

Mace Security International, Inc.

Quarterly Report

September 30, 2022

Forward-Looking Statements

Certain statements and information included in this Annual 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 Annual Information and Disclosure Statement, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “projected,” “intend to” or similar expressions are intended to identify “forward-looking statements” within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to several known and unknown risks and uncertainties that may cause our actual results, trends, performance or achievements, or industry trends and results, to differ materially from the future results, trends, performance or achievements expressed or implied by such forward-looking statements. Those risks and uncertainties may include, but are not limited to, (a) general economic and business conditions, including the impact of the 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, including but not limited to the war which resulted from Russia’s invasion of Ukraine, 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

Investor Relations: Remigijus Belzinskas
Phone: (440) 424-5392
Email: rbelzinskas@mace.com
Address: Same as above

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Item 2 Shares outstanding

Common Stock

		September 30, 2022	December 31, 2021
(i)	Period end date:		
(ii)	Number of shares authorized	100,000,000	100,000,000
(iii)	Number of shares outstanding	64,927,574	64,703,965
(iv)	Freely tradable (public float)	41,872,776	38,504,286
(v)	Total number of shareholders of record	95	95

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

Preferred Stock

		September 30, 2022	December 31, 2021
(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, 2022 and 2021, including the unaudited interim Consolidated Balance Sheets, Consolidated Statements of Operations, 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 2022 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, 2022 compared with three months ended September 30, 2021

Net Sales

Net sales comparative information for the three months ended September 30, 2022 and 2021, respectively, is as follows:

<u>Net Sales by Type of Customer</u>	<u>Three Months Ended September 30,</u>		<u>Increase</u>	<u>% Increase</u>
	<u>2022</u>	<u>2021</u>	<u>(Decrease)</u>	<u>(Decrease)</u>
Consumer	\$ 2,316	\$ 3,524	\$ (1,208)	(34.3%)
Tactical	61	60	1	1.7%
International	46	202	(156)	(77.2%)
Other	81	33	48	145.4%
Total	<u>\$ 2,504</u>	<u>\$ 3,819</u>	<u>\$ (1,315)</u>	(34.4%)

Total net sales for the three months ended September 30, 2022, decreased 34.4% to \$2,504, compared with net sales of \$3,819 for the three months ended September 30, 2021. Net sales to customers in the consumer market decreased (\$1,208), or 34.3%, in the three months ended September 30, 2022, compared with the same period in 2021. This decrease in net sales was due primarily to an overall decrease in sales to existing brick and mortar retailers and e-commerce channels from declining consumer demand in response to the effect of inflation on the price of energy and household staple products and the corresponding reduction in impulse or discretionary purchases.

Tactical net sales, which include tactical spray products, for the three months ended September 30, 2022, increased \$1, or 1.7%, compared with the three months ended September 30, 2021.

Sales to International customers for the three months ended September 30, 2022, compared with the three months ended September 30, 2021 decreased (\$156), or (77.2%), due primarily to the impact of declining international consumer demand in response to the effect of inflation on the price of energy and household staple products and the corresponding reduction in impulse or discretionary purchases.

Sales to other types of customers for the three months ended September 30, 2022, compared with the three months ended September 30, 2021, increased \$49 or 145.4% as the Company increased sales to non-traditional customers in the healthcare and hospitality industries.

Cost of goods sold

Cost of goods sold for the three months ended September 30, 2022, decreased 32.9% to \$1,543, or 61.6% of net sales, compared with \$2,300, or 60.2% of net sales, for the three months ended September 30, 2021 primarily due to the 34.4% decrease in net sales. Cost of goods sold for the three months ended September 30, 2022 was negatively impacted by rising component and transportation costs, partially offset by the Company's continuing efforts to reduce its base operating costs.

