Consolidated Financial Statements

# Mace Security International, Inc.

September 30, 2014 and 2013

# Contents

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED BALANCE SHEETS**

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

| ASSETS | September 30, 2014 (Unaudited) | December 31, 2013 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | **$ 370** | $ 4,923 |
| Restricted cash | **101** | 127 |
| Short-term investments | **5,873** | 2,597 |
| Accounts receivable, less allowance for doubtful accounts of $464 at September 30, 2014 and $478 at December 31, 2013 | **1,451** | 1,732 |
| Inventories, less reserve for obsolescence of $237 at September 30, 2014 and $209 at December 31, 2013 | **1,831** | 1,578 |
| Prepaid expenses and other current assets | **1,274** | 1,419 |
| Total current assets | **10,900** | 12,376 |
| Property and equipment: | | |
| Leasehold improvements | **211** | 168 |
| Machinery and equipment | **2,017** | 2,027 |
| Furniture and fixtures | **484** | 462 |
| Total property and equipment | **2,712** | 2,657 |
| Accumulated depreciation and amortization | **(2,139)** | (2,092) |
| Total property and equipment, net | **573** | 565 |
| Other intangible assets | **685** | 685 |
| Other assets | **1,215** | 1,148 |
| Total assets | **$ 13,373** | $ 14,774 |

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 STOCKHOLDERS' EQUITY | September 30, 2014 (Unaudited) | December 31, 2013 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | $ 472 | $ 392 |
| Income taxes payable | 59 | 62 |
| Accrued expenses and other current liabilities | 989 | 1,086 |
| Total current liabilities | 1,520 | 1,540 |
| Long-term debt, net of current portion | 1,205 | 1,106 |
| Other liabilities | - | 230 |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at September 30, 2014 and December 31, 2013 | - | - |
| Common stock, $.01 par value; authorized 100,000,000 shares, issued and outstanding shares of 58,946,441, at September 30, 2014 and | 589 | 589 |
| Additional paid-in capital | 102,788 | 102,628 |
| Accumulated deficit | (92,693) | (91,382) |
| Accumulated other comprehensive income (loss) | (15) | 84 |
| | 10,669 | 11,919 |
| Less treasury stock at cost 18,332 shares at September 30, 2014 and December 31, 2013 | (21) | (21) |
| Total stockholders' equity | 10,648 | 11,898 |
| Total liabilities and stockholders' equity | $ 13,373 | $ 14,774 |

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, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|
| Net sales | $ 5,703 | $ 5,919 |
| Cost of goods sold | 3,655 | 3,546 |
| Gross profit | 2,048 | 2,373 |
| Selling, general, and administrative expenses | 3,685 | 4,434 |
| Depreciation | 127 | 119 |
| Operating loss | (1,764) | (2,180) |
| Interest expense | (171) | (166) |
| Interest income | 174 | 41 |
| Gain on sale of short-term investments | 134 | 37 |
| Note receivable write-down | (100) | - |
| Other income | 8 | (2) |
| Loss from continuing operations before income tax provision | (1,719) | (2,270) |
| Income tax provision | - | - |
| Loss from continuing operations | (1,719) | (2,270) |
| Income (loss) from discontinued operations, net of tax of $0 | 408 | (364) |
| Net loss | $ (1,311) | $ (2,634) |

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, 2014 | Three Months Ended September 30, 2013 |
|---|---|---|
| Net sales | **$ 2,203** | $ 1,951 |
| Cost of goods sold | **1,316** | 1,313 |
| Gross profit | **887** | 638 |
| Selling, general, and administrative expenses | **1,095** | 1,590 |
| Depreciation | **40** | 43 |
| Operating loss | **(248)** | (995) |
| Interest expense | **(58)** | (54) |
| Interest income | **64** | 15 |
| Gain on sale of short-term investments | **10** | 18 |
| Note receivable write-down | **(100)** | - |
| Other income (expense) | **7** | (1) |
| Loss from continuing operations before income tax provision | **(325)** | (1,017) |
| Income tax provision (benefit) | **-** | - |
| Loss from continuing operations | **(325)** | (1,017) |
| Loss from discontinued operations, net of tax of $0 | **-** | (128) |
| Net loss | **$ (325)** | $ (1,145) |

