Consolidated Financial Statements

Mace Security International, Inc.

September 30, 2023 and 2022

Contents

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

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

ASSETS	September 30, 2023 (Unaudited)	December 31, 2022
Current assets:		
Cash and cash equivalents	$ 754	$ 62
Accounts receivable, less allowance for doubtful accounts of $164 and $257 at September 30, 2023 and December 31, 2022, respectively	723	1,105
Inventories	4,008	4,138
Other current assets	583	502
Total current assets	6,068	5,807
Property and equipment:		
Buildings and leasehold improvements	260	260
Machinery and equipment	2,424	2,387
Furniture and fixtures	111	111
Total property and equipment	2,795	2,758
Accumulated depreciation and amortization	(2,451)	(2,297)
Total property and equipment, net	344	461
Operating lease - right-of-use asset, net of amortization	1,176	1,335
Finance lease - right-of-use asset, net of amortization	35	50
Goodwill	1,031	1,031
Intangible assets, net	1,638	1,833
Other non-current assets	14	14
Total other assets	3,894	4,263
Total assets	$ 10,306	$ 10,531

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	**September 30, 2023 (Unaudited)**	**December 31, 2022**
Current liabilities:		
Line of credit	$ 1,500	$ 515
Derivative liability	214	-
Current operating lease obligation	219	198
Current finance lease obligation	15	16
Accounts payable	702	520
Income taxes payable	54	55
Accrued expenses and other current liabilities	489	379
Total current liabilities	3,193	1,683
Convertible debt	445	-
Non-current operating lease obligations	977	1,143
Non-current finance lease obligations	20	34
Total liabilities	4,635	2,860
Shareholders' equity:		
Preferred stock, $.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at September 30, 2023 and December 31, 2022	-	-
Common stock, $.01 par value; authorized 100,000,000 shares, issued shares of 65,612,503 and 65,039,030, at September 30, 2023 and December 31, 2022, respectively	656	650
Additional paid-in capital	104,158	104,018
Accumulated deficit	(99,121)	(96,975)
	5,693	7,693
Less treasury stock at cost, 90,548 shares at September 30, 2023 and December 31, 2022	(22)	(22)
Total shareholders' equity	5,671	7,671
Total liabilities and shareholders' equity	$ 10,306	$ 10,531

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)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Net sales	**$ 4,912**	$ 6,640
Cost of goods sold	**3,533**	3,994
Gross profit	**1,379**	2,646
Selling, general, and administrative expenses	**3,149**	3,680
Amortization of intangible assets	**195**	195
Operating loss	**(1,965)**	(1,229)
Interest expense	**(123)**	(53)
Loss on derivative liability	**(58)**	-
Other income, net	**-**	12
Loss before income tax provision	**(2,146)**	(1,270)
Income tax provision	**-**	-
Net loss	**$ (2,146)**	$ (1,270)
Net loss per share		
Basic	**$ (0.03)**	$ (0.02)
Diluted	**$ (0.03)**	$ (0.02)
Weighted average number of common shares (basic)	**65,234,525**	64,835,743
Weighted average number of common shares (diluted)	**65,234,525**	64,835,743

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)

	Three Months Ended September 30, 2023		Three Months Ended September 30, 2022	
Net sales	**$**	**1,497**	$	2,504
Cost of goods sold		**1,047**		1,543
Gross profit		**450**		961
Selling, general, and administrative expenses		**1,030**		1,089
Amortization of intangible assets		**65**		65
Operating loss		**(645)**		(193)
Interest expense		**(68)**		(40)
Loss on derivative liability		**(58)**		-
Loss before income tax provision		**(771)**		(233)
Income tax provision		**-**		-
Net loss	**$**	**(771)**	$	(233)
Net loss per share				
Basic	**$**	**(0.01)**	$	-
Diluted	**$**	**(0.01)**	$	-
Weighted average number of common shares (basic)		**65,451,088**		64,913,150
Weighted average number of common shares (diluted)		**65,451,088**		64,913,150

