Consolidated Financial Statements and Report of Independent Certified Public Accountants

Mace Security International, Inc.

December 31, 2012 and 2011

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Report of Independent Certified Public Accountants

Board of Directors
Mace Security International, Inc.

We have audited the accompanying consolidated financial statements of Mace Security International, Inc. (a Delaware corporation) and subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

GrantThornton

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mace Security International, Inc. and subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on the 2011 financial statements

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial Statements of the Company as of and for the year ended December 31, 2011, and our report dated March 28, 2012 expressed an unqualified opinion on those 2011 financial statements.

Grant Thornton LLP

Cleveland, Ohio
May 30, 2013

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2012 and 2011

(in thousands, except share and par value information)

ASSETS	**2012**	**2011**
Current assets:		
Cash and cash equivalents	$ 2,065	$ 7,432
Restricted cash	440	439
Short-term investments	2,397	-
Accounts receivable, less allowance for doubtful accounts of $362 and $281 in 2012 and 2011, respectively	1,288	1,684
Inventories, less reserve for obsolescence of $186 and $1,407 in 2012 and 2011, respectively	2,121	2,401
Prepaid expenses and other current assets	1,712	2,087
Assets held for sale	276	2,469
Total current assets	10,299	16,512
Property and equipment:		
Buildings and leasehold improvements	480	512
Machinery and equipment	3,364	3,464
Furniture and fixtures	480	457
Total property and equipment	4,324	4,433
Accumulated depreciation and amortization	(3,317)	(3,054)
Total property and equipment, net	1,007	1,379
Goodwill	2,805	2,805
Other intangible assets, net of accumulated amortization of $1,430 and $1,407 in 2012 and 2011, respectively	1,774	1,887
Other assets	703	735
Total assets	**$ 16,588**	**$ 23,318**

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

LIABILITIES AND STOCKHOLDERS' EQUITY	2012	2011
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 26	$ 957
Accounts payable	753	1,701
Income taxes payable	62	89
Deferred revenue	15	294
Accrued expenses and other current liabilities	981	1,741
Liabilities related to assets held for sale	-	566
Total current liabilities	1,837	5,348
Long-term debt, net of current portion	980	11
Capital lease obligations, net of current portion	1	22
Other liabilities	225	380
Stockholders' equity:		
Preferred stock, $.01 par value: authorized outstanding shares-none shares-10,000,000, issued and	-	-
Common stock, $.01 par value: authorized shares-100,000,000, issued and outstanding shares of 58,946,441 in 2012 and 2011	589	589
Additional paid-in capital	102,379	102,323
Accumulated deficit	(89,361)	(85,338)
Accumulated other comprehensive loss	(12)	-
	13,595	17,574
Less treasury stock at cost 218,332 and 18,332 shares in 2012 and 2011, respectively	(50)	(17)
Total stockholders' equity	13,545	17,557
Total liabilities and stockholders' equity	**$ 16,588**	**$ 23,318**

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2012 and 2011
(in thousands)

	2012	2011
Revenues	$ 12,984	$ 13,858
Cost of revenues	8,084	8,950
Gross profit	4,900	4,908
Selling, general, and administrative expenses	7,375	8,630
Depreciation and amortization	567	514
Asset impairment charges	-	35
Operating loss	(3,042)	(4,271)
Interest expense	(266)	(405)
Interest income	59	1
Other expense	(15)	-
Gain on valuation of derivative	-	74
Loss from continuing operations before income taxes	(3,264)	(4,601)
Income tax (benefit) expense	19	(80)
Loss from continuing operations	(3,283)	(4,521)
Loss from discontinued operations, net of tax of $0 in 2012 and 2011	(740)	(621)
NET LOSS	**$ (4,023)**	**$ (5,142)**

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

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

For the Years Ended December 31, 2012 and 2011
(in thousands)

	2012	**2011**
Net Loss	$ (4,023)	$ (5,142)
Other comprehensive loss: unrealized loss on short-term investments	(12)	-
TOTAL COMPREHENSIVE LOSS	**$ (4,035)**	**$ (5,142)**

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

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2012 and 2011
(in thousands, except share information)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total
	Shares	Amount					
Balance at December 31, 2010	15,735,725	$ 157	$ 93,912	$ (80,196)	$ (17)	$ -	$ 13,856
Common shares issued for cash	43,210,716	432	7,793	-	-	-	8,225
Stock-based compensation and issuance of warrants	-	-	102	-	-	-	102
Derivative liability reclass to equity	-	-	516	-	-	-	516
Net loss	-	-	-	(5,142)	-	-	(5,142)
Balance at December 31, 2011	58,946,441	589	102,323	(85,338)	(17)	-	17,557
Stock-based compensation and issuance of warrants	-	-	56	-	-	-	56
Purchase of treasury stock	-	-	-	-	(33)	-	(33)
Unrealized loss on short-term investments	-	-	-	-	-	(12)	(12)
Net loss	-	-	-	(4,023)	-	-	(4,023)
Balance at December 31, 2012	**58,946,441**	**$ 589**	**$ 102,379**	**$ (89,361)**	**$ (50)**	**$ (12)**	**$ 13,545**

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

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012 and 2011
(in thousands)

	2012	2011
Cash Flows from Operating activities:		
Net loss	$ (4,023)	$ (5,142)
Loss from discontinued operations, net of tax	740	621
Loss from continuing operations	(3,283)	(4,521)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	567	514
Stock-based compensation	56	55
Provision for losses on receivables	93	126
Loss (gain) on sale of property and equipment	59	(57)
Gain on valuation of derivative	-	(74)
Amortization of discount on debt	129	152
Goodwill and asset impairment charges	-	35
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	303	290
Inventories	280	536
Prepaid expenses and other assets	407	470
Accounts payable	(948)	(429)
Deferred revenue	(279)	(3)
Accrued expenses	(915)	189
Income taxes payable	(27)	(15)
Net cash operating activities – continuing operations	(3,558)	(2,732)
Net cash used in operating activities – discontinued operations	(633)	(163)
Net cash used in operating activities	(4,191)	(2,895)
Cash Flows from Investing Activities:		
Acquisition of business, net of cash acquired	-	(1,827)
Purchase of property and equipment	(134)	(165)
Purchase of short-term investments	(2,409)	-
Proceeds from sale of property and equipment	-	1,313
Payments for intangibles	(7)	(10)
Net cash used in investing activities-continuing operations	(2,550)	(689)
Net cash provided by investing activities-discontinued operations	2,062	975
Net cash (used in) provided by investing activities	(488)	286
Cash Flows from Financing Activities:		
Proceeds from short-term note and long-term debt	-	1,400
Payments on long-term debt and capital lease obligations	(112)	(1,495)
Restricted cash	(1)	(439)
Purchase of treasury stock	(33)	-
Proceeds from the sale of common stock	-	8,225
Net cash (used in) provided by financing activities – continuing operations	(146)	7,691
Net cash used in financing activities – discontinued operations	(542)	(214)
Net cash (used in) provided by financing activities	(688)	7,477
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(5,367)**	**4,868**
Cash and cash equivalents at beginning of year	7,432	2,564
Cash and cash equivalents at end of year	$ 2,065	$ 7,432

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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” or “Mace”). All significant intercompany transactions have been eliminated in consolidation.

