Company maintains various liability insurance policies to protect its assets from losses arising out of, or involving activities associated with, ongoing and normal business operations; however, it is possible that the Company's future operating results could be affected by future costs of litigation.

**NOTE 15 – RELATED PARTY TRANSACTIONS**

From time to time, the Company may enter into agreements with related parties in the ordinary course of business and on terms and conditions it believes are as fair as those it offers and receives from independent parties. Such agreements are subject to approval by the Company's Chief Executive Officer and/or the Board of Directors.

In May 2018, the Company entered into an agreement with its then Executive Chairman, George C. Gehrisch, Jr., and Vice-Chairman, Sanjay Singh (now Executive Chairman), engaging them in their capacity as members of the Board of Directors to provide strategic business direction and advice to the rest of the Board of Directors and the Company's Chief Executive Officer with the intention of enhancing the Company's market value and overall profitability for the benefit of all shareholders of the Company. In exchange for their services, the agreement provides for the payment of a bonus based upon the achievement of specific financial results. This agreement expired on December 31, 2021 and was not extended. In 2021 and 2020, \$0 and \$220 was earned and accrued under this agreement, respectively.

In February 2019, the Company entered into a separation agreement with its former Chief Executive Officer, who served through January 19, 2019, providing for the payment of severance through January 2020 totaling \$280. At December 31, 2020 all severance was paid.

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In March 2022, the Company entered into a separation agreement with its former Chief Executive Officer, who served from January 20, 2019 to February 10, 2022, providing for the payment of severance totaling \$204 over a 12-month period of time.

**NOTE 16 – SUMMARIZED QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)**

	<u>2021 Quarter Ended</u>			
	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
Net sales	\$ 3,304	\$ 3,396	\$ 3,819	\$ 2,553
Gross profit	1,275	1,326	1,519	938
Operating income (loss)	118	59	142	(308)
Net income (loss)	109	702	142	(314)
Net income (loss) per share				
Basic	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.00
Diluted	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.00

  

	<u>2020 Quarter Ended</u>			
	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
Net sales	\$ 2,791	\$ 3,432	\$ 4,757	\$ 4,411
Gross profit	1,081	1,400	1,955	1,760
Operating income	131	463	676	461
Net income	120	453	682	446
Net income per share				
Basic	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.01
Diluted	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.01

**NOTE 17 – SUBSEQUENT EVENTS**

The Company evaluated its December 31, 2021 financial statements for subsequent events through March 28, 2022, the date the financial statements were available to be issued. Effective February 10, 2022, Gary Medved resigned as the Company's President and Chief Executive Officer as part of the Board of Directors' business and leadership planning process. Sanjay Singh was appointed Chairman and Chief Executive Officer. On March 25, 2022, Bradley J. Dickerson, Director, announced his resignation from the Company's Board of Directors effective March 31, 2022.

The Company is not aware of any other subsequent events which would require recognition or disclosure in the consolidated financial statements.