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	Accumulated	Treasury	
	Shares	Amount	Capital	Deficit	Stock	Total
Balance at January 1, 2022	64,703,965	$ 647	$ 103,822	$ (95,237)	$ (22)	$ 9,210
Stock-based compensation	335,065	3	196	-	-	199
Net loss	-	-	-	(1,738)	-	(1,738)
Balance at December 31, 2022	65,039,030	$ 650	$ 104,018	$ (96,975)	$ (22)	$ 7,671
Balance at December 31, 2022	**65,039,030**	**$ 650**	**$ 104,018**	**$ (96,975)**	**$ (22)**	**$ 7,671**
Stock-based compensation	**573,473**	**6**	**140**	**-**	**-**	**146**
Net loss	**-**	**-**	**-**	**(2,146)**	**-**	**(2,146)**
Balance at September 30, 2023	**65,612,503**	**$ 656**	**$ 104,158**	**$ (99,121)**	**$ (22)**	**$ 5,671**

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)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash Flows from Operating Activities:		
Net loss	**$ (2,146)**	$ (1,270)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization, including right-of-use asset amortization	**523**	519
Amortization of debt discount	**11**	-
Stock-based compensation	**146**	150
Provision for losses on receivables	**27**	97
Loss on derivative liability	**58**	-
Changes in operating assets and liabilities:		
Accounts receivable	**356**	42
Inventories	**130**	320
Prepaid expenses and other assets	**(82)**	(151)
Accounts payable	**182**	(428)
Accrued expenses and other current liabilities	**110**	142
Operating lease obligations	**(145)**	(169)
Income taxes payable	**(1)**	(4)
Net cash used in operating activities	**(831)**	(752)
Cash Flows from Investing Activities:		
Purchase of property and equipment	**(37)**	(139)
Net cash used in investing activities	**(37)**	(139)
Cash Flows from Financing Activities:		
Proceeds from line of credit	**985**	2,385
Repayment of line of credit	**-**	(1,670)
Proceeds from convertible debt	**590**	-
Payments on financing lease obligations	**(15)**	(15)
Net cash provided by financing activities	**1,560**	700
Net increase (decrease) in cash and cash equivalents	**692**	(191)
Cash and cash equivalents at beginning of year	**62**	239
Cash and cash equivalents at end of period	**$ 754**	$ 48

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, 2022 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.

Going Concern

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 $754 and accumulated deficit of $99,121 at September 30, 2023 and a net loss of $2,146 for the nine months ended September 30, 2023. The Company had drawn $1,500 against its bank line of credit at September 30, 2023. On October 20, 2023, this bank line of credit was repaid with the proceeds of a $2,000 revolving credit loan from a commercial asset-based lender ("2023 Credit Agreement"). The new credit facility matures in 3 years, and bears interest at Wall Street Prime plus 6 percent, with a floor of 14.25%. This new credit facility is secured by substantially all assets of the Company. The amount drawn under the new credit facility at closing was $1,463.

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.

The Company has experienced significant operating losses due to lower sales levels in recent quarters. The amount of credit available under the 2023 Credit Agreement due to these lower sales levels may not provide sufficient working capital for the Company. Alternative sources of financing may need to be obtained. 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. These factors raise 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.

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 products. 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 estimated future warranty costs in the period in which the sale is recorded. The expected costs associated with the Company's warranties are recognized in cost of goods sold in the consolidated statements of operations. 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
Net Sales by Type of Customer	**2023**	**2022**	**2023**	**2022**
Consumer	**$ 1 ,356**	$ 2,316	**$ 4,336**	$ 5,731
Tactical	**57**	61	**183**	168
International	**65**	46	**235**	482
Other	**19**	81	**158**	256
Total	**$ 1,497**	$ 2,504	**$ 4,912**	$ 6,640

NOTE 3 – 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 and Disclosures", 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 key inputs to the valuation model that was utilized to estimate the fair value of the convertible note derivative liability include:

Discount rate – Bond equivalent yield	**5.46%**
Remaining term (years)	**1.82 years**
Equity volatility	**230%**
Dividends	**None**
Discount for lack of marketability	**57%**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Amounts in thousands, except share and per share amounts)

The following table summarizes the Company's short-term investments, notes receivable and debt instruments recorded at fair value by fair value hierarchy levels as of September 30, 2023 and December 31, 2022:

	September 30, 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities:				
Convertible note derivative liability	$ -	$ -	$ 214	$ 214
Total liabilities	$ -	$ -	$ 214	$ 214

	December 31, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities:				
Convertible note derivative liability	$ -	$ -	$ -	$ -
Total liabilities	$ -	$ -	$ -	$ -

The following table provides a reconciliation of the beginning and ending balances for the convertible note derivative liability measured at fair value using significant unobservable inputs (Level 3):

	Nine Months Ended September 30	
	2023	**2022**
Balance at beginning of period	$ -	$ -
Initial recognition July 27, 2023	156	-
Loss (gain) on derivative liability	58	-
Balance at end of period	214	-

NOTE 4 – NET LOSS PER SHARE

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Amounts in thousands, except share and per share amounts)

	Three Months Ended September 30,	
	2023	**2022**
Numerator		
Net loss	**$ (771)**	$ (233)
Denominator		
Determination of shares		
Weighted-average common shares outstanding	**65,451,088**	64,913,150
Dilutive effect - if-converted convertible notes	**-**	-
Dilutive effect – share based awards	**-**	-
Diluted weighted-average common shares outstanding	**65,451,088**	64,913,150
Loss per common share		
Basic	**$ (0.01)**	$ (0.00)
Diluted	**$ (0.01)**	$ (0.00)

Common stock issuable under (i) outstanding stock options of approximately 2,991,666 and 2,663,333 weighted-average shares and (ii) convertible notes of 6,924,883 and 0 weighted-average shares were excluded from the calculation of diluted loss per share for the three months ended September 30, 2023 and 2022, respectively, as the impact of including such stock options and convertible notes in the calculation of diluted earnings per share would have an anti-dilutive.

	Nine Months Ended September 30	
	2023	**2022**
Numerator		
Net loss	**$ (2,146)**	$ (1,270)
Denominator		
Determination of shares		
Weighted-average common shares outstanding	**65,234,525**	64,835,743
Dilutive effect – if-converted convertible notes	**-**	-
Dilutive effect – share based awards	**-**	-
Diluted weighted-average common shares outstanding	**65,234,525**	64,835,743
Loss per common share		
Basic	**$ (0.03)**	$ (0.02)
Diluted	**$ (0.03)**	$ (0.02)

Common stock issuable under (i) outstanding stock options of approximately 3,093,033 and 2,514,050 weighted-average shares and (ii) convertible notes of 2,077,465 and 0 weighted-average shares were excluded from the calculation of diluted loss per share for the nine months ended September 30, 2023 and

2022, 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 – ADOPTION OF NEW ACCOUNTING STANDARD

The Company adopted Accounting Standards Update No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), as amended effective January 1, 2023. ASU 2016-13 changed the impairment model for most financial assets and requires the use of an expected loss model in place of the previously used incurred loss method. Under this model, the Company now estimates the lifetime expected credit loss on such instruments and records an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. The adoption of ASU 2016-13 did not have a material impact on the Company's consolidated financial statements.

The Company adopted Accounting Standards Update No. 2020-06, "Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity" ("ASU 2020-06"), effective January 1, 2023. ASU 2020-06 simplifies accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. ASU 2020-06 also expands disclosure requirements for convertible instruments and simplifies diluted earnings per share calculations. Under ASU 2020-06, entities must apply the more dilutive of the if-converted method and the two-class method to all convertible instruments in computing diluted net income per share. There were no changes to the Company's financial statements at adoption since the Company had no existing convertible notes.

There were no other new accounting pronouncements in 2023 that had or are expected to have a material impact on the Company's Consolidated Financial Statements.

NOTE 6 - SUPPLEMENTARY CASH FLOW INFORMATION

Interest paid on all indebtedness was approximately \$92 and \$47 for the nine months ended September 30, 2023 and 2022, respectively.