The Company currently operates in one business segment, the Security Segment, which consists of two operating units: Mace Personal Defense & Security Inc., which sells consumer safety, personal defense, and electronic surveillance equipment and products; and Mace CSSS, Inc. (“Mace CS”), which provides wholesale security monitoring services. The Company entered the wholesale security monitoring business with its acquisition of Central Station Security Systems, Inc. (“CSSS”) on April 30, 2009.

The Company also had a Car Wash Segment which provided complete car care services (including car, wash, detailing, lube, and minor repairs). As of December 31, 2012 and 2011, there was only one and three remaining car wash, respectively, located in Texas. The assets and liabilities of our remaining car wash operations are classified as assets held for sale and liabilities related to assets held for sale in the consolidated balance sheets and the results of operations for the car washes as reflected as discontinued operations in the consolidated statement of operations and the consolidated statement of cash flows. See Note 4, Discontinued Operations and Assets Held for Sale.

In July 2012, the Company filed Form 15 with the United States Security Exchange (“SEC”). The filing of this Form effectively terminated the Company’s registration and reporting as a public company under SEC rules.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the Company's financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. The Company’s critical accounting policies are described below.

Revenue Recognition and Deferred Revenue

The Company recognizes revenue in general when the following criteria have been met: persuasive evidence of an arrangement exists, a customer contract or purchase order exists and the fees are fixed and determinable, no significant obligations remain and collection of the related receivable is reasonably assured. Allowances for sales returns, discounts and allowances are estimated and recorded concurrent with the recognition of the sale and are primarily based on historic return rates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenues from the Company's Security Segment are recognized when shipments are made or security monitoring services are provided, or for export sales, when title has passed. More specifically, revenue is recognized and recorded by our electronic surveillance equipment business and personal defense spray and related products business when shipments are made and title has passed. Revenue within our wholesale security monitoring operation is recognized and recorded on a monthly basis as security monitoring services are provided to its dealers under cancellable contracts with terms generally for two (2) to twenty-four (24) months. Revenues are recorded net of sales returns and discounts.

Revenues from the Company's discontinued Car Wash operations are recognized, net of customer coupon discounts, when services are rendered or fuel or merchandise is sold. The Company recorded a liability for gift certificates, ticket books, and seasonal and annual passes sold at its car care locations but not yet redeemed. The Company estimated these unredeemed amounts based on gift certificate and ticket book sales and redemptions throughout the year, as well as utilizing historic sales and tracking of redemption rates per the car washes' point-of-sale systems. Seasonal and annual passes are amortized on a straight-line basis over the time during which the passes are valid. As of December 2011, the Company had three active car wash operations all of which closed during 2012. One of the operations was sold, the lease was assigned to a third party for another and the remaining operation was closed and is actively being marketed to be sold. No material revenue was reported for these operations after August 2012.

Fair Value Measurements

The Company's nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis include goodwill, intangible assets and long-lived tangible assets, including property, plant and equipment. The Company recorded impairment charges for certain of these assets during the year ended December 31, 2011. There was no asset impairment charges during the year ended December 31, 2012. See Note 5, Goodwill and Note 13, Asset Impairment Charges.

The Company accounted for its embedded conversion features in its convertible debenture in accordance with ASC 815-10, "Derivatives and Hedging," which required a periodic valuation of its fair value and a corresponding recognition of a liability associated with such derivatives, and ASC 815-40, "Contracts in Entity's Own Equity". The recognition of a derivative liability related to the issuance of convertible debt was recorded as a discount to the related debt at the date of issuance and as a derivative liability. Any subsequent increase or decrease in the fair value of the derivative liability was recognized as "Other expense" or "Other income," respectively. Additionally, if the embedded conversion features become known in a future reporting period, the initial derivative would no longer meet the criteria to be recorded as a derivative liability and accordingly the liability would be reclassified to stockholders' equity as additional paid-in-capital.

Cash and Cash Equivalents

The Company maintains its cash accounts in high quality financial institutions. At times, these balances may exceed insured amounts.

Restricted Cash

The Company has cash in a restricted J.P. Morgan Chase account. The restricted balances are related to a revolving line of credit facility, a captive insurance policy, a payment card agreement, and letters of credit.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Short Term Investments and Marketable Securities

The Company holds a number of short-term investments with Ancora Securities. The investments are comprised 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 on the basis of current market prices. Dividends and interest earned and gains and losses from the sale of investments are reported in the statement of operations. An unrealized loss of $12,000 was reported for the year ended December 31, 2012 resulting from the decrease in the market value of the investments and is not included in the statement of operations; instead, it is reported as accumulated other comprehensive loss, which is a unique and separate component of stockholders' equity.

Accounts Receivable

The Company's accounts receivable are due from trade customers. Credit is extended based on evaluation of customers' financial condition and, generally, collateral is not required. Payment terms vary and amounts due from customers are stated in the financial statements net of an allowance for doubtful accounts. Accounts which are outstanding longer than the payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they are deemed uncollectible. Any payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Risk of losses from international sales is reduced by requiring substantially all international customers to provide either irrevocable confirmed letters of credit or cash advances.

Concentration of Significant Customers

The Company routinely assesses the financial strength of its customers. As a result, the Company believes that its accounts receivable credit risk exposure is limited and has not experienced significant write-downs in its accounts receivable balances. As of December 31, 2012, two customers accounted for 14% and 12% of the total accounts receivable balance. For the year ended of December 31, 2012 there was not a significant concentration of sales with any one customer. No customers exceeded 10% of sales or accounts receivable for the year ended December 31, 2011.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in first-out (FIFO) method for security products. Inventories at the Company's car wash locations consist of various chemicals and cleaning supplies used in operations and merchandise and fuel for resale to consumers. Inventories within the Company's Security Segment consist of defense sprays, electronic security monitors, cameras and digital recorders, and various other consumer security and safety products. The Company continually, and at least on a quarterly basis, reviews the book value of slow moving inventory items, as well as discontinued product lines, to determine if inventory is properly valued. The Company identifies slow moving or discontinued product lines by a detail review of recent sales volumes of inventory items as well as a review of recent selling prices versus cost and assesses the ability to dispose of inventory items at a price greater than cost. If it is determined that cost is less than market value, then cost is used for inventory valuation. If market value is less than cost, then an adjustment is made to the Company's obsolescence reserve to adjust the inventory to market value. When slow moving items are sold at a price less than cost, the difference between cost and selling price is charged against the established obsolescence reserve.

