

Mace Security International, Inc.

Quarterly Report

June 30, 2023

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: Sanjay Singh
Phone: (440) 424-5321
Email: ssingh@mace.com
Address: Same as above

Item 2 Shares outstanding

Common Stock

(i)	Period end date:	June 30, 2023	December 31, 2022
(ii)	Number of shares authorized	100,000,000	100,000,000
(iii)	Number of shares outstanding	65,238,485	64,948,482
(iv)	Freely tradable (public float)	42,711,280	41,772,228
(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

(vi)	Period end date:	June 30, 2023	December 31, 2022
(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 six months ended June 30, 2023 and 2022, 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 – Second Quarter 2023 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 June 30, 2023 compared with three months ended June 30, 2022

Net Sales

Net sales comparative information for the three months ended June 30, 2023 and 2022, respectively, is as follows:

<u>Net Sales by Type of Customer</u>	<u>Three Months Ended June 30,</u>		<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
	<u>2023</u>	<u>2022</u>		
Consumer	\$ 1,453	\$ 1,766	\$ (313)	(17.7%)
Tactical	55	54	1	1.9%
International	137	73	64	87.7%
Other	108	88	20	22.7%
Total	<u>\$ 1,753</u>	<u>\$ 1,981</u>	<u>\$ (228)</u>	(11.5%)

Total net sales for the three months ended June 30, 2023, decreased 11.5% to \$1,753, compared with net sales of \$1,981 for the three months ended June 30, 2022. Net sales to customers in the consumer market decreased \$313, or 17.7%, in the three months ended June 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 three months ended June 30, 2023, were comparable with net sales for the three months ended June 30, 2022.

Sales to International customers for the three months ended June 30, 2023, compared with the three months ended June 30, 2022 increased \$64, or 87.7% due to sales to new international accounts and a couple of international customers placing larger orders.

Sales to other types of customers for the three months ended June 30, 2023, compared with the three months ended June 30, 2022, increased \$20 or 22.7% 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 June 30, 2023, increased 3.4% to \$1,235, or 70.4% of net sales, compared with \$1,194, or 60.3% of net sales, for the three months ended June 30, 2022 primarily due to decrease in net sales, productivity decreases due to lower production volumes, and component and shipping cost increases.

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Gross Profit

Gross profit decreased \$269, or 34.2%, to \$518, or 29.5% of net sales, for the three months June 30, 2023, compared with \$787, or 39.7% of net sales, for the three months ended June 30, 2022, primarily due to the effect of the factors noted above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by \$128 to \$1,050, or 60.0% of net sales, for the three months ended June 30, 2023, compared with \$1,178, or 59.5% of net sales for the three months ended June 30, 2022. The following table presents the significant expense items causing the decrease in selling, general and administrative expenses for the three months ended June 30, 2023, compared with the same period in 2022.

<u>Selling, General and Administrative Expense Categories</u>	<u>Decrease</u>
Salaries and related employee benefits expense	\$ (51)
Advertising and marketing expenditure decrease	(63)
Professional services expense decrease, partially offset by \$48 of lender due diligence costs and line of credit extension fees	(25)
Other factors, net	<u>11</u>
Net decrease	<u><u>\$ (128)</u></u>

Amortization of intangible assets

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

Interest expense

Interest expense was \$32 and \$8 for the three months ended June 30, 2023 and 2022, respectively, primarily related to the Company's debt.

Net loss

Net loss increased by \$177 to a loss of (\$629) for the three months ended June 30, 2023, compared with net loss of (\$452) in the three months ended June 30, 2021, due primarily to the factors noted above.

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Six months ended June 30, 2023 compared with six months ended June 30, 2022

Net Sales

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

<u>Net Sales by Type of Customer</u>	<u>Six Months Ended June 30,</u>		<u>Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
	<u>2023</u>	<u>2022</u>		
Consumer	\$ 2,980	\$ 3,415	\$ (435)	(12.7%)
Tactical	125	107	18	16.8%
International	170	437	(267)	(61.1%)
Other	139	178	(39)	(21.9%)
Total	<u>\$ 3,414</u>	<u>\$ 4,137</u>	<u>\$ (723)</u>	(17.5%)

Total net sales for the six months ended June 30, 2023, decreased \$723, or 17.5%, compared with net sales for the six months ended June 30, 2022. Net sales to customers in the consumer market decreased \$435, or 12.7%, in the six months ended June 30, 2023, compared with the same period in 2022. 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 six months ended June 30, 2023, nominally increased \$18, or 16.8%, compared with the six months ended June 30, 2022.

Sales to International customers decreased \$267, or 61.1%, for the six months ended June 30, 2023, compared with the six months ended June 30, 2021 due primarily to the increase in orders experienced in the six months ended June 30, 2022 due 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 six months ended June 30, 2022, nominally decreased \$39 or 17.5%, compared with the three months ended June 30, 2022.

Cost of goods sold

Cost of goods sold for the six months ended June 30, 2023, increased by 2.2% to \$2,486, or 72.8% of net sales, compared with \$2,451, or 59.2% of net sales, for the six months ended June 30, 2022, primarily due to decrease in net sales, productivity decreases due to lower production volumes, and component and shipping cost increases. During the first quarter of 2023, productivity was also impacted by COVID at the Mace facility affecting production and a physical inventory in March 2023 which halted production for several days.

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Gross Profit

Gross profit decreased (\$758), or 45.0%, to \$928, or 27.2% of net sales, for the six months June 30, 2023, compared with \$1,686, or 40.8% of net sales, for the six months ended June 30, 2022, primarily due to the factors noted above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by \$472 to \$2,119, or 62.1% of net sales, for the six months ended June 30, 2023, compared with \$2,591, or 62.6% of net sales for the six months ended June 30, 2022. The following table presents the significant expense items causing the increase in selling, general and administrative expenses for the six months ended June 30, 2023, compared with the same period in 2022.

