

Mace Security International, Inc.

Quarterly Report

March 31, 2024

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
Website: www.mace.com

Investor Relations:
Phone: (440) 424-5321
Email: InvestorRelations@mace.com
Address: Same as above

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Item 2 Shares outstanding

Common Stock

(i)	Period end date:	March 31, 2024	December 31, 2023
(ii)	Number of shares authorized	100,000,000	100,000,000
(iii)	Number of shares outstanding	66,165,527	65,726,501
(iv)	Freely tradable (public float)	42,887,931	42,979,824
(v)	Total number of shareholders of record	94	96

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

Preferred Stock

(vi)	Period end date:	March 31, 2024	December 31, 2023
(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 three months ended March 31, 2024 and 2023, 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 – Consolidated Financial Statements March 31, 2024 and 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 March 31, 2024 compared with three months ended March 31, 2023

Net Sales

Net sales comparative information for the three months ended March 31, 2024 and 2023, respectively, is as follows:

<u>Net Sales by Type of Customer</u>	<u>Three Months Ended</u>		<u>Increase (Decrease)</u>
	<u>2024</u>	<u>2023</u>	
Consumer	\$ 1,247	\$ 1,527	\$ (280)
Tactical	50	70	(20)
International	3	33	(30)
Other	57	32	25
Total	<u>\$ 1,357</u>	<u>\$ 1,662</u>	<u>\$ (305)</u>

Total net sales decreased for the three months ended March 31, 2024 by 18.4%, compared with net sales for the three months ended March 31, 2023. Net sales to customers in the consumer market decreased (\$280), or (18.3%), in the three months ended March 31, 2024, compared with the same period in 2023. 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 continuing 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. Net sales for the three months ended March 31, 2024 also reflect the impact of the loss of one significant customer in 2023 which accounted for \$116 of sales decrease for the three months ended March 31, 2024. Partially offsetting this net sales decrease was a \$113 increase in net sales on the Company's e-commerce platforms.

Tactical net sales, which include tactical spray products, for the three months ended March 31, 2024 decreased \$20, or 28.6%, compared with the three months ended March 31, 2023, primarily due to an decrease in sales to existing tactical customers.

Sales to International customers decreased (\$30), or 78.1%, for the three months ended March 31, 2024, compared with the three months ended March 31, 2023.

Sales to other types of customers increased \$25, or 59.0%, for the three months ended March 31, 2024, compared with the three months ended March 31, 2023 as the Company continued to increase sales to non-traditional customers in the healthcare and hospitality industries.

Cost of goods sold

Cost of goods sold decreased for the three months ended March 31, 2024 to \$908, or 66.9% of net sales, compared with \$1,252, or 75.3% of net sales, for the three months ended March 31, 2023, primarily due to (i) the decrease in net sales, (ii) a change in sales mix towards higher margin e-commerce sales

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in the first quarter of 2024 and (iii) an increase in plant efficiency during the first quarter of 2024 , compared with the same period in 2023.

Gross Profit

Gross profit increased \$39, or 9.5%, to \$449, or 33.1% of net sales, for the three months ended March 31, 2024, compared with \$410, or 24.7% of net sales, for the three months ended March 31, 2023, primarily due to the factors discussed above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended March 31, 2024 were \$1,068, or 78.7% of net sales, for the three months ended March 31, 2024, compared with \$1,068 or 64.3% of net sales for the three months ended March 31, 2023. The following table presents the changes in selling, general and administrative expenses for the three months ended March 31, 2024, compared with the same period in 2023.

<u>Selling, General and Administrative Expense Categories</u>	<u>Increase (decrease)</u>
Salaries and related employee benefit reduction	\$ (9)
Professional services expense decrease primarily attributable to decreased legal support	(16)
Insurance expense decrease	(11)
Depreciation expense decrease due to impairment in 2023	(11)
Increase in e-commerce platform fulfillment fees due to higher e-commerce platform sales	52
Other factors, net	<u>(5)</u>
Net change	<u><u>\$ -</u></u>

Amortization of intangible assets

Amortization of intangible assets relates to the intangible assets associated with the Company's acquisitions. There was no amortization expense for the three months ended March 31, 2024 due to the impairment of intangible assets recognized in the fourth quarter of 2023.

Interest expense

Interest expense was \$82 and \$24 for the three months ended March 31, 2024 and March 31, 2023, respectively, primarily related to the Company's debt. The increase in interest expense is attributable to higher net borrowings and higher interest rates in the three months ended March 31, 2024, compared with the same period in 2023.

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Net loss

Net loss decreased by (\$8) to net loss of (\$739) for the three months ended March 31, 2024, compared with a net loss of (\$747) in the three months ended March 31, 2023, due primarily to the factors noted above.

Liquidity and Capital Resources

Cash, cash equivalents decreased by \$93 to \$146 at March 31, 2024, compared with \$239 at December 31, 2023. The Company's operating activities used \$191 of cash in the three months ended March 31, 2024, compared with using \$592 in the three months ended March 31, 2023. In the three months ended March 31, 2024, depreciation and amortization, stock-based compensation and other non-cash charges totaled \$168. Changes in operating assets and liabilities provided \$380 of cash due primarily to factors resulting from normal business conditions of the Company, including (1) lower inventory and accounts receivable and (2) higher accounts payable, (3) partially offset by lower accrued liabilities and operating lease obligations due to payments.

The Company's capital expenditures in the three months ended March 31, 2024 were \$3, compared with \$19 in the three months ended March 31, 2023. At this time, the Company anticipates total fiscal 2024 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 March 31, 2024.

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.

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 provided 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 further 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%.

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"). This credit facility matures on October 20, 2026, and bears interest at Wall Street Prime plus 6 percent, with a floor of 14.25%. The interest rate at March 31, 2024 was 14.5%. This credit facility is secured by substantially all assets of the Company. The amount drawn under this credit facility was \$1,135 and \$1,329 at March 31, 2024 and December 31, 2023, respectively.

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

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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 Company closed a non-brokered private placement of unsecured convertible notes with a board member on March 7, 2024 (“March 2024 Convertible Note”). The March 2024 Convertible Note has an aggregate principal amount of \$150 and matures on July 27, 2025, 10% per annum simple interest and is convertible into common stock of the Company at a conversion price of \$0.0852 per common stock equivalent to that of the 2023 Convertible Notes. 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 March 2024 Convertible Note is 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 all 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 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 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 convertible notes; or (b) the 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 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.

At any time, at the election of the Holder, the 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 convertible notes on the date of such conversion by (y) the Conversion Price of \$0.0852 per share.

Subordinated Note:

The Company closed a \$150 unsecured subordinated note with a board member on March 21, 2024 (“2024 Subordinated Note”). The 2024 Subordinated Note is due the sooner of July 22, 2025, upon repayment of the 2023 Credit Agreement, or termination of the board member. The note bears interest at 10% per annum simple interest and has no conversion features. Interest is due at maturity. The 2024 Subordinated Note is subordinated in right of payment to all current and future indebtedness of the Company for borrowed money.

Going Concern:

The 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

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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 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.

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. were previously filed with the Securities and Exchange Commission as Exhibit 3.1 to the Company’s Annual Report on Form 8-K filed on April 21, 2010 and is incorporated herein by reference.

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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)

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Item 9 Issuer's Certifications

I, Sanjay Singh, Chairman and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report of Mace Securities 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: May 15, 2024

/s/ Sanjay Singh
Chairman and Chief Executive Officer