

Consolidated Financial Statements  
**Mace Security International, Inc.**  
March 31, 2022 and 2021

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Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED BALANCE SHEETS**

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

<b>ASSETS</b>	<b>March 31, 2022 (Unaudited)</b>	<b>December 31, 2021</b>
Current assets:		
Cash and cash equivalents	\$ 24	\$ 239
Accounts receivable, less allowance for doubtful accounts of \$619 and \$586 at March 31, 2022 and December 31, 2021, respectively	1,528	1,570
Inventories	5,024	4,711
Other current assets	531	492
Total current assets	<u>7,107</u>	<u>7,012</u>
Property and equipment:		
Buildings and leasehold improvements	260	260
Machinery and equipment	2,323	2,234
Furniture and fixtures	111	111
Total property and equipment	<u>2,694</u>	<u>2,605</u>
Accumulated depreciation and amortization	<u>(2,139)</u>	<u>(2,096)</u>
Total property and equipment, net	555	509
Operating lease - right-of-use asset, net of amortization	280	334
Finance lease - right-of-use asset, net of amortization	61	66
Goodwill	1,031	1,031
Intangible assets, net	2,028	2,093
Other non-current assets	14	14
Total other assets	<u>3,414</u>	<u>3,538</u>
Total assets	<u><u>\$ 11,076</u></u>	<u><u>\$ 11,059</u></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)

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>March 31, 2022</b>	<b>December 31, 2021</b>
	<b>(Unaudited)</b>	
Current liabilities:		
Line of credit	\$ 490	\$ -
Current operating lease obligation	230	227
Current finance lease obligation	16	16
Accounts payable	1,014	855
Income taxes payable	56	59
Accrued expenses and other current liabilities	479	524
Total current liabilities	<u>2,285</u>	<u>1,681</u>
Non-current operating lease obligations	60	118
Non-current finance lease obligations	45	50
Total liabilities	<u>2,390</u>	<u>1,849</u>
Shareholders' equity:		
Preferred stock, \$.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at March 31, 2022 and December 31, 2021	-	-
Common stock, \$.01 par value; authorized 100,000,000 shares, issued shares of 64,778,571 and 64,703,965, at March 31, 2022 and December 31, 2021, respectively	648	647
Additional paid-in capital	103,881	103,822
Accumulated deficit	(95,821)	(95,237)
	<u>8,708</u>	<u>9,232</u>
Less treasury stock at cost, 90,548 shares at March 31, 2022 and December 31, 2021	(22)	(22)
Total shareholders' equity	<u>8,686</u>	<u>9,210</u>
Total liabilities and shareholders' equity	<u>\$ 11,076</u>	<u>\$ 11,059</u>

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

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(Amounts in thousands)

	<b>Three Months Ended</b>	
	<b>2022</b>	<b>2021</b>
Net sales	\$ 2,156	\$ 3,304
Cost of goods sold	1,257	2,029
Gross profit	<u>899</u>	<u>1,275</u>
Selling, general, and administrative expenses	1,413	1,061
Amortization of intangible assets	65	96
Operating income (loss)	<u>(579)</u>	<u>118</u>
Interest expense	<u>(5)</u>	<u>(5)</u>
Income (loss) before income tax provision	<u>(584)</u>	113
Income tax provision	<u>-</u>	<u>4</u>
Net income (loss)	<u><u>\$ (584)</u></u>	<u><u>\$ 109</u></u>
Net income (loss) per share		
Basic	\$ (0.01)	\$ 0.00
Diluted	\$ (0.01)	\$ 0.00
Weighted average number of common shares (basic)	64,741,268	64,250,478
Weighted average number of common shares (diluted)	64,741,268	64,707,697

