Consolidated Financial Statements

Mace Security International, Inc.

March 31, 2015 and 2014

Contents

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

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

ASSETS	March 31, 2015 (Unaudited)	December 31, 2014
Current assets:		
Cash and cash equivalents	**$ 100**	$ 359
Restricted cash	**60**	60
Short-term investments	**3,321**	5,848
Accounts receivable, less allowance for doubtful accounts of $252 and $260, respectively	**1,406**	1,352
Inventories, less reserve for obsolescence of $121 and $123, respectively	**2,089**	1,783
Prepaid expenses and other current assets	**1,138**	1,303
Total current assets	**8,114**	10,705
Property and equipment:		
Buildings and leasehold improvements	**214**	211
Machinery and equipment	**2,108**	2,068
Furniture and fixtures	**484**	484
Total property and equipment	**2,806**	2,763
Accumulated depreciation and amortization	**(2,217)**	(2,178)
Total property and equipment, net	**589**	585
Other intangible assets	**685**	685
Other assets	**924**	1,054
Total assets	**$ 10,312**	$ 13,029

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

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2015 (Unaudited)	December 31, 2014
Current liabilities:		
Current portion of long-term debt	**$ -**	$ 1,241
Accounts payable	**459**	481
Income taxes payable	**59**	60
Accrued expenses and other current liabilities	**1,007**	961
Total current liabilities	**1,525**	2,743
Stockholders' equity:		
Preferred stock, $.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at March 31, 2015 and December 31, 2014	**-**	-
Common stock, $.01 par value; authorized 100,000,000 shares, issued and outstanding shares of 59,106,441	**591**	591
Additional paid-in capital	**101,498**	102,848
Accumulated deficit	**(93,269)**	(93,086)
Accumulated other comprehensive loss	**(11)**	(45)
	8,809	10,308
Less treasury stock at cost, 90,548 shares	**(22)**	(22)
Total stockholders' equity	**8,787**	10,286
Total liabilities and stockholders' equity	**$ 10,312**	$ 13,029

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Amounts in thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net revenue	**1,826**	1,682
Cost of revenue	**1,155**	1,119
Gross profit	**671**	563
Selling, general, and administrative expenses	**1,135**	1,405
Depreciation and amortization	**38**	44
Operating loss	**(502)**	(886)
Interest expense	**(53)**	(55)
Interest income	**52**	47
Gain (loss) on sale of short-term investments	**(12)**	104
Other income	**322**	-
Loss from continuing operations before income tax provision	**(193)**	(790)
Income tax provision	**-**	1
Loss from continuing operations	**(193)**	(791)
Income (loss) from discontinued operations, net of tax of $0	**10**	(3)
Net loss	**(183)**	(794)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)
(Amounts in thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net loss	**$ (183)**	$ (794)
Other comprehensive income (loss): unrealized loss on short-term	**34**	(67)
Total comprehensive loss	**$ (149)**	$ (861)

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)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Cash Flows from Operating activities:		
Net loss	**$ (183)**	$ (794)
Loss (income) from discontinued operations, net of tax	**(10)**	3
Loss from continuing operations	**(193)**	(791)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	**38**	44
Stock-based compensation	**28**	86
Provision for losses on receivables	**5**	11
Provision for obsolete inventory	**6**	13
Loss (gain) on sale of short-term investments	**12**	(104)
Amortization of discount on debt	**-**	32
Gain on retirement of debt	**(322)**	-
Changes in operating assets and liabilities:		
Accounts receivable	**(48)**	511
Inventories	**(312)**	(258)
Prepaid expenses and other assets	**161**	267
Accounts payable	**(22)**	4
Accrued expenses and other current liabilities	**46**	(221)
Income taxes payable	**(1)**	(1)
Net cash used in operating activities – continuing operations	**(602)**	(407)
Net cash used in operating activities – discontinued operations	**-**	(3)
Net cash used in operating activities	**(602)**	(410)
Cash Flows from Investing Activities:		
Purchase of property and equipment	**(43)**	(84)
Purchase of short-term investments	**-**	(4,393)
Proceeds from sale of short-term investments	**2,549**	1,151
Net cash used in investing activities-continuing operations	**2,506**	(3,326)
Net cash used in investing activities-discontinued operations	**134**	-
Net cash used in investing activities	**2,640**	(3,326)
Cash Flows from Financing Activities:		
Retirement of convertible debt	**(2,297)**	-
Increase in restricted cash	**-**	(149)
Net cash used in financing activities – continuing operations	**(2,297)**	(149)
Net cash used in financing activities – discontinued operations	**-**	-
Net cash used in financing activities	**(2,297)**	(149)
Net decrease in cash and cash equivalents	**(259)**	(3,885)
Cash and cash equivalents at beginning of period	**359**	4,923
Cash and cash equivalents at end of period	**$ 100**	$ 1,038

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015 and 2014
(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 sells consumer safety, personal defense, and electronic surveillance equipment and products to retailers, distributors, and individual consumers. In December 2013, the Company sold its wholesale security monitoring business that was conducted by the Company's Mace CSSS, Inc. subsidiary.