Income taxes paid was \$1 and \$4 for the nine months ended September 30, 2023 and 2022, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Amounts in thousands, except share and per share amounts)

NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of:

	Estimated Useful Life	Original Cost	Accumulated Amortization	Net Book Value
September 30, 2023				
Goodwill		**$ 1,031**	$ -	**$ 1,031**
Non-competition agreement	**4 years**	**20**	**(20)**	**-**
Trademarks	**15 years**	**630**	**(249)**	**381**
Customer Relationships	**9 years**	**1,936**	**(1,391)**	**545**
License	**3 years**	**150**	**(150)**	**-**
Patents	**15 years**	**39**	**(12)**	**27**
Non-amortized trademarks		**685**	**-**	**685**
Total intangible assets		**3,460**	**(1,822)**	**1,638**
Total goodwill and intangible assets		**$ 4,491**	**$ (1,822)**	**$ 2,669**

	Estimated Useful Life	Original Cost	Accumulated Amortization	Net Book Value
December 31, 2022				
Goodwill		$ 1,031	$ -	$ 1,031
Non-competition agreement	4 years	20	(20)	-
Trademarks	15 years	630	(218)	412
Customer Relationships	9 years	1,936	(1,229)	707
License	3 years	150	(150)	-
Patents	15 years	39	(10)	29
Non-amortized trademarks		685	-	685
Total intangible assets		3,460	(1,627)	1,833
Total goodwill and intangible assets		$ 4,491	$ (1,627)	$ 2,864

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

Amortization of intangible asset expense was $65 and $65 for the three months ended September 30, 2023 and 2022, respectively, and $195 and $195 for the nine months ended September 30, 2023 and 2022, respectively.

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

	Amortization Expense
Fiscal year 2023 (remaining)	$ 65
Fiscal year 2024	260
Fiscal year 2025	260
Fiscal year 2026	101
Fiscal year 2027	49
Thereafter	218
	$ 953

All 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, 2022. As a result of this evaluation, it was determined that there was no impairment of the Company's intangible assets as of December 31, 2022.

NOTE 8 – INVENTORIES

Inventories consist of the following:

	September 30, 2023	December 31, 2022
Raw materials	**$ 1,642**	$ 2,319
Finished goods	**2,366**	1,819
Total inventories	**$ 4,008**	$ 4,138

NOTE 9 – LONG-TERM DEBT

Long-term debt consists of the following:

	September 30, 2023	December 31, 2022
Line of credit	$ **1,500**	$ 515
Convertible notes	**445**	-
Less: current portion of debt	**(1,500)**	(515)
Total long-term debt	$ **445**	$ -

Line of credit:
The Company had a $3,000 line of credit agreement with a bank (the "2021 Credit Agreement"). The 2021 Credit Agreement was secured by substantially all the Company's assets. The 2021 Credit Agreement requires monthly interest payments. 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%. 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 increased the rate of interest to SOFR plus 6% from SOFR plus 4%. The interest rate was 11.375% at September 30, 2023.

On October 20, 2023, the 2021 Credit Agreement was repaid with the proceeds of a $2,000 revolving credit loan from a commercial asset-based lender ("2023 Credit Agreement"). The new credit facility matures in 3 years, and bears interest at Wall Street Prime plus 6 percent, with a floor of 14.25%. This new credit facility is secured by substantially all assets of the Company. The amount drawn under the new credit facility at closing was $1,463.

The Company recognized $31 and $17 interest expense associated with 2021 Credit Agreements for the three months ended September 30, 2023 and 2022, respectively, and $83 and $27 interest expense associated with the 2021 Credit Agreement for the nine months ended September 30, 2023 and 2022, respectively. At September 30, 2023, $1,500 was drawn under the 2021 Credit Agreement.

Convertible Notes:
The Company closed a non-brokered private placement of unsecured convertible notes with board members and shareholders on July 27, 2023 ("2023 Convertible Notes"). The 2023 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 stock of the Company at a conversion price of $0.0852 per common stock equivalent to a 20% premium of the share price in the last 60 trading days prior to the closing date. If interest is not paid when due, whether at stated maturity, by acceleration, or otherwise, such unpaid interest shall be cumulative, accruing until paid. The 2023 Convertible Notes are subordinated in right of payment to all current and future indebtedness of the Company for borrowed money.

The principal balance and unpaid accrued interest on the 2023 Convertible Notes will automatically convert into Common Stock of the Company upon the closing of the next sale (or series of related sales) by the Company of its Equity Securities following the date of issuance of the 2023 Convertible Notes with the principal purpose of raising capital and from which the Company receives aggregate gross proceeds of not less than $1,000.