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Gross Profit

Gross profit decreased (\$558), or 36.7%, to \$961, or 38.4% of net sales, for the three months September 30, 2022, compared with \$1,519, or 39.8% of net sales, for the three months ended September 30, 2021, primarily due to the effect of the factors noted above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased (\$222) to \$1,089, or 43.5% of net sales, for the three months ended September 30, 2022, compared with \$1,311, or 34.3% of net sales for the three months ended September 30, 2021. The following table presents the significant expense items causing the increase in selling, general and administrative expenses for the three months ended September 30, 2022, compared with the same period in 2021.

<u>Selling, General and Administrative Expense Categories</u>	<u>Decrease</u>
Variable commission expense decrease due to lower sales in 2022	\$ (54)
Lower bad debt expense in 2022	(51)
Professional services expense decrease primarily attributable to decrease in digital marketing expenditures	(89)
Other factors, net	<u>(28)</u>
Net decrease	<u><u>\$ (222)</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 \$40 and \$5 for the three months ended September 30, 2022 and 2021, respectively, primarily related to the Company's debt. The Company incurred \$18 of interest expense associated with the Q3 2022 line of credit amendment.

Net income

Net income (loss) decreased by (\$375) to a loss of (\$233) for the three months ended September 30, 2022, compared with net income of \$142 in the three months ended September 30, 2021, due primarily to the factors noted above.

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Nine months ended September 30, 2022 compared with nine months ended September 30, 2021

Net Sales

Net sales comparative information for the nine months ended September 30, 2022 and 2021, 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>2022</u>	<u>2021</u>		
Consumer	\$ 5,731	\$ 9,821	\$ (4,090)	(41.6%)
Tactical	168	214	(46)	(21.5%)
International	482	346	136	39.3%
Other	256	138	118	85.5%
Total	<u>\$ 6,640</u>	<u>\$ 10,519</u>	<u>\$ (3,879)</u>	(36.9%)

Total net sales for the nine months ended September 30, 2022, decreased (\$3,879), or 36.9%, compared with net sales for the nine months ended September 30, 2021. Net sales to customers in the consumer market decreased (\$4,090), or 41.6%, in the nine months ended September 30, 2022, compared with the same period in 2021. This decrease in net sales was due primarily to an overall decrease in sales to existing brick and mortar retailers and e-commerce channels from declining consumer demand in response to the effect of inflation on the price of household staple products and the corresponding reduction in impulse or discretionary purchases.

Tactical net sales, which include tactical spray products, for the nine months ended September 30, 2022, decreased (\$46), or (21.5%), compared with the nine months ended September 30, 2021, primarily due a decrease in sales to several larger tactical customers.

Sales to International customers increased \$136, or 39.3%, for the nine months ended September 30, 2022, compared with the nine months ended September 30, 2021 due primarily to the recovery from the impact of Covid-19 overseas and international freight issues impacting delivery of product in 2021.

Sales to other types of customers for the nine months ended September 30, 2022, increased \$118 or 85.5%, compared with the nine months ended September 30, 2021 as the Company increased sales to non-traditional customers in the healthcare and hospitality industries.

Cost of goods sold

Cost of goods sold for the nine months ended September 30, 2022, decreased by 37.6% to \$3,994, or 60.2% of net sales, compared with \$6,399, or 60.8% of net sales, for the nine months ended September 30, 2021, primarily due to the 36.9% decrease in net sales. Cost of goods sold for the nine months ended September 30, 2022 was negatively impacted by rising component and transportation costs, partially offset by the Company's continuing efforts to reduce its base operating costs

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Gross Profit

Gross profit decreased (\$1,474), or 35.8%, to \$2,646, or 39.8% of net sales, for the nine months September 30, 2022, compared with \$4,120, or 39.2% of net sales, for the nine months ended September 30, 2021, primarily due to the factors noted above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$107 to \$3,680, or 55.4% of net sales, for the nine months ended September 30, 2022, compared with \$3,573, or 34.0% of net sales for the nine months ended September 30, 2021. The following table presents the significant expense items causing the increase in selling, general and administrative expenses for the nine months ended September 30, 2022, compared with the same period in 2021.