Property and Equipment

Property and equipment are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, which are generally as follows: buildings and leasehold improvements - 15 to 40 years; machinery and equipment - 5 to 20 years; and furniture and fixtures - 5 to 10 years. Significant additions or improvements extending assets' useful lives are capitalized; normal maintenance and repair costs are expensed as incurred. Depreciation expense from continuing operations was approximately $448,000 and $344,000 for the years ended December 31, 2012 and 2011, respectively. Maintenance and repairs are charged to expense as incurred and amounted to approximately $42,000 and $29,000 for the years ended December 31, 2012 and 2011, respectively.

Advertising and Marketing Costs

The Company expenses advertising costs, including advertising production cost, as the costs are incurred or the first time the advertisement appears. Advertising expense was approximately $179,000 and $253,000 for the years ended December 31, 2012 and 2011, respectively.

Impairment of Long-Lived Assets

We periodically review the carrying value of our long-lived assets held and used, and assets to be disposed of, when events and circumstances warrant such a review. If significant events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable, we perform a test of recoverability by comparing the carrying value of the asset or asset group to its undiscounted expected future cash flows. Cash flow projections are sometimes based on a group of assets, rather than a single asset. If cash flows cannot be separately and independently identified for a single asset, we determine whether impairment has occurred for the group of assets for which we can identify the projected cash flows. If the carrying values are in excess of undiscounted expected future cash flows, we measure any impairment by comparing the fair value of the asset group to its carrying value. If the fair value of an asset or asset group is determined to be less than the carrying amount of the asset or asset group, impairment in the amount of the difference is recorded.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Goodwill

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets we have acquired in business combinations. We perform a goodwill impairment test on at least an annual basis for our wholesale security monitoring business, our only reporting unit with recorded goodwill. Application of the goodwill impairment test requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company conducts its annual goodwill impairment test of its wholesale security monitoring reporting unit as of April 30 of each year or more frequently if indicators of impairment exist. We periodically analyze whether any such indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained significant decline in our share price and market capitalization, a significant adverse change in legal factors or in the business climate, unanticipated competition and/or slower expected growth rates, adverse actions or assessments by a regulator, among others. The Company compares the fair value of its reporting unit to its respective carrying value, including related goodwill. Future changes in the industry could impact the results of future annual impairment tests. Goodwill was $2.8 million at December 31, 2012 and 2011. There can be no assurance that future tests of goodwill impairment will not result in impairment charges.

Other Intangible Assets

Other intangible assets consist primarily of non-compete agreements, customer lists, product lists, patent costs, and trademarks. Certain of our trademarks are considered to have indefinite lives, and as such, are not subject to amortization. These assets are tested for impairment using a discounted cash flow methodology annually and whenever there is an impairment indicator. Estimating future cash flows requires significant judgment and projections may vary from cash flows eventually realized. Several impairment indicators are beyond our control, and determining whether or not they will occur cannot be predicted with any certainty. Customer lists, product lists, trademarks, patents and non-compete agreements are amortized on a straight-line or accelerated basis to closely match expected cash flows over their respective assigned estimated useful lives.

Income Taxes

Deferred income taxes are determined based on the difference between the financial accounting and tax basis of assets and liabilities. Deferred income tax expense (benefit) represents the change during the period in the deferred income tax assets and deferred income tax liabilities. In establishing the provision for income taxes and deferred income tax assets and liabilities, and valuation allowances against deferred tax assets, the Company makes judgments and interpretations based on enacted laws, published tax guidance and estimates of future earnings. Deferred income tax assets include tax loss and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, trade receivables, trade payables and debt instruments. The carrying values of cash and cash equivalents, trade receivables, and trade payables are considered to be representative of their respective fair values. The carrying value of the Company's debt instruments approximate fair value due to their contractual variable interest rates.

In accordance with the ASC 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 has the ability to 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 collaborated 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 asset or liability and are consequently not based on market activity but rather through particular valuation techniques.

The Company uses the fair value methodology to value the short-term investments at fair value. The Company's short-term investments are valued based on active market prices and are comprised of marketable equity securities, mutual funds and exchange-traded products. These short-term investments are therefore defined as Level 1 fair value measurements.

The following table represents the Company's assets recorded at fair value on a recurring basis as of December 31, 2012 (in thousands):

	Level 1	Level 2	Level 3	Total
Short-term investments	$ 2,397	$ -	$ -	$ 2,397
	$ 2,397	**$ -**	**$ -**	**$ 2,397**

Supplementary Cash Flow Information

Interest paid on all indebtedness, including discontinued operations, was approximately $99,000 and $270,000 for the years ended December 31, 2012 and 2011, respectively.

Taxes paid to state governments totaled approximately $8,000 and $30,000 in the years ended December 31, 2012 and 2011, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Stock-Based Compensation

The Company has two stock-based employee compensation plans. The Company recognizes compensation expense for all share-based awards on a straight-line basis over the life of the instruments, based upon the grant date fair value of the equity or liability instruments issued. Total stock compensation expense was approximately $56,000 and $55,000 for the years ended December 31, 2012 and 2011, respectively.

The fair values of the Company's options were estimated at the dates of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Year Ended December 31	
	2012	2011
Expected term (years)	5	5
Risk-free interest rate	0.83%	0.90%
Volatility	60.2%	50.4%
Dividend yield	0%	0%
Forfeiture rate	0%	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 has not paid dividends to date and does not anticipate declaring dividends in the near future.

During the years ended December 31, 2012 and 2011, the Company granted 1,500,000 and 300,000 stock options, respectively. The weighted-average of the fair value of stock option grants are $0.10 and $0.07 per share for the years ended December 31, 2012 and 2011, respectively. As of December 31, 2012, total unrecognized stock-based compensation expense is $113,000, which has a weighted average period to be recognized of approximately 1.4 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reclassifications

Certain 2011 amounts have been reclassified to conform to the current year presentation.

New Accounting Standards

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, *Presentation of Comprehensive Income*. ASU 2011-05 revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in Accounting Standards Codification ("ASC") 220, *Comprehensive Income*, and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The ASU does not change the items that must be reported in other comprehensive income. In December 2011, the FASB issued ASU 2011-12, which defers the requirement in ASU 2011-05 that companies present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements. ASU 2011-05 is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance has been reflected in the consolidated financial statements.