In the event of a Corporate Transaction as defined prior to the conversion or the repayment of the 2023 Convertible Notes, at the closing of such Corporate Transaction, the Holder may elect that either: (a) the Company will pay the Holder an amount equal to the sum of (x) all accrued and unpaid interest due on the 2023 Convertible Notes and (y) 1.15 times the outstanding principal balance of the 2023 Convertible Notes; or (b) the 2023 Convertible Notes will convert into that number of Common Stock equal to the quotient (rounded down to the nearest whole share) obtained by dividing (x) the outstanding principal balance and unpaid accrued interest of the 2023 Convertible Notes on a date that is no more than five (5) days prior to the closing of such Corporate Transaction/the date of conversion by (y) the applicable Conversion Price.

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

At any time, at the election of the Holder, the 2023 Convertible Notes will convert into that number of Common Stock equal to the quotient (rounded down to the nearest whole share) obtained by dividing (x) the outstanding principal balance and unpaid accrued interest of the 2023 Convertible Notes on the date of such conversion by (y) the Conversion Price of $0.0852 per share.

The Company recorded $156 as the fair value of the embedded derivative liability on July 27, 2023, with a corresponding amount recorded as a discount to the 2023 Convertible Notes. The debt discount is amortized to interest expense over the term of the 2023 Convertible Notes using the effective interest method using an effective interest rate of 27.1%. Changes in the fair value of the embedded derivative liability are recorded in the Statement of Operations in the period in which the changes occurred.

The following table provides a reconciliation of the beginning and ending balances for the convertible note:

	September 30, 2023	December 31, 2022
Face value of convertible notes	$ **590**	$ -
Less: fair value of embedded derivative liability	**156**	-
Add: amortization of debt discount	**11**	-
Balance	$ **445**	$ -

Convertible note interest expense for the three months ended September 30, 2023 and 2022 was $21 and $0, respectively, of which $10 and $0, respectively, related to contractual interest expense and $11 and $0, respectively, related to amortization of the discount. Convertible note interest expense for the nine months ended September 30, 2023 and 2022 was $21 and $0, respectively, of which $10 and $0, respectively, related to contractual interest expense and $11 and $0, respectively, related to amortization of the discount.

NOTE 10 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	September 30, 2023	December 31, 2022
Accrued compensation	$ **58**	$ 75
Vendor provided financing	**246**	149
Warranty and returns reserves	**59**	66
Accrued commissions	**13**	14
Amounts due customers	**45**	16
Accrued non-income-based taxes	**16**	20
Other	**52**	39
Total accrued expenses and other current liabilities	$ **489**	$ 379

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
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NOTE 11– 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 terminated on June 21, 2022. On June 7, 2022, the Company's Board of Directors approved and adopted, by unanimous written consent, an extension of the termination date of the Company's 2012 Stock Incentive Plan for a period of one year, from June 21, 2022 to June 21, 2023. The Company's shareholders approved the extension of the termination date at the Company's 2022 annual meeting of shareholders on August 4, 2022. On July 11, 2023, the Company's Board of Directors approved and adopted, by unanimous written consent, an extension of the termination date of the Company's 2012 Stock Incentive Plan for a period of one year, from June 21, 2023 to June 21, 2024. The Company's shareholders approved the extension of the termination date at the Company's 2022 annual meeting of shareholders on August 22, 2023.

As of September 30, 2023, 4,655,000 stock options were outstanding under the 2012 Plan. Newly issued shares or shares of treasury stock may be used to satisfy requirements resulting from the exercise of stock options.