These unaudited consolidated financial statements should be read in conjunction with the Company's December 31, 2014 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.

In July 2012, the Company filed Form 15 with the United States Security Exchange ("SEC") to effectively terminate the Company's registration and reporting as a public company under SEC rules and regulations.

NOTE 2 – IMPACT OF NEWLY ISSUED ACCOUNTING STANDARDS

There have been no recently issued accounting pronouncements through the date of this report that the Company believes will have a material impact on the Company's financial position, results of operations or cash flows.

NOTE 3 - RECLASSIFICATIONS

Certain 2014 amounts have been reclassified to conform to the current year presentation.

NOTE 4 - SUPPLEMENATARY CASH FLOW INFORMATION

Interest paid on all indebtedness, including discontinued operations, was approximately $50 and $21 for the three months ended March 31, 2015 and 2014, respectively.

Income taxes paid totaled approximately $0 and $1 for the three months ended March 31, 2015 and 2014, respectively.

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

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 $4,711 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 asset purchase 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 Company received additional net cash proceeds of $315 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.

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

In October 2014, the Company renegotiated its 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.

In April 2015, the Company amended its note receivable due from Security Partners reducing the monthly principal repayment amount for the period April to September 2015 by $10 per month and providing for the repayment of the deferred principal in a lump sum payment due on May 10, 2017.

At March 31, 2015, the current portion of the notes receivable of $556 is in Prepaid Expenses and Other Current Assets, while the non-current portion of $638 is in Other Assets on the Consolidated Balance Sheets.

There were no assets or liabilities held for sale at March 31, 2015 and 2014.

Discontinued Operations

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

	Three months ended March 31,	
	2015	**2014**
Net sales	$ -	$ -
Income (loss) before income tax provision	10	(3)
Provision for income tax on operations	-	-
Income (loss) from operations, net of tax	$ 10	$ (3)

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

NOTE 6 –ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of other comprehensive loss are as are as follows:

	March 31, 2015	December 31, 2014
Change in value of short-term investments	$ **(10)**	$ (45)

NOTE 7 – OTHER INTANGIBLE ASSETS

Other intangible assets consist of:

	March 31, 2015		December 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-amortized trademarks	**$ 685**	**$ -**	$ 685	$ -

The Company annually performs impairment testing of its intangible assets, consisting primarily of the Company's trademarks.

NOTE 8 – INVENTORIES

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

	March 31, 2015	December 31, 2014
Finished goods	**$ 792**	$ 767
Raw materials	**1,297**	1,016
Total inventories	**$ 2,089**	**$** 1,783

NOTE 9 – LONG-TERM DEBT

Long-term debt consists of the following:

	March 31, 2015	December 31, 2014
Convertible debenture note payable to Merlin Partners, LP	**$ -**	$ 1,241
Less: current portion of convertible debenture payable to Merlin Partners, LP	**-**	1,241
Total long-term debt	**$ -**	**$** -

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

On January 13, 2015, the Company repaid its convertible $1,400 debenture note with a payment of $2,297 to Merlin Partners, LP pursuant to an agreement entered into on December 24, 2014. The Company recognized a gain of $322 in conjunction with this repayment. This repayment is at a significant discount to the convertible debenture current conversion value, and a premium to its face value. The repayment of the convertible debenture eliminated the potential issuance of approximately 7,291,666 shares of Mace common stock. The Company recognized non-cash interest expense for amortization of the debt discount related to the convertible debenture of $0 and $32 for the three months ended March 31, 2015 and 2014, respectively.

Concurrent with repaying its convertible $1,400 debenture note, the Company entered into a Put Option Agreement ("Put Option") with several investors ("Investors") requiring the Investors to make loans to the Company in the aggregate amount of $2,000 at the Company's discretion. The Put Option expires on January 15, 2017. Loans made by the Investors would bear interest at 4% and would be due December 31, 2019. Prior to maturity, Investors have the option to convert the loan to common stock, at a per share conversion price of $0.30. During the term of the Put Option, the Company may enter into alternative financing arrangements at any time; however the Investors have the right of first refusal to participate in such financing. The Company is obligated to pay a 5% purchase price for the Put Option. $50 of the Put Option purchase price was paid in January 2015, and the remainder is due February 15, 2016. The Company recorded this expenditure in interest expense. See Note 12, Related Party Transactions.