In September 2011, the FASB issued ASU 2011-8, *Testing Goodwill for Impairment*. The new guidance gives companies the option of performing a qualitative assessment before calculating the fair value of the reporting unit. If the results of the qualitative assessment conclude that the fair value of the reporting unit is more likely than not less than the applicable carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be required. ASU 2011-8 is effective for goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-8 did not have an impact on the Company's financial position, results of operations or cash flows.

In July 2012, the FASB issued ASU 2012-2, *Intangibles – Goodwill and Other*, which allows an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived asset is impaired for determining whether it is necessary to perform the quantitative impairment test. The ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. As the ASU addresses only the assessment of impairment, adoption of ASU 2012-2 is not expected to have a material effect on the consolidated financial statements.

NOTE 3 – BUSINESS ACQUISITIONS AND DIVESTITURES

Acquisitions

On March 31, 2011, the Company completed the purchase of all of the outstanding common stock of The Command Center, Inc. ("TCCI") from TCCI's stockholders. Total consideration was approximately $1.36 million, consisting of approximately $1.23 million in cash and the assumption of approximately $127,000 of liabilities. TCCI's operations have been combined with the operations of Mace CS in Anaheim, California. TCCI was formerly located in Corona, California. TCCI has approximately 70 security dealer clients and approximately 22,500 end-user accounts. Mace CS, combined with TCCI, currently monitors over 70,500 end-user accounts through 490 security dealer clients. TCCI's primary assets are accounts receivable, equipment and customer contracts. The acquisition of TCCI provides growth to the Company's wholesale monitoring services division and expands the ability to market its security products through cross-marketing of the Company's surveillance equipment products to Mace CS's dealer base as well as offering the Company's current customers monitoring services. The fair value of the identifiable assets acquired and liabilities assumed in TCCI as of the acquisition date include: (i) $60,000 for accounts receivable; (ii) $3,000 for prepaid expenses and other assets; (iii) $42,000 for fixed assets and capital leased assets; (iv) the assumption of $127,000 of liabilities; and (v) the remainder, or approximately $1.26 million, allocated to goodwill and other intangible assets. Within the $1.26 million of acquired intangible assets, $823,000 was assigned to goodwill, which is not subject to amortization expense. The amount assigned to goodwill was deemed appropriate based on several factors, including: (i) multiples paid by market participants for businesses in the security monitoring business; (ii) levels of TCCI's current and future projected cash flows; and (iii) the Company's strategic business plan, which includes cross-marketing the Company's surveillance equipment products to TCCI's and Mace CS's dealer base as well as offering monitoring services to the Company's current customers, thus potentially increasing the value of its existing business segment. The remaining intangible assets were assigned to customer contracts and relationships for $385,000, tradename for $28,500, and a non-compete agreement for $20,500. Customer relationships, tradename, and the non-compete agreement were assigned a life of fifteen, five and three years, respectively.

On May 5, 2011 and July 8, 2011, the Company amended the Stock Purchase Agreement dated April 7, 2009 for the purchase of all the common stock of CSSS, Inc., which the Company had entered into with the former stockholders of CSSS, Inc. Under the May 5, 2011 amendment: (i) the date for the payment to the former stockholders of a $500,000 general holdback of the purchase price was extended from May 1, 2011 to July 1, 2011; (ii) a purchase price holdback relating to a service contract for telephone lines was reduced from $300,000 to $250,000 and the holdback, as reduced, is to be paid to the former stockholders by July 10, 2015, if no legal proceeding has been initiated to collect any amounts owed on the service contract by July 6, 2015; (iii) a purchase price holdback relating to a contract for long distance telephone lines was reduced from $200,000 to $150,000 and the holdback, as reduced, is to be paid to the former stockholders by January 15, 2013, if no legal proceeding has been initiated to collect any amounts owed on the contract for long distance telephone lines by January 12, 2013; and (iv) the $100,000 of reduced holdbacks to be paid to the former stockholders, with $50,000, paid on May 13, 2011 and $50,000 paid on July 15, 2011. The amendment also provided for payment of interest at the rate of 2% per annum on the holdback amounts.

NOTE 3 – BUSINESS ACQUISITIONS AND DIVESTITURES – CONTINUED

Under the July 8, 2011 amendment: (i) the date for the payment to the former stockholders of a $500,000 general holdback of the purchase price was extended further from July 1, 2011 to August 15, 2011; and (ii) $50,000 of reduced contingent liability holdbacks were paid to the former stockholders, $25,000 on July 18, 2011 and $25,000 on August 5, 2011. The $500,000 general holdback payment was made on August 15, 2011 as required under the July 8, 2011 amendment.

Divestitures

On March 8, 2011, the Company completed the sale of the remaining car wash it owned in Lubbock, Texas for a sale price of $1.7 million. The net book value of this car wash was approximately $1.7 million. The cash proceeds of the sale were approximately $300,000, net of payment of the related mortgage for $670,000, a payment of $675,000 towards the $1.35 million promissory note with Merlin Partners, LP ("Merlin"), and closing costs. See Note 14, Related Party Transactions*,* for additional information and terms regarding the debt instrument with Merlin. The sale resulted in a net loss of approximately $54,000 after customary closing costs and broker commissions.

On October 21, 2011, the Company completed the sale of certain assets and liabilities related to its Industrial Vision Source ("IVS") division, which sold high-end digital and machine vision cameras and professional imaging components, for approximately $517,000 in cash paid at closing and a potential further payment of $100,000 consideration if certain revenue levels are achieved by the buyer in the first 90 days following the sale from the customer list which was part of the assets sold. The buyer and management mutually agreed that the required revenue levels were achieved by the buyer in the first 90 days following the sale and that the Company earned the additional $100,000 of consideration. The Company recognized a gain of $56,000 on the sale of this operation in the year ended December 31, 2011 and recognized an additional gain of $100,000 in the year ended December 31, 2012 related to the additional consideration earned.

On December 16, 2011, the Company completed the sale of its Farmers Branch, Texas warehouse (the "Texas warehouse") for $1.8 million. The cash proceeds of the sale were $1.17 million, net of paying off existing debt of $495,000 and closing costs. Costs at closing were $120,000, including $110,000 of broker commissions. The sale of the Texas warehouse resulted in a gain of $9,000. Of the $1.17 million of cash proceeds, $439,000 was deposited into a restricted cash account as security against our JPMorgan Chase Bank, N.A. ("Chase") revolving credit facility and certain letters of credit provided by Chase as collateral relating to workers' compensation insurance policies.

On February 29, 2012, the Company completed the sale of an Arlington, Texas car wash for a sale price of $2.1 million. The cash proceeds of the sale were $1.57 million, net of paying off existing debt of $512,000 and certain closing costs. The book value of this car wash was approximately $2.0 million at February 29, 2012. The sale resulted in a net gain of approximately $20,000 after customary closing costs.