Activity with respect to this plan is as follows:

	Number	Weighted Average Exercise Price
Options outstanding at December 31, 2022	**4,934,000**	**$ 0.32**
Options granted	**600,000**	**$ 0.10**
Options expired	**(545,000)**	**$ 0.40**
Options forfeited	**(334,000)**	**$ 0.30**
Options outstanding at September 30, 2023	**4,655,000**	**$ 0.29**
Options exercisable	**2,991,666**	**$ 0.32**
Shares available for granting of options	**6,941,019**	

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 $45 and $41 for the three months ended September 30, 2023 and 2022, respectively, and $146 and $150 for the nine months ended September 30, 2023 and 2022, respectively. No tax benefit was recognized for this compensation expense. At September 30, 2023, total unrecognized stock-based compensation expense is $199, which has a weighted average period to be recognized of approximately 2.2 years. The Company has elected to recognize forfeitures as they occur.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The following table provides additional information regarding options outstanding as of September 30, 2023:

	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
$0.10 to $0.20	**500,000**	**$ 0.20**	**1,600,000**	**$ 0.16**	**1,600,000**	**$ 0.16**
$0.21 to $0.40	**2,229,666**	**$ 0.31**	**2,625,000**	**$ 0.30**	**2,625,000**	**$ 0.30**
$0.41 to $0.61	**262,000**	**$ 0.61**	**430,000**	**$ 0.61**	**430,000**	**$ 0.61**
	2,991,666		**4,655,000**		**4,655,000**	

	Options Exercisable	Options Outstanding	Options Vested or Expected to Vest
Weighted average years remaining term	**1.3**	**2.1**	**2.1**
Aggregate intrinsic value	**$ 321**	**$ 642**	**$ 642**

Information related to stock options exercised is as follows:

	Nine months ended September 30,	
	2023	**2022**
Proceeds from the exercise of stock options	**$ -**	$ -
Intrinsic value of stock options exercised	**-**	-
Income tax benefit related to stock options exercised	**-**	-

NOTE 12 – 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 lease has been determined to be an operating lease. For its facility lease, the Company accounts for lease components together with non-lease components.

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

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 September 30, 2023, the Company's leases have remaining lease terms of 1.58 to 4.75 years, some of which include options to extend the lease for an additional 5-year term. The exercise of the lease renewal option is at the Company's discretion. Renewals to extend the lease term are not included in the Company's Right-of-use assets and Lease obligations as they are not reasonably certain of exercise. On October 13, 2022, the Company exercised its renewal option to extend the lease of its facility for an additional five (5) years for the period July 1, 2023 to June 30, 2028 at a base rent of $17 per month. 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	**2023**	2022
Components of lease cost:				
Operating lease cost	**$ 69**	$ 61	**$ 189**	$ 181
Variable lease cost	**-**	-	**1**	6
Short-term lease cost	**2**	1	**8**	6
Finance lease cost:				
Amortization of right-of-use asset	**5**	6	**14**	16
Interest	**-**	-	**1**	2
Total	**$ 76**	$ 68	**$ 213**	$ 211

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	**2023**	2022
Operating lease cash flow information:				
Cash paid for amounts included in the measurement of operating lease liabilities	**$ 92**	$ 59	**$ 178**	$ 190
Finance lease cash information:				
Cash paid for amounts included in the measurement of finance lease liabilities	**6**	5	**16**	17
Non-cash activity:				
Right-of-use asset obtained in exchange for finance lease liability	**-**	-	**-**	-

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	September 30,	
	2023	2022
Operating lease information:		
Weighted-average remaining operating lease term	**57 months**	9 months
Weighted-average operating lease discount rate	**5.63%**	4.26%
Operating lease amortization of right-of-use asset	**$ 159**	$ 164
Finance lease information:		
Weighted-average remaining finance lease term	**20 months**	30 months
Weighted-average finance lease discount rate	**3.49%**	3.35%
Finance lease amortization of right-of-use asset	**$ 15**	$ 15

	September 30, 2023	
	Operating leases	Finance leases
Maturity of lease obligations:		
2023 (remaining)	**$ 70**	**$ 5**
2024	**281**	**20**
2025	**285**	**10**
2026	**289**	**1**
Thereafter	**442**	**1**
Total undiscounted lease payments	**1,367**	**37**
Less imputed interest	**(171)**	**(2)**
Present value of lease obligations	**$ 1,196**	**$ 35**

NOTE 13 – 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 nine months of fiscal 2023 and 2022 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 14 – SUBSEQUENT EVENTS

The Company evaluated its September 30, 2023 financial statements for subsequent events through November 14, 2023, the date the financial statements were available to be issued. Other than the closing of a new credit facility on October 20, 2023 as discussed in Notes 1 and 9, the Company is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.