<u>Selling, General and Administrative Expense Categories</u>	<u>Increase</u>
Salaries and related employee benefits expense	\$ (285)
Advertising and marketing expenditure decrease	(97)
Other factors, net	<u>(90)</u>
Net decrease	<u>\$ (472)</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 \$55 and \$13 for the six months ended June 30, 2023 and 2022, respectively, primarily related to the Company's debt.

Net income

Net loss decreased by \$340 to a net loss of (\$1,376) for the six months ended June 30, 2023, compared with net loss of (\$1,036) in the six months ended June 30, 2022, due primarily to the factors noted above.

Liquidity and Capital Resources

Cash and cash equivalents increased by \$315 to \$377 on June 30, 2023, compared with \$62 on December 31, 2022. The Company's operating activities used \$631 of cash in the six months ended June 30, 2023, compared with using \$949 in the six months ended June 30, 2022. The Company incurred a loss of (\$1,376) in the six months ended June 30, 2023. This net loss was partially offset in the six months ended June 30, 2023, by (1) depreciation and amortization, stock-based compensation, and other non-cash charges totaled \$472; and (2) changes in operating assets and liabilities provided \$273 of cash due primarily to factors resulting from normal business conditions of the Company, including (i) lower inventory and accounts receivable due to collection of receivables from customers

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and decrease in sales, and (ii) partially offset by higher net accounts payable and accrued liabilities due to timing of payments,

The Company's capital expenditures in the six months ended June 30, 2023 were \$29, compared with \$113 in the six months ended June 30, 2022. At this time, the Company anticipates total fiscal 2023 capital expenditures will be approximately \$35 and will relate principally to capital expenditures for tooling, fixtures and IT equipment. The Company anticipates funding future capital expenditures from operating cash flow. There were no commitments for capital expenditures at June 30, 2023.

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 had a \$3,000 line of credit agreement with a bank (the "2021 Credit Agreement"). The 2021 Credit Agreement is secured by substantially all the Company's assets. The bank has advised that it will not renew the 2021 Credit Agreement. On May 25, 2023, the 2021 Credit Agreement was amended (the "May 2023 Amendment") to extend the maturity date to July 31, 2023. The May 2023 Amendment reduced the credit agreement facility to \$1,500 and provides for the increase in the interest rate effective May 25, 2023 to SOFR plus 4.0%, with a floor of 4.0%. The 2021 Credit Agreement requires monthly interest payments. The interest rate was 9.25% at June 30, 2023.

On July 31, 2023, the 2021 Credit Agreement was amended (the "July 2023 Amendment") to extend the maturity date of the bank line of credit to September 30, 2023 from July 31, 2023. The July 2023 amendment also provided for the reduction of the credit facility to \$1,250 from \$1,500 on and after September 1, 2023, and the interest rate was increased to SOFR plus 6% from SOFR plus 4%.

The accompanying consolidated financial statements of the Company have been prepared assuming the Company will continue as a going concern and in accordance with generally accepted accounting principles in the United States of America. The going concern basis of presentation assumes that the Company will continue in operations one year after the date these financial statements are issued and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Pursuant to the requirements of the Financial Accounting Standards Board's Accounting Standards Codification (the "ASC") Topic 250-40, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, management must evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year from the date these financial statements are issued. This evaluation does not take into consideration the potential mitigating effects of management's plans that have not yet been fully implemented or are not within control of the Company as of the date the financial statements are issued. When substantial doubt exists under this methodology, management evaluates whether the mitigating effect of its plans sufficiently alleviates substantial doubt about the Company's ability to continue as a going concern. The mitigating effect of management's plans, however, is only considered if both (1) it is probable that the plans will be effectively implemented within one year after the date that the financial statements are issued, and (2) it is probable that the plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The Company had cash and cash equivalents of \$377 and accumulated deficit of \$98,351 at June 30, 2023 and a net loss of \$1,376 for the six months ended June 30, 2023. The Company has drawn \$1,500 against its bank line of credit at June 30, 2023. The bank has advised the Company that the line of credit will not be renewed. Effective May 25, 2023, the Company's bank line of credit maturity date was extended to July 31, 2023. On July 31, 2023, the Company's bank line of credit maturity date was extended to September 30, 2023. The Company is working with commercial lenders to secure a line of credit to pay off the Company's bank line of credit. The absence of a replacement credit facility as

of the filing date of these financial statements raises substantial doubt regarding the Company's ability to continue as a going concern for a period of at least one year from the date of issuance of these consolidated financial statements. There are no assurances that such financing would be available to the Company on favorable terms or at all. The Company's ability to obtain financing in the debt and equity capital markets is subject to several factors, including market and economic conditions, the Company's performance and investor sentiment with respect to the Company.

On July 27, 2023, the Company closed its non-brokered private placement of unsecured convertible notes with board members and shareholders. The convertible notes have an aggregate principal amount of \$590 and have a two-year term, 10% per annum simple interest and are convertible into common shares of the Company at a conversion price of \$0.0852 per common share equivalent to a 20% premium of the share price in the last 60 trading days prior to the closing date.

Should the Company be unable to secure a replacement credit facility, or should the Company require capital in excess of the amount available under a replacement credit facility, this could have a material adverse effect on the Company's ability to operate and acquire inventory in support of customer sales demand.

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 OTC 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)
- 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)

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: August 14, 2023

/s/ Sanjay Singh
Chairman and Chief Executive Officer