NOTE 4 – DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

The Company reviews the carrying value of its long-lived assets held and used, and its assets to be disposed of, for possible impairment when events and circumstances warrant such a review. We also follow the applicable guidance in determining when to reclass assets to be disposed of or assets and related liabilities held for sale as well as when an operation disposed of or to be disposed of is classified as a discontinued operation in the consolidated statements of operations and the consolidated statements of cash flows.

As of December 31, 2012 and 2011, the assets of the Company's former Car Wash Segment being held for sale consisted of one and three car washes, respectively.

The results for the car wash operations have been classified as discontinued operations in the consolidated statements of operations and the consolidated statements of cash flows. The classifications of the remaining car washes as discontinued operations is based on these operations being marketed and ready for sale or under an agreement of sale. The Company's Board of Directors is committed to a plan to dispose of the remaining car washes, within the next twelve months.

Revenues from discontinued operations were $1.2 million and $3.0 million for the years ended December 31, 2012 and 2011, respectively. Operating loss from discontinued operations was $740,000 and $621,000 for the years ended December 31, 2012 and 2011, respectively, including asset impairment charges of $45,000, and $511,000 for the years ended December 31, 2012 and 2011, respectively.

Assets and liabilities held for sale were comprised of the following as of December 31, 2012 and 2011 (in thousands):

	2012	2011
Assets held for sale:		
Inventory	$ -	$ 98
Other current assets	-	28
Property, plant and equipment, net	276	2,338
Intangible assets	-	5
Total assets	**$ 276**	**$ 2,469**
Liabilities related to assets held for sale:		
Other current liabilities	$ -	$ 24
Current portion of long-term debt	-	463
Long-term debt, net of current portion	-	79
Total liabilities	**$ -**	**$ 566**

NOTE 5 – GOODWILL

In assessing goodwill for impairment, we compare the fair value of our wholesale monitoring business, with its net book value. We estimate the fair value of the reporting unit using discounted expected future cash flows, supported by the results of various market approach valuation models. These expected cash flows reflect the elimination of expenses that an acquiring company would incur. If the fair value of the reporting unit exceeds its net book value, goodwill is not impaired, and no further testing is necessary. If the net book value of this reporting unit exceeds its fair value, we perform a second test to measure the amount of impairment loss, if any. To measure the amount of any impairment loss, we determine the implied fair value of goodwill in the same manner as if our reporting unit was being acquired in a business combination. Specifically, we allocate the fair value of the reporting unit to all of the assets and liabilities of that unit, including any unrecognized intangible assets, in a hypothetical calculation that would yield the implied fair value of goodwill. If the implied fair value of goodwill is less than the goodwill recorded on our balance sheet, we record an impairment charge for the difference.

We performed extensive valuation analyses, utilizing both income and market approaches, in our goodwill assessment process. The following describes the valuation methodologies used to derive the fair value of the reporting units:

Income Approach: To determine fair value, we discounted the expected cash flows of the reporting unit. The discount rate used represents the estimated weighted average cost of capital, which reflects the overall level of inherent risk involved in our reporting units and the rate of return an outside investor would expect to earn. To estimate cash flows beyond the final year of our model, we used a terminal value approach. Under this approach, we used estimated operating income before interest, taxes, depreciation and amortization in the final year of our model, adjusted to estimate a normalized cash flow, applied a perpetuity growth assumption and discounted by a perpetuity discount factor to determine the terminal value. We incorporated the present value of the resulting terminal value into our estimate of fair value.

Market-Based Approach: To corroborate the results of the income approach described above, we estimated the fair value of our reporting unit using several market-based approaches, including the value that we derive based on our consolidated stock price as described above. We also used the guideline company method, which focuses on comparing our risk profile and growth prospects to select reasonably similar guidelines of publicly traded companies.

The determination of the fair value of the reporting unit requires us to make significant estimates and assumptions that affect the reporting unit's expected future cash flows. These estimates and assumptions primarily include, but are not limited to, the discount rate, terminal growth rates, operating income before depreciation and amortization and capital expenditures forecasts. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. In addition, changes in underlying assumptions would have a significant impact on either the fair value of the reporting units or the goodwill impairment charge.

The allocation of the fair value of the reporting unit to individual assets and liabilities within the reporting unit also requires us to make significant estimates and assumptions. The allocation requires several analyses to determine fair value of assets and liabilities including, among others, customer relationships, non-competition agreements and current replacement costs for certain property, plant and equipment.

NOTE 5 – GOODWILL – CONTINUED

We conduct our annual assessment of goodwill for impairment for our wholesale security monitoring business reporting unit as of April 30 of each year. This is our remaining business reporting unit with recorded goodwill. With respect to our assessment of goodwill impairment as of April 30, 2012, we determined that there was no impairment in that the fair value for this reporting unit exceeded its net book value by approximately $2.0 million or 42%. Our wholesale security monitoring business has recorded goodwill of $2.8 million at April 30, 2012.

The changes in the carrying amount of goodwill for the years ended December 31, 2012 and 2011 are as follows (in thousands):

Balance at December 31, 2010	$ 1,982
Acquisition of TCCI	823
Balance at December 31, 2011	**$** 2,805
Balance at December 31, 2012	$ 2,805

NOTE 6 – INVENTORIES

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

	For the year ended December 31	
	2012	**2011**
	(in thousands)	
Finished goods	$ 1,424	$ 1,684
Work in process	-	90
Raw materials and supplies	697	627
	$ 2,121	**$** 2,401

NOTE 7 – OTHER INTANGIBLE ASSETS

		December 31, 2012		**December 31, 2011**	
	Useful Lives	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
			(in thousands)		
Amortized intangible assets:					
Non-compete agreements	3-5 years	$ 169	$ 142	$ 169	$ 128
Customer and product lists	2-15 years	2,226	1,176	2,226	1,087
Patent costs and trademarks	3 years	137	86	130	69
Deferred financing costs	5 years	26	26	123	123
Total amortized intangible assets		2,558	1,430	2,648	1,407
Non-amortized intangible assets:					
Trademarks – Security Segment		646	-	646	-
Total other intangible assets		**$ 3,204**	**$ 1,430**	**$ 3,294**	**$ 1,407**

NOTE 7 – OTHER INTANGIBLE ASSETS – CONTINUED

The following sets forth the estimated amortization expense on intangible assets for the fiscal years ending December 31:

2013	$ 112,000
2014	98,000
2015	92,000
2016	89,000
2017	88,000

Amortization expense of other intangible assets was approximately $119,000 and $170,000 for the years ended December 31, 2012 and 2011, respectively. The weighted average useful life of amortizing intangible assets was 10.69 years at December 31, 2012.