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

Mace Security International, Inc. and Subsidiaries

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)
(Amounts in thousands)

| | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|
| Net loss | **$ (1,311)** | $ (2,634) |
| Other comprehensive income (loss): unrealized loss on short-term investments | **(99)** | 35 |
| Total comprehensive loss | **$ (1,410)** | $ (2,599) |

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

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
(Unaudited)
(Amounts in thousands)

| | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 |
|---|---|---|
| Net loss | **$ (325)** | $ (1,145) |
| Other comprehensive income (loss): unrealized loss on short-term investments | **(40)** | 19 |
| Total comprehensive loss | **$ (365)** | $ (1,126) |

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, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|
| **Cash Flows from Operating activities:** | | |
| Net loss | **$ (1,311)** | $ (2,634) |
| Income (loss) from discontinued operations, net of tax | **408** | (364) |
| Loss from continuing operations | **(1,719)** | **(2,270)** |
| Adjustments to reconcile loss from continuing operations to net cash used in operating activities: | | |
| Depreciation | **127** | 119 |
| Stock-based compensation | **159** | 101 |
| Provision for losses on receivables | **18** | 41 |
| Loss (gain) on sale of property and equipment | **(6)** | 4 |
| Amortization of discount on debt | **100** | 95 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | **265** | (361) |
| Inventories | **(253)** | 293 |
| Prepaid expenses and other assets | **47** | 823 |
| Accounts payable | **80** | (258) |
| Accrued expenses and other current liabilities | **(295)** | (59) |
| Income taxes payable | **(3)** | (10) |
| Net cash used in operating activities – continuing operations | **(1,480)** | (1,482) |
| Net cash used in operating activities – discontinued operations | **(24)** | (119) |
| Net cash used in operating activities | **(1,504)** | (1,601) |
| **Cash Flows from Investing Activities:** | | |
| Purchase of property and equipment | **(137)** | (149) |
| Purchase of short-term investments, net | **(3,376)** | (20) |
| Proceeds from sale of property and equipment | **7** | 1 |
| Other | **-** | (1) |
| Net cash used in investing activities-continuing operations | **(3,506)** | (169) |
| Net cash provided by (used in) investing activities-discontinued operations | **431** | (27) |
| Net cash used in investing activities | **(3,075)** | (196) |
| **Cash Flows from Financing Activities:** | | |
| Payments on long-term debt and capital lease obligations | **-** | (28) |
| Decrease in restricted cash | **26** | 239 |
| Other | **-** | (4) |
| Net cash used in financing activities – continuing operations | **26** | 207 |
| Net cash used in financing activities – discontinued operations | **-** | - |
| Net cash provided by financing activities | **26** | 207 |
| Net decrease in cash and cash equivalents | **(4,553)** | (1,590) |
| Cash and cash equivalents at beginning of period | **4,923** | 2,065 |
| Cash and cash equivalents at end of period | **$ 370** | $ 475 |

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

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2014 and 2013
(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 currently operates in one business segment, the Security Segment, which consists of Mace Personal Defense & Security Inc., which sells consumer safety, personal defense, and electronic surveillance equipment and products. In December 2013, the Company sold its wholesale security monitoring business that was conducted by the Company's Mace CSSS, Inc. subsidiary.

The Company also had a Car Wash Segment which provided complete car care services (including car wash, detailing, lube, and minor repairs). The Car Wash Segment ceased operations in August 2012. See Note 5, Business Divestitures, Assets Held for Sale and Discontinued Operations.

These unaudited consolidated financial statements should be read in conjunction with the Company's December 31, 2013 Consolidated Financial Statements. The results of operations for any interim period are not necessarily indicative of the results to be expected for other interim periods or the full year.