NOTE 10 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

		March 31, 2015		**December 31, 2014**
Accrued employee compensation	$	**88**	$	56
Co-operative advertising and other sales allowances		**307**		299
Amounts due customers		**150**		69
Accrued non-income based taxes		**15**		23
Business purchase holdback		**235**		234
Other		**212**		280
Total accrued expenses and other current liabilities	$	**1,007**	$	961

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 is terminated and no further options may be awarded under the 1999 plan.

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

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 March 31, 2015, 6,758,453 nonqualified stock options were outstanding under the 1999 and 2012 Plans.

Activity with respect to these plans is as follows:

	Number	Weighted Average Exercise Price
Options outstanding at December 31, 2014	6,587,203	$ 0.62
Options granted	425,000	$ 0.39
Options forfeited	(253,750)	$ 0.35
Options outstanding at March 31, 2015	6,758,453	$ 0.61
Options exercisable	4,879,823	$ 0.71
Shares available for granting of options	10,179,550	

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 $28 and $86 for the three months ended March 31, 2015 and 2014, respectively. No tax benefit was recognized for this compensation expense.

The fair values of the Company's options awarded during the three months ended March 31, 2015 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	1.60%
Volatility	56.9%
Dividend yield	0%
Forfeiture rate	0%

Expected term - The Company's expected term 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 March 31, 2015, total unrecognized stock-based compensation expense is $360, which has a weighted average period to be recognized of approximately 3.2 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 and are classified in equity. No warrants to purchase common stock related to the note have been exercised through March 31, 2015. 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 Stock Rights Offering under anti-dilution provisions contained in the original issued warrants. See Note 12, 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. No warrants to purchase common stock related to the note or debenture have been exercised through March 31, 2015.

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.

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

NOTE 12 – RELATED PARTY TRANSACTIONS

The Company borrowed $1.35 million from Merlin Partners, LP ("Merlin") in 2010. Merlin is a fund managed by Ancora Advisors, LLC, and an entity within the Ancora Group. Richard A. Barone, a Company Director, is a portfolio manager and an owner of Ancora Advisors LLC. Denis J. Amato, a Company Director, is a portfolio manager and an owner of Ancora Advisors, LLC. While this loan was repaid in 2011, 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 on December 28, 2015. The warrant contained an anti-dilution provision. On August 2, 2011, upon conclusion of the Company's Stock Rights Offering, a warrant for 847,452 shares was issued to Merlin under the anti-dilution provision.

On March 30, 2011, the Company borrowed $1,400 with an interest rate of 6% per annum from Merlin to fund the acquisition of TCCI, a wholesale security monitoring company. This loan was repaid in January 2015. See Note 9 – Long-Term Debt.

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 earned $0 and $21 of interest related to the $1,400 loan in three months ended March 31, 2015 and 2014, 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 $0 and $32 in the three months ended March 31, 2015 and 2014, respectively.

Concurrent with repaying its convertible $1,400 Merlin note, the Company entered into a Put Option Agreement with several investors ("Put Option") requiring the investors to make loans to the Company in the aggregate amount of $2,000 at the Company's discretion. The Company is obligated to pay a 5% purchase price for the Put Option. $50 of the Put Option purchase price was paid in January 2015, and the remainder is due February 15, 2016. The Put Option investors and their respective share of the Put Option are as follows:

Investor	Percentage
Richard A. Barone – Company Director	50.0
Denis J. Amato – Company Director	15.0
Diamond A Partners, L.P. – sponsored by Lawndale Capital Management, which is a shareholder of the Company	21.1
Independent investor (unrelated party)	5.0
John J. McCann – Chief Executive Officer and Company Director	2.6
Fred Di Santo – Chairman and Chief Executive Officer of The Ancora Group	2.5
Diamond A Investors, LP – sponsored by Lawndale Capital Management, which is a shareholder of the Company	3.8

NOTE 13 – SUBSEQUENT EVENTS

The Company evaluated its March 31, 2015 financial statements for subsequent events through May 7, 2015, the date the financial statements were available to be issued. The Company is not aware of any subsequent events, which would require recognition or disclosure in the consolidated financial statements.