NOTE 8 – LONG-TERM DEBT, NOTES PAYABLE, AND CAPITAL LEASE OBLIGATIONS

Long-term debt, notes payable and capital lease obligations, including debt related to discontinued operations (totaling $542,000 at December 31, 2011) consist of the following:

	December 31	
	2012	**2011**
	(in thousands)	
Promissory note payable to Merlin Partners, LP, interest rate of 6% due by March 30, 2016, collateralized by a security interest in the tradename "Mace", a pledge of the stock of Mace CSSS, Inc. and a security interest in the assets of Mace CSSS, Inc. Note amount excludes unamortized discounts for warrants and a conversion option totaling $420,000 and $549,000 at December 31, 2012 and 2011, respectively.	$ 980	$ 851
Notes payable to Chase, interest rate of prime plus 0.25% (3.50% at December 31, 2012) payable in monthly principal payments totaling $2,172 plus interest maturing March 2013, collateralized by equipment of Mace CSSS, Inc.	7	33
Note payable to Chase, interest rate of prime plus 0.95% due in monthly fixed principal payments of $17,627 plus interest collateralized by real property and equipment of Mace Security Products, Inc. and certain of the Colonial Car Wash locations. Note was paid in full during 2012.	-	428
Note Payable to Chase, interest rate of prime plus 0.25% due in monthly installments of $3,182, including interest (adjusted annually) through February 2013, collateralized by real property and equipment of certain of the Colonial Car Wash locations. Note was paid in full during 2012.	-	114
Various capital lease obligations related to equipment at Mace CSSS, Inc. at various interest rates from 9.0% to 13.27%, due in monthly installments totaling $5,679 maturing from August 2012 through February 2014, collateralized by equipment.	16	96
Note payable to Lyon Financial Services, interest rate of 7.99% due in monthly installments of $510 including interest, through September 2013, collateralized by a vehicle.	4	10
	1,007	1,532
Less: current portion, including debt related to discontinued operations	26	1,499
	$ 981	**$ 33**

NOTE 8 – LONG-TERM DEBT, NOTES PAYABLE, AND CAPITAL LEASE OBLIGATIONS – CONTINUED

We had outstanding letters of credit totaling $86,000 and $149,000 at December 31, 2012 and 2011, respectively, as collateral relating to workers' compensation insurance policies. We maintain a $250,000 revolving credit facility to provide financing for additional electronic surveillance product inventory purchases and for commercial letters of credit. There was one commercial letter of credit outstanding for inventory purchases under the revolving credit facility at December 31, 2012 and 2012 for $29,985 and $34,698, respectively.

Our most significant borrowing at December 31, 2012 included a $1.4 million debenture note with Merlin. The $1.4 million debenture note with Merlin, which is classified as a long-term liability and recorded at $980,000 at December 31, 2012, excluding the unamortized value of a conversion option and the value of warrants related to the debenture totaling $420,000, which are both classified in stockholders' equity. The debenture note is due March 30, 2016 and is secured by a security interest in the "Mace" name, a pledge of the stock of Mace CSSS, Inc. and a security interest in the assets of Mace CSSS, Inc. See Note 14, Related Party Transactions for additional information and terms regarding the debt instruments with Merlin. At December 31, 2011 in addition to the debenture note with Merlin, the Company had a secured notes payable to Chase, in the amount of $575,000, the majority of which was classified as current liabilities in current portion of long-term debt or liabilities related to assets held for sale at December 31, 2011, were secured by an Arlington, Texas car wash site which was sold on February 29, 2012. The Chase agreements contained affirmative and negative covenants, including covenants relating to the maintenance of certain levels of tangible net worth, limitations on capital spending and certain financial reporting requirements. As of December 31, 2011, a car wash was encumbered by mortgages. Additionally, upon sale of the Company's Farmers Branch, Texas warehouse which was used as collateral against the Company's Chase revolving credit facility, $439,000 of the Company's cash was deposited into a restricted cash account at Chase as security against the Company's revolving credit facility and certain letters of credit provided by Chase as collateral relating to workers' compensation insurance policies. Chase requires that the Company provide them with annual audited financial statements; no additional covenants are required.

Future maturities of long-term debt and capital lease obligations as of December 31, 2012 are as follows:

2013	$ 26,000
2014	1,000
2015	-
2016	980,000
2017 and thereafter	-
Total	**$ 1,007,000**

NOTE 9 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following *(in thousands)*:

	December 31	
	2012	**2011**
Accrued compensation	$ 213	$ 513
Co-op allowance	114	15
CSSS purchase holdback	150	-
Other	504	1,213
	$ 981	**$ 1,741**

NOTE 10 – STOCK OPTION PLANS

During September 1993, the Company adopted the 1993 Stock Option Plan (the "1993 Plan"). The 1993 Plan provides for the issuance of up to 315,000 shares of common stock upon exercise of the options. The Company has reserved 315,000 shares of common stock to satisfy the requirements of the 1993 Plan. The options are non-qualified stock options and are not transferable by the recipient. The 1993 Plan is administered by the Compensation Committee (the "Committee") of the Board of Directors, which may grant options to employees, directors and consultants to the Company. The term of each option may not exceed fifteen years from the date of grant. Options are exercisable over either a 10 or 15 year period and exercise prices are not less than the market value of the shares on the date of grant.

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.

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, or employees 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 December 31, 2012, 4,619,665 options have been granted and currently outstanding under the 1993, 1999, and 2012 Plans including 4,609,165 nonqualified stock options.

NOTE 10 – STOCK OPTION PLANS– CONTINUED

Activity with respect to these plans is as follows:

	2012		2011	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options outstanding beginning of period	3,273,165	$ 1.94	3,152,374	$ 2.07
Options granted	1,500,000	$ 0.10	300,000	$ 0.16
Options exercised	-	$ -	-	$ -
Options forfeited	(15,000)	$ 0.78	(37,000)	$ 0.60
Options expired	(138,500)	$ 2.34	(142,209)	$ 1.38
Options outstanding end of period	4,619,665	$ 1.33	3,273,165	$ 1.94
Options exercisable	3,422,333		2,978,833	
Shares available for granting of options	13,900,000		3,803,996	

During 2012, the Company granted a total of 1,500,000 stock options at a weighted average fair value of $0.10. Also, during the year ended December 31, 2012, a total of 582,000 shares vested at a weighted average fair value of $0.11. As of December 31, 2012, there are a total of 1,197,333 options that remain non-vested at a weighted average fair value of $0.10.

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 December 31, 2012. 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 14, 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 December 31, 2012.