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

**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, 2021</b>	64,224,228	\$ 642	\$ 103,506	\$ (95,876)	\$ (22)	\$ 8,250
Stock-based compensation	194,054	2	218	-	-	220
Exercise of stock options	285,683	3	98	-	-	101
Net income	-	-	-	639	-	639
<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>
<b>Balance at December 31, 2021</b>	64,703,965	\$ 647	\$ 103,822	\$ (95,237)	\$ (22)	\$ 9,210
Stock-based compensation	74,606	1	59	-	-	60
Net loss	-	-	-	(584)	-	(584)
<b>Balance at March 31, 2022</b>	<u>64,778,571</u>	<u>\$ 648</u>	<u>\$ 103,881</u>	<u>\$ (95,821)</u>	<u>\$ (22)</u>	<u>\$ 8,686</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>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ (584)	\$ 109
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization, including right-of-use asset amortization	167	187
Stock-based compensation	60	43
Provision for losses on receivables	34	21
Changes in operating assets and liabilities:		
Accounts receivable	8	116
Inventories	(313)	(327)
Prepaid expenses and other assets	(39)	148
Accounts payable	159	(104)
Accrued expenses and other current liabilities	(45)	56
Operating lease obligations	(55)	(53)
Income taxes payable	(3)	4
Net cash provided by (used in) operating activities	<u>(611)</u>	<u>200</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	<u>(89)</u>	<u>(66)</u>
Net cash used in investing activities	<u>(89)</u>	<u>(66)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from line of credit	740	-
Repayment of line of credit	(250)	-
Repayment of debt	-	(55)
Payments on financing lease obligations	<u>(5)</u>	<u>(2)</u>
Net cash provided by (used in) financing activities	<u>485</u>	<u>(57)</u>
Net increase (decrease) in cash and cash equivalents	<u>(215)</u>	<u>77</u>
Cash and cash equivalents at beginning of year	<u>239</u>	<u>767</u>
Cash and cash equivalents at end of period	<u>\$ 24</u>	<u>\$ 844</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, 2021 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 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**  
**(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 March 31,</u>	
	<u>2022</u>	<u>2021</u>
Consumer	\$ 1,649	\$ 3,060
Tactical	53	70
International	363	118
Other	91	56
Total	<u>\$ 2,156</u>	<u>\$ 3,304</u>

**NOTE 3 – NET INCOME PER SHARE**

The Company's net income (loss) per share was computed by dividing net income (loss) by the weighted-average number of common shares outstanding for each respective period. Diluted earnings (loss) per share was calculated by dividing net income (loss) 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 (loss) per share were as follows:

	<u>Three Months Ended March 31,</u>	
	<u>2022</u>	<u>2021</u>
Numerator		
Net income (loss)	\$ (584)	\$ 109
Denominator		
Determination of shares		
Weighted-average common shares outstanding	64,741,268	64,250,478
Dilutive effect – share based awards	-	457,219
Diluted weighted-average common shares outstanding	<u>64,741,268</u>	<u>64,707,697</u>
Earnings (loss) per common share		
Basic	<u>\$ (0.01)</u>	<u>\$ 0.00</u>
Diluted	<u>\$ (0.01)</u>	<u>\$ 0.00</u>

Outstanding stock options relating to approximately 2,417,250 and 20,625 weighted-average shares were excluded from the calculation of diluted earnings per share for the three months ended March 31, 2022 and 2021, respectively, as the impact of including such stock options in the calculation of diluted earnings per share would have an anti-dilutive effect.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

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

There were no new accounting pronouncements in 2022 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 \$5 and \$4 for the three months ended March 31, 2022 and 2021, respectively.

Income tax paid was \$2 and \$0 for the three months ended March 31, 2022 and 2021, respectively.

**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>March 31, 2022</u></b>				
Goodwill		\$ 1,031	\$ -	\$ 1,031
Non-competition agreement	4 years	20	(20)	-
Trademarks	15 years	630	(186)	444
Customer Relationships	9 years	1,936	(1,068)	868
License	3 years	150	(150)	-
Patents	15 years	39	(8)	31
Non-amortized trademarks		<u>685</u>	<u>-</u>	<u>685</u>
Total intangible assets		<u>3,460</u>	<u>(1,432)</u>	<u>2,028</u>
Total goodwill and intangible assets		<u>\$ 4,491</u>	<u>\$ (1,432)</u>	<u>\$ 3,059</u>

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

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

	<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		685	-	685
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>

Amortization of intangible asset expense was \$65 and \$96 in the three months ended March 31, 2022 and 2021, respectively.

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

	<u>Amortization Expense</u>
Fiscal year 2022 (remaining)	\$ 195
Fiscal year 2023	260
Fiscal year 2024	260
Fiscal year 2025	260
Fiscal year 2026	101
Thereafter	267
	<u>\$ 1,343</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, 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.

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

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

**NOTE 7 – INVENTORIES**

Inventories consist of the following:

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
Raw materials	\$ 2,994	\$ 2,840
Finished goods	<u>2,030</u>	<u>1,871</u>
Total inventories	<u>\$ 5,024</u>	<u>\$ 4,711</u>

**NOTE 8 – LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
Line of credit	\$ 490	\$ -
Less: current portion of debt	<u>(490)</u>	<u>-</u>
Total long-term debt	<u>\$ -</u>	<u>\$ -</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% on March 31, 2022. The Company recognized \$3 and \$0 interest expense associated with the 2021 and 2020 Credit Agreements for the three months ended March 31, 2022 and 2021, respectively. From time to time, the Company may draw against its line of credit as business conditions warrant. At March 31, 2022, \$490 was drawn against the bank line of credit.