## NOTE 2 – IMPACT OF NEWLY ISSUED ACCOUNTING STANDARDS

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-8, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" to modify the requirements for reporting a discontinued operation. The amended definition of "discontinued operations" includes only disposals or held-for-sale classifications of components or groups of components of an entity that represent a strategic shift that either has or will have a major effect on the entity's operations and financial results. This new guidance also expands the disclosure requirements required when an entity reports a discontinued operation or when it disposed of or classifies as held for sale an individually significant component that does not meet the definition of a discontinued operation. This new guidance is effective prospectively for all disposals or classifications as held for sale that occur after December 31, 2014. The Company does not expect the adoption of this new standard to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". This new standard provides a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, which supersedes most current revenue recognition guidance. This new revenue recognition model requires entities to conduct a five-step analysis to determine when and how revenue is recognized. The new model requires revenue recognition to depict the transfer of promised goods and services to customers in an amount that reflects the consideration an entity expects to be entitled in exchange for those goods or services. This standard is effective for the Company beginning in fiscal 2019 and allows for either full retrospective adoption or modified retrospective adoption. The Company is currently assessing the impact adopting this new accounting guidance will have on its consolidated financial statements and disclosures.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, "Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period". This new standard requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This accounting standard update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. This standard applies to all entities and is effective for annual and interim reporting periods beginning after December 15, 2015, with early adoption permitted. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, "Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern". This standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern. This standard applies to all entities and is effective for annual and interim reporting periods ending after December 15, 2016, with early adoption permitted. The Company does not expect that the adoption of this standard will have a material effect on its consolidated financial statements.

## NOTE 3 - RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to the current period presentation.

## NOTE 4 - SUPPLEMENATARY CASH FLOW INFORMATION

Interest paid on all indebtedness, including discontinued operations, was approximately $85 and $75 for the nine month ended September 30, 2014 and 2013, respectively.

Income taxes paid totaled approximately $3 and $10 in the nine months ended September 30, 2014 and 2013, respectively.

## NOTE 5 – BUSINESS DIVESTITURES, ASSETS HELD FOR SALE, AND DISCONTINUED OPERATIONS

### Car Wash Segment

In 2006, the Company began the divestiture of its Car Wash Segment. By September 2011, all but three of the Company's car wash facilities were sold. The Car Wash Segment ceased operations in August 2012. In October 2013, the Company sold its last remaining car wash facility in Arlington.

### Wholesale Security Monitoring Services Business

On December 17, 2013, the Company completed the sale of its wholesale security monitoring services business, excluding cash, accounts receivable, certain prepaid expenses and most liabilities, to Security Partners, LLC, based in Pennsylvania. The Company received cash proceeds, net of customary transaction fees, of $5,058 and two notes receivable ($250 and $1,497) totaling $1,747. The transaction resulted in a pre-tax gain of $2,340 in fiscal 2013.

Under the agreement, the purchase price for the business was adjusted for revisions to dealer contract values during the second quarter of fiscal 2014. As a result of this adjustment, the purchase price was increased by $430, resulting in an additional pretax gain of $409, net of customary transaction fees. The

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

Company received additional cash proceeds of $336 and the balance of the adjustment to the purchase price was added to the $1,497 notes receivable, resulting in a principal balance of $1,591.

In October 2014, the Company renegotiated the $1,591 note receivable due from Security Partners, LLC. The principal amount was reduced $100 to $1,491, the interest rate increased to 5.5% and the repayment term extended to 30 monthly periods commencing July 10, 2014.

At September 30, 2014, the current portion of the notes receivable of $572 is in Prepaid Expenses and Other Current Assets, while the non-current portion of $919 is in Other Assets on the Consolidated Balance Sheets.

There were no assets or liabilities held for sale at September 30, 2014 and December 31, 2013.