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 11 – INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2012 and 2011 are as follows:

	December 31	
	2012	**2011**
	(in thousands)	
Deferred tax assets:		
Allowance for doubtful accounts	$ 134	$ 215
Inventories	69	525
Net operating and capital loss carryforwards	22,717	21,544
Vesting stock options	624	601
Other, net	78	19
Total deferred tax assets	23,622	22,904
Valuation allowance for deferred tax assets	(23,071)	(21,765)
Deferred tax asset after valuation allowance	551	1,139
Deferred tax liabilities:		
Property, equipment and intangibles	551	1,139
Net deferred tax assets	**$ -**	**$ -**

At December 31, 2012, the Company had U.S. federal net operating loss carryforwards (“NOLs”) of approximately $52.9 million expiring in 2018 through 2032.

Realization of the future tax benefits related to the deferred tax assets is dependent upon many factors, including the Company’s ability to generate taxable income in future years. The Company performed a detailed review of the considerations influencing our ability to realize the future benefit of the NOLs, including the extent of recently used NOLs, the turnaround of future deductible temporary differences, the duration of the NOL carryforward period, and the Company’s future projection of taxable income. Utilization of our net operating loss and tax credit carryforwards may be subject to annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss or tax credits before utilization. The Company increased its valuation allowance against deferred tax assets by $1.3 million in 2012 and $3.7 million in 2011 with a total valuation allowance of $23.1 million at December 31, 2012 representing the amount of its deferred income tax assets in excess of the Company’s deferred income tax liabilities. The valuation allowance was recorded because management was unable to conclude that realization of the net deferred income tax asset was more likely than not. This determination was a result of the Company’s continued losses in its fiscal year ended December 31, 2012, and the uncertainty of and the ultimate extent of growth in the Company’s Security Segment.

The Company follows the appropriate accounting pronouncements which prescribe a model for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on recognition, classification, interest and penalties, disclosure and transition. At December 31, 2012, the Company did not have any significant unrecognized tax benefits. The total amount of interest and penalties recognized in the statements of operations for the years ended December 31, 2012 and 2011 was insignificant and when incurred is reported as interest expense.

NOTE 11 – INCOME TAXES – CONTINUED

The components of income tax expense (benefit) from continuing operations are:

	Year Ended December 31	
	2012	2011
	(in thousands)	
Current (principally state taxes)	$ 19	$ (80)
Deferred:		
Loss carryforward	(916)	(3,338)
Other deferred tax benefits	(132)	(145)
Valuation allowance	1,048	3,483
	-	-
Total income tax (benefit) expense	**$ 19**	**$ (80)**

A reconciliation of income taxes computed at the U.S. federal statutory tax rates to total income taxes applicable to continuing operations expense is as follows:

	Year Ended December 31	
	2012	2011
	(in thousands)	
Tax at U.S. federal statutory rate	$ (1,142)	$ (1,610)
State taxes, net of federal benefit	13	(49)
Nondeductible costs	9	21
Reconcilement of net operating loss, capital loss carryforwards and other	91	(1,925)
Valuation allowance for deferred tax assets	1,048	3,483
Total income tax (benefit) expense	**$ 19**	**$ (80)**

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The Company leases buildings and equipment under non-cancelable operating lease agreements. Total rent expense was $768,000 and $903,000 for the years ended December 31, 2012 and 2011, respectively.

On March 11, 2013, Mace signed a lease with Weston, Inc. for office, manufacturing and warehouse space located in Cleveland, OH. The lease is due to begin on August 1, 2013 and continue for a period of 10 years and ending June 30, 2023.

NOTE 12 – COMMITMENTS AND CONTINGENCIES – CONTINUED

Future minimum lease commitments (including the new Cleveland, Ohio facility) are as follows:

2013	$ 377,000
2014	301,000
2015	191,000
2016	178,000
2017 and thereafter	1,181,000
Total	**$ 2,228,000**

The Company is a party to various other legal proceedings related to its ordinary business activities. In the opinion of the Company's management, none of these proceedings are material in relation to the Company's results of operations, liquidity, cash flows, or financial condition.

NOTE 13 – ASSET IMPAIRMENT CHARGES

Management periodically reviews the carrying value of our long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. Assets classified as held for sale are measured at the lower of carrying value or fair value, net of costs to sell.

Continuing Operations

Due to continuing challenges in our Mace Security Products, Inc. reporting unit, we perform certain impairment testing of our remaining intangible assets, specifically, the value assigned to customer lists, product lists, and trademarks principally related to our consumer direct electronic surveillance operations and our high-end digital and machine vision cameras and professional imaging component operation. As a result of these review procedures it was determined there to be no impairment in 2012, but we did record an impairment charge of $15,000 to trademarks as of December 31, 2011.

Additionally, on August 31, 2011, the Company entered into a Commercial Contract, which was subsequently amended on October 19, 2011 and November 7, 2011, to sell its Texas warehouse for $1,830,000. The net book value of the Texas warehouse was approximately $1,725,000 with closing costs and broker commissions estimated at $125,000. Accordingly, we recorded an impairment charge of $20,000 relating to this facility during the year ended December 31, 2011. The sale of the Texas warehouse was completed on December 16, 2011. The cash proceeds from the sale were $1.12 million, net of paying off existing debt of $494,574 and closing costs. Costs at closing were $120,000, including $109,800 of broker commissions. The sale of the warehouse resulted in a gain of $9,300.

Discontinued Operations

In September 2011, the Company evaluated, with a business broker, the market value of our remaining car wash sites in Arlington, Texas and in Fort Worth, Texas. Based on our evaluations, we determined that the estimated future proceeds from these sites were below their net book values. Accordingly, we recorded impairment charges of $512,000 related to these two sites during the year ended December 31, 2011. With the continued difficulty in selling the remaining Arlington, Texas car wash facility, we re-evaluated our strategy to dispose of this property and accordingly recorded additional impairment charges of $45,000 during the year ended December 31, 2012.

NOTE 13 – ASSET IMPAIRMENT CHARGES – CONTINUED

In August, 2012, the Company, through its wholly owned subsidiary, Colonial Full Service Car Wash, Inc. ("Colonial"), entered into a Lease Assignment and Release Agreement (the "Agreement") with an assignee and the landlord of its full service car wash located in Fort Worth, Texas. The Agreement, effective August 10, 2012, assigns and transfers all of the Company's rights, obligations and liabilities under the car wash and lube facility, and equipment lease agreements (the "Lease Agreements") to an assignee. Consideration to the landlord for the early release from the Lease Agreements included a cash payment of $275,000 and the transfer of certain inventories and equipment having an approximate book value of $70,000. The lease agreement, which had an expiration date of March 30, 2016, was at a monthly lease payment of $19,250.

NOTE 14 – RELATED PARTY TRANSACTIONS

The Company's Security Segment leases manufacturing and office space in Bennington, Vermont under a lease between Vermont Mill and the Company. The current lease expires on June 30, 2013 and the previous lease expired on May 14, 2012. Vermont Mill is controlled by Jon E. Goodrich, a former director and former employee of the Company. Rent expense under these leases was $133,700 and $135,780 for the years ended December 31, 2012 and 2011, respectively.