<u>Selling, General and Administrative Expense Categories</u>	<u>Increase (Decrease)</u>
Personnel and related benefits expense primarily related to accrual of severance	\$ 116
Variable commission expense decrease due to lower sales in 2022	(206)
Professional services expense increase primarily attributable to increased legal support offset by decreased digital marketing expenditures	213
Other factors, net	<u>(16)</u>
Net increase	<u>\$ 107</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 \$53 and \$15 for the nine months ended September 30, 2022 and 2021, respectively, primarily related to the Company's debt. The Company incurred \$18 of interest expense associated with the Q3 2022 line of credit amendment.

Other income

In 2021, 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.

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Net income

Net income (loss) decreased by (\$2,223) to a net loss of (\$1,270) for the nine months ended September 30, 2022, compared with net income of \$953 in the nine months ended September 30, 2021, due primarily to the factors noted above.

Liquidity and Capital Resources

Cash and cash equivalents decreased by (\$191) to \$48 on September 30, 2022, compared with \$239 on December 31, 2021. The Company's operating activities used \$752 of cash in the nine months ended September 30, 2022, compared with using \$66 in the nine months ended September 30, 2021. In the nine months ended September 30, 2022, depreciation and amortization, stock-based compensation, and other non-cash charges totaled \$767. Changes in operating assets and liabilities used \$249 of cash due primarily to factors resulting from normal business conditions of the Company, including (1) lower net accounts payable and accrued liabilities due to timing of payments, (2) partially offset by lower accounts receivable due to collection of receivables from customers and decrease in sales and lower inventory due to lower inventory purchases.

The Company's capital expenditures in the nine months ended September 30, 2022 were \$139, compared with \$135 in the nine months ended September 30, 2021. At this time, the Company anticipates total fiscal 2022 capital expenditures will be approximately \$165 and will relate principally to capital expenditures for tooling and fixtures for new products. The Company anticipates funding future capital expenditures from operating cash flow. There were no commitments for capital expenditures at September 30, 2022.

The Company has not declared or paid any cash dividends within the last two (2) fiscal years and does not anticipate paying any such dividends in the foreseeable future. The Company currently intends to retain all earnings for the operation and expansion of its business.

The Company has a \$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. On July 29, 2022, the 2021 Credit Agreement was amended (The "2022 Amendment") to extend the maturity date to May 30, 2023. The 2022 Amendment provides for the increase in the interest rate effective December 1, 2022 to SOFR plus 2.5%, with a floor of 2.5%. Under the 2022 Amendment, the Company is subject to a minimum EBITDA level as defined ("Adjusted EBITDA") measured quarterly and certain customary reporting requirements. At September 30, the Company was in compliance with all debt covenants. The 2021 Credit Agreement requires monthly interest payments. The interest rate was 4.625% at September 30, 2022. From time to time, the Company may draw against its line of credit as business conditions warrant. At September 30, 2022, \$715 was drawn under the 2021 Credit Agreement.

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. dated June 7, 2022 were previously filed with the OTCQX on June 9, 2022 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 Mace Security International, Inc. and SecureCheck LLC dated September 28, 2016 (incorporated herein by reference to OTCQX Annual Information and Disclosure Statement December 31, 2016)
- 18.3 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)
- 18.4 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)
- 18.5 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)
- 18.6 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)

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- 18.7 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)
- 18.8 Second Amendment to Employment Agreement dated February 10, 2022 by and between Mace Security International, Inc. and Sanjay Singh (incorporated herein by reference to OTCQX Quarterly Report dated June 30, 2022)

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Item 9 Issuer's Certification

I, Sanjay Singh, Chairman 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 the 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, 2022

/s/ Sanjay Singh
Chairman and Chief Executive Officer