**Discontinued Operations**

The financial results of the wholesale security monitoring services business and the results for the car wash operations included in discontinued operations were as follows:

| | Nine months ended September 30, | |
|---|---|---|
| | **2014** | **2013** |
| Net sales | $ **-** | $ 3,171 |
| Loss before income tax provision | **(1)** | (364) |
| Provision for income tax on operations | **-** | - |
| Loss from operations net of tax | $ **(1)** | $ (364) |
| Gain on sale of discontinued operations | $ **409** | $ - |
| Provision for income tax on gain on sale | **-** | - |
| Gain on sale of discontinued operations, net of tax | **409** | - |
| Income (loss) from discontinued operations net of tax | $ **408** | $ (364) |

| | Three months ended, September 30, | |
|---|---|---|
| | **2014** | **2013** |
| Net sales | $ **-** | $ 1,066 |
| Loss before income tax provision | **-** | (128) |
| Provision for income tax on operations | **-** | - |
| Loss from operations net of tax | $ **-** | $ (128) |
| Gain on sale of discontinued operations | $ **-** | $ - |
| Provision for income tax on gain on sale | **-** | - |
| Gain on sale of discontinued operations, net of tax | **-** | - |
| Loss from discontinued operations net of tax | $ **-** | $ (128) |

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

## NOTE 6 – SHORT-TERM INVESTMENTS AND MARKETABLE SECURITIES

The Company holds several short-term investments. The investments consist of marketable equity securities, mutual funds and exchange traded products. All short-term investments are classified as available for sale and are valued and presented on the Consolidated Balance Sheet at current market prices. Dividends and interest earned and gains and losses realized from the sale of investments are reported in Interest Income and Gain on Sale of Short-Term Investments in the Consolidated Statements of Operations. Unrealized gains/losses resulting from the increase/decrease in the market value of the investments are reported in Accumulated Other Comprehensive Income/Loss in the Consolidated Balance Sheets.

| | Nine months ended September 30, | |
|---|---|---|
| | **2014** | **2013** |
| Gain on sale of short-term investments | $ **134** | $ 37 |
| Unrealized gain (loss) on short-term investments | **(99)** | 35 |

| | Three months ended, September 30, | |
|---|---|---|
| | **2014** | **2013** |
| Gain on sale of short-term investments | $ **10** | $ 18 |
| Unrealized gain (loss) on short-term investments | **(40)** | 19 |

## NOTE 7 – INVENTORIES

Inventories, net of reserve for obsolete inventory, consist of the following:

| | **September 30, 2014** | **December 31, 2013** |
|---|---|---|
| Finished goods | **$ 870** | $ 711 |
| Raw materials | **961** | 867 |
| Total inventories | **$ 1,831** | **$** 1,578 |

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

## NOTE 8 – OTHER INTANGIBLE ASSETS

Other intangible assets consist of:

| | | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|---|
| | Useful Lives | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Non-amortized intangible assets | | **$ 685** | **$ -** | $ 685 | $ - |

The Company annually performs impairment testing of its intangible assets, which consist primarily of the Company's trade name.

Other intangible asset amortization expense was $0 and $84 for the nine months ended September 30, 2014 and 2013, respectively, and was included in income (loss) from discontinued operations in the Consolidated Statements of Operations.

## NOTE 9 – LONG-TERM DEBT

Long-term debt consists of the following:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Debenture note payable to Merlin Partners, LP | $ **1,205** | $ 1,106 |

The Company had outstanding letters of credit in the amount of $0 and $86 at September 30, 2014 and December 31, 2013, respectively, collateralized by a deposit in a restricted cash account.

Debenture note payable consists of a $1,400 note with Merlin Partners, LP. The debenture note bears interest at the rate of 6% and is due March 30, 2016. The debenture note is collateralized by a security interest in the trade name "Mace" and a pledge of the stock of Mace CSSS, Inc. The recorded value of the debenture note amount excludes unamortized discounts for warrants and a conversion option in the amount of $195 and $294 at September 30, 2014 and December 31, 2013, respectively. See Note 12, Related Party Transactions, for additional information regarding the Merlin note.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2014 and 2013
(Amounts in thousands, except share and per share amounts)