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

Accrued expenses and other current liabilities consist of the following:

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
Accrued employee compensation	\$ 282	\$ 47
Vendor provided financing	56	171
Warranty and returns reserves	66	74
Accrued commissions	14	20
Amounts due customers	12	160
Accrued non-income-based taxes	13	11
Other	<u>36</u>	<u>41</u>
Total accrued expenses and other current liabilities	<u>\$ 479</u>	<u>\$ 524</u>

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

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

**NOTE 10 – STOCK-BASED COMPENSATION**

The Company’s stock option plan is 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 March 31, 2022, 4,746,000 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.

Activity with respect to this plan is as follows:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Options outstanding at December 31, 2021	5,126,000	\$ 0.34
Options forfeited	<u>(380,000)</u>	\$ 0.39
Options outstanding at March 31, 2022	4,746,000	\$ 0.34
Options exercisable	<u>2,838,333</u>	\$ 0.34
Shares available for granting of options	<u>7,565,019</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 \$60 and \$43 for the three months ended March 31, 2022 and 2021, respectively. No tax benefit was recognized for this compensation expense. At March 31, 2022, total unrecognized stock-based compensation expense is \$348, which has a weighted average period to be recognized of approximately 2.7 years. The Company has elected to recognize forfeitures as they occur.

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

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

The following table provides additional information regarding options outstanding as of March 31, 2022:

	Options Exercisable		Options Outstanding		Options Vested or Expected to Vest	
Option Exercise Price Range	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
\$0.01 to \$0.39	2,581,000	\$ 0.32	4,056,000	\$ 0.27	4,056,000	\$ 0.27
\$0.40 to \$1.00	257,333	\$ 0.50	1,070,000	\$ 0.49	1,070,000	\$ 0.49
	<u>2,838,333</u>		<u>5,126,000</u>		<u>5,126,000</u>	
			Options Exercisable	Options Outstanding	Options Vested or Expected to Vest	
Weighted average years remaining term			1.9	2.4	2.4	
Aggregate intrinsic value			\$ -	\$ -	\$ -	

There were no stock options exercised in the first three months of 2022 and 2021.

**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 certain equipment leases 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 March 31, 2022, the Company's leases have remaining lease terms of 1.2 to 3.0 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:

	<b><u>Three Months Ended March 31,</u></b>	
	<b><u>2022</u></b>	<b><u>2021</u></b>
<b>Components of lease cost:</b>		
Operating lease cost	\$ 61	\$ 54
Variable lease cost	1	1
Short-term lease cost	3	4
Finance lease cost:		
Amortization of right-of-use asset	5	3
Interest	1	-
	<u>71</u>	<u>62</u>
Total	<u>\$ 71</u>	<u>\$ 62</u>

	<b><u>Three Months Ended March 31,</u></b>	
	<b><u>2022</u></b>	<b><u>2021</u></b>
<b>Operating cash flow information</b>		
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 60	\$ 53
<b>Financing cash flow information:</b>		
Cash paid for amounts included in the measurement of finance lease liabilities	\$ 6	\$ 4
<b>Non-cash activity:</b>		
Right-of-use asset obtained in exchange for finance lease liability	\$ -	\$ 22

	<b><u>March 31,</u></b>	
	<b><u>2022</u></b>	<b><u>2021</u></b>
<b>Operating lease information:</b>		
Weighted-average remaining operating lease term	15 months	27 months
Weighted-average operating lease discount rate	4.26%	4.26%
Operating lease amortization of right-of-use asset	\$ 54	\$ 52
<b>Finance lease information:</b>		
Weighted-average remaining finance lease term	36 months	47 months
Weighted-average finance lease discount rate	3.28%	3.28%
Finance lease amortization of right-of-use asset	\$ 5	\$ 3

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

	<b>March 31, 2022</b>	
	<u>Operating leases</u>	<u>Finance leases</u>
<b>Maturity of lease obligations:</b>		
2022 (remaining)	\$ 178	\$ 17
2023	120	20
2024	-	19
2025	-	10
Thereafter	-	-
Total undiscounted lease payments	<u>298</u>	<u>66</u>
Less imputed interest	<u>(8)</u>	<u>(5)</u>
Present value of lease obligations	<u>\$ 290</u>	<u>\$ 61</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 three months of fiscal 2022 and 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 March 31, 2022 financial statements for subsequent events through May 2, 2022, the date the financial statements were available to be issued. On April 8, 2022, Jayne E. Juvan, Director, announced her resignation from the Company's Board of Directors. The Company is not aware of any other subsequent events which would require recognition or disclosure in the consolidated financial statements.