The Company borrowed $1.35 million from Merlin Partners, LP ("Merlin") on December 28, 2010. Merlin is a fund managed by Ancora Advisors, LLC, an entity within the Ancora Group. Richard A. Barone, Chairman of the Company's Board of Directors, is the Chairman and controlling person of the Ancora Group. Denis J. Amato, a Company Director, is the Chief Investment Officer of Ancora Advisors, LLC. The loan, which had an original maturity date of March 28, 2011, was extended to August 15, 2011. The loan was payable in two installments of $675,000, with each installment payable upon the closing of each of two car washes that were under agreements of sale at December 31, 2010. The Company made a payment of $675,000 to Merlin upon the sale of the Lubbock, Texas car wash on March 8, 2011. On August 8, 2011, the Company paid the remaining balance from the proceeds generated by the Company's Rights Offering. The loan's interest rate was 12% per annum and was secured by a second lien on a Dallas, Texas area car wash, a Lubbock, Texas car wash and a security interest in the tradename "Mace". As part of the consideration for the financing, Merlin was granted a Common Stock Purchase Warrant to purchase up to 314,715 shares of the Company's common stock at an exercise price of $0.20 per share, expiring December 28, 2015. The warrant contains anti-dilution provisions providing that Merlin will receive additional warrants exercisable into 2% of any common stock of the Company issued by the Company through December 28, 2011. On August 2, 2011, after the conclusion of the Company's Rights Offering, a warrant for 847,452 shares was issued to Merlin under the anti-dilution provision. The exercise price of the original warrant and the newly issued warrant were subject to being adjusted lower, if necessary, to equal the stock issuance price of any stock issued through December 28, 2011 at a price below $0.20. The initial warrants were accounted for at a Black-Scholes fair value of the warrant of $63,274 and recorded as a discount to the $1.35 million Merlin loan and as additional paid-in capital. The discount was charged to interest expense over the original three month maturity period of the loan with an offsetting credit to the loan balance.

NOTE 14 – RELATED PARTY TRANSACTIONS – CONTINUED

Ancora Securities, Inc. ("Ancora") was the Placement Agent and Dealer Manager of the Rights Offering pursuant to the Placement Agent and Dealer Manager Agreement dated March 25, 2011 executed between Ancora and the Company. Ancora was not paid a fee for acting as Placement Agent and Dealer Manager. Ancora also provides investment advisory and brokerage services to the Company, assisting in the purchasing and trading of its short-term investments. Ancora is not paid a fee or commission for these services. Richard A. Barone, Chairman of the Company's Board of Directors, is a controlling owner of Ancora. Denis J. Amato, a director of the Company, is the Chief Investment Officer of Ancora and a large shareholder.

On March 30, 2011, the Company borrowed $1.4 million with an interest rate of 6% per annum from Merlin to fund the acquisition of TCCI, a wholesale security monitoring company. The loan is secured by a security interest in the "Mace" name, a pledge of the stock of the Mace CSSS, Inc. (the "Company's wholesale monitoring subsidiary) and a security interest in the assets of Mace CSSS, Inc. 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 $590,000 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 $516,000 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 $74,000 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 $516,000 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 $1.4 million 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.

NOTE 14 – RELATED PARTY TRANSACTIONS – CONTINUED

As compensation for the $1.4 million 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 $47,420 recorded as a discount to the $1.4 million 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. Interest expense paid includes $84,000 to Merlin related to one promissory note, $129,000 of non-cash interest expense for the accretion of the discounts to the Merlin promissory note and debenture for related warrants and a conversion option.

The Rights Offering was completed on August 1, 2011. A total of 22,372,616 shares of common stock were purchased in the Rights Offering. Of the 22,372,616 shares of common stock purchased, 16,305,144 were purchased under the basic subscription right and 6,067,472 were purchased through the oversubscription privilege. Net proceeds from the Rights Offering were approximately $4.3 million after expenses of approximately $167,000. The Rights Offering was made pursuant to a Registration Statement filed with the Securities and Exchange Commission (the "SEC"), as declared effective June 29, 2011 (the "Registration Statement"), and under a Prospectus dated June 30, 2011, (the "Prospectus"). The Rights Offering granted the Company's stockholders the right to purchase three shares of common stock for each share of common stock owned on the record date of June 27, 2011 at an exercise price of $0.20 per share. The 22,372,616 shares issued under the Rights Offering were registered under the Securities Act. Additionally, shares registered in the Registration Statement but not sold in the Rights Offering (the "Available Stock") were offered for sale by the Company during the period commencing on August 2, 2011, and concluding on August 15, 2011. The Company sold 838,100 shares of the offered Available Stock generating additional proceeds of $167,620.

Additionally, on August 2, 2011, Merlin and two assignees, Mr. Fedeli and Mr. Spitalieri (the "Purchasers"), purchased 20 million shares of the Company's common stock at a price of $0.20 per share (the "Additional Stock"). The sale of Additional Stock resulted in net proceeds to the Company of $3.75 million. The Purchasers of the Additional Stock were paid a fee of $250,000 in connection with the purchase under the Securities Purchase Agreement. The Additional Stock was registered for resale by the Purchasers of the Additional Stock under the Securities Act. The Additional Stock was purchased under the terms of a Securities Purchase Agreement dated March 25, 2011 (the "Securities Purchase Agreement") with Merlin.

NOTE 15 – SUBSEQUENT EVENTS

The Company evaluated its December 31, 2012 financial statements for subsequent events through May 30, 2013, the date the financial statements were available to be issued. Other than the matters discussed below, the Company is not aware of any other subsequent events which would require recognition or disclosure in the consolidated financial statements.

NOTE 15 – SUBSEQUENT EVENTS – CONTINUED

In December 2005, Mace Truck Wash, Inc. (Mace Truck) entered into a contract with Eagle United Truck Wash LLC (Eagle) to sell certain truck washes and related properties. Eagle signed a $920,000, 5-year promissory note with a balloon payment of $758,411 due December 2012. In December 2012, Mace Truck agreed to a six-month note extension that included a $75,000 discount only if the note was paid in full on or before June 30, 2013. The $75,000 discount was recorded by the Company as a reduction to Notes Receivable on the consolidated financial statements in 2012. On March 15, 2013 Eagle exercised the discount option and made final principal payment of approximately $673,000 to Mace Truck.

In May 2013, the Company announced that it will be shutting down its Vermont Operations and relocating the Personal Defense and Security Products division to Cleveland, OH. The move is expected to take place in 2013 and is being done in an effort to reduce operating, selling and general administrative expenses.