## NOTE 10 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Accrued employee compensation | $ **114** | $ 219 |
| Co-operative advertising and other sales allowances | **218** | 179 |
| Deferred revenue | **93** | 112 |
| Accrued non-income based taxes | **26** | 132 |
| Purchase hold-back | **233** | - |
| Other | **305** | 444 |
| Total accrued expenses and other current liabilities | $ **989** | $ 1,086 |

## 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 December 1999, the Company's stockholders approved the 1999 Stock Option Plan (the "1999 Plan") providing for the granting of incentive stock options or nonqualified stock options to directors, officers, or employees of the Company. Under the 1999 Plan, 7,500,000 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 generally expire five to ten years from the date of grant and are exercisable based upon graduated vesting schedules as determined by the Committee. The Plan terminated March 26, 2009. No further options may be awarded under the 1999 plan.

In June 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 generally expire five to ten years from the date of grant and are exercisable based upon graduated vesting schedules as determined by the Committee.

As of September 30, 2014, 7,029,135 nonqualified stock options were outstanding under the 1999 and 2012 Plans.

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

Activity with respect to these plans is as follows:

| | Number | Weighted Average Exercise Price |
|---|---|---|
| Options outstanding at December 31, 2013 | 6,312,670 | $ 0.92 |
| Options granted | 919,300 | $ 0.38 |
| Options forfeited | (132,000) | $ 0.38 |
| Options expired | (70,834) | $ 1.61 |
| Options outstanding at September 30, 2014 | 7,029,136 | $ 0.85 |
| Options exercisable | 4,803,786 | $ 1.10 |
| Shares available for granting of options | 10,571,200 | |

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 issued. Total stock compensation expense was $159 and $101 for the nine months ended September 30, 2014 and 2013, respectively.

The fair values of the Company's options awarded during the nine months ended September 30, 2014 were estimated at the dates of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

| | |
|---|---|
| Expected term (years) | 5 |
| Risk-free interest rate | 1.68% |
| Volatility | 58.2% |
| Dividend yield | 0% |
| Forfeiture rate | 0% |

**Expected term** - The Company's expected life is based on the period the options are expected to remain outstanding. The Company estimated this amount based on historical experience of similar awards, giving consideration to the contractual terms of the awards, vesting requirements and expectations of future behavior.

**Risk-free interest rate** - The Company uses the risk-free interest rate of a U.S. Treasury Note with a similar term on the date of the grant.

**Volatility** - The Company calculates the volatility of the stock price based on historical value and corresponding volatility of the Company's stock price over the prior five years.

**Dividend yield** - The Company uses a 0% expected dividend yield, as the Company does not have a history of paying dividends and does not anticipate declaring dividends in the near future.

At September 30, 2014, total unrecognized stock-based compensation expense is $439, which has a weighted average period to be recognized of approximately 3.3 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

In 2010, the Company issued warrants to purchase a total of 314,715 shares of the Company's stock at an exercise price of $0.20 per share in connection with a Promissory Note with Merlin Partners, LP. The warrants were accounted for under the equity method at a Black-Scholes' fair value of $0.20 per share or a total value of $63,274 and are classified in equity. No warrants to purchase common stock related to the note have been exercised through September 30, 2014. These warrants were issued with an expiration date of December 28, 2015.

In 2011, the Company issued additional warrants to purchase a total of 1,428,535 shares of the Company's stock at an exercise price of $0.20 per share in connection with the December 2010 Promissory Note with Merlin Partners, LP and a March 2011 Debenture Agreement with Merlin Partners, LLP. The 1,428,535 warrants issued in 2011 included 1,271,178 warrants issued on August 2, 2011 upon completion of the Company's Rights Offering under anti-dilution provisions contained in the original issued warrants. See Note 11, Related Party Transactions. The warrants issued in March 2011 in connection with the Debenture Agreement were accounted for under the equity method at a Black-Scholes' fair value of $0.20 per share or a total value of $47,420. No warrants to purchase common stock related to the note or debenture have been exercised through September 30, 2014.

During the exercise period, the Company will reserve a sufficient number of shares of its common stock to provide for the exercise of the rights represented by option holders.

## NOTE 12 – RELATED PARTY TRANSACTIONS

On March 30, 2011, the Company borrowed $1,400 with an interest rate of 6% per annum from Merlin Partners, LP ("Merlin") to fund the acquisition of TCCI, a wholesale security monitoring company. The loan is secured by a security interest in the "Mace" name and a pledge of the stock of the Mace CSSS, Inc. (the "Company's wholesale monitoring subsidiary). The loan was originally due March 30, 2013; however, Merlin had the right to call the loan commencing on September 27, 2011, forty trading days after the completion of the Company's Rights Offering and Merlin's purchase of the Additional Stock (the "Call Trigger Event"). Merlin's right to call the loan expired on March 27, 2012, six months from September 27, 2011. As Merlin did not call the loan by March 27, 2012, the maturity date of the loan automatically extended to March 30, 2016 with Merlin continuing its right to convert the loan into common stock through March 30, 2016, the new maturity date. The conversion right is at a per share price of $0.21 which is equal to the ten day average closing sales price of the common stock, starting with September 14, 2011, the trading day which is 30 trading days after the Call Trigger Event. In accordance with ASC 815, "Derivatives and Hedging," the Company determined that the conversion feature of the Debenture met the criteria of an embedded derivative, and therefore the conversion feature of this Debenture needed to be bifurcated and accounted for as a derivative. The conversion option was marked-to-market each reporting period, with future changes in fair value reported in earnings. The fair value of the embedded conversion was estimated at $590 at the date of issuance of the debenture and each subsequent quarter using the Monte Carlo model with the following assumptions: risk free interest rate: 0.16%; expected life of the option to convert of 4.7 years; and volatility: 48%. With the Call Trigger Event occurring and the conversion price and number of conversion shares known, the fair value of the conversion option was estimated at $516 at September 30, 2011 using the Black-Scholes valuation model. Accordingly, for the year ended December 31, 2011, the Company recorded a gain on valuation of derivative of $74 to reflect the reduction in the market value of the derivative. Additionally, with the debenture conversion price and number of conversion shares to be issued upon a conversion known, the initial bifurcated derivative no longer met the criteria to be recorded as a derivative liability. Accordingly, the $516 conversion option at September 30, 2011, was reclassified from a liability to stockholder's equity as additional paid-in-capital and as a discount to the $1,400 Merlin loan. The conversion option is being accreted as a charge to interest expense over a 60 month period with an offsetting credit to the loan balance.

As compensation for the $1,400 loan, Merlin received a five year warrant exercisable into 157,357 shares of common stock at an exercise price of $0.20 per share. The warrant contains an anti-dilution provision that provides that the Company will issue Merlin a warrant equal to 1% percent of any shares issued by the Company for one year after the date the warrant was issued. Any new warrant issued will be exercisable at $0.20 cents per share. On August 2, 2011, after the completion of the Company's Rights Offering, a warrant for 423,726 shares was issued to Merlin under the anti-dilution provision. The conversion features of the loan and the warrant may result in additional dilution to stockholders. The initial warrants were accounted for at a Black-Scholes fair value of the warrant of $47 recorded as a discount to the $1,400 Merlin loan and as additional paid-in capital. The discount is being accreted as a charge to interest expense over the initial 24 month maturity period of the loan with an offsetting credit to the loan balance. Merlin received $84 and $63 of interest related to the $1,400 loan in the nine months ended September 30, 2014 and 2013, respectively. In addition, the Company recognized non-cash interest expense for the accretion of the discounts to the Merlin promissory note and debenture for related warrants and a conversion option of $100 and $95 in the nine months ended September 30, 2014 and 2013, respectively.

## NOTE 13 – SUBSEQUENT EVENTS

The Company evaluated its September 30, 2014 financial statements for subsequent events through October 31, 2014, the date the financial statements were available to be issued. Other than the note renegotiation discussed in Note 5, Business Divestitures, Assets Held for Sale and Discontinued Operations, the Company is not aware of any other subsequent events which would require recognition or disclosure in the consolidated financial statements.