

Consolidated Financial Statements

**Mace Security International, Inc.**

June 30, 2015 and 2014

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Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED BALANCE SHEETS**

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

<b>ASSETS</b>	<b>June 30, 2015</b> <b>(Unaudited)</b>	<b>December 31,</b> <b>2014</b>
Current assets:		
Cash and cash equivalents	\$ 165	\$ 359
Restricted cash	60	60
Short-term investments	2,869	5,848
Accounts receivable, less allowance for doubtful accounts of \$276 and \$260, respectively	1,608	1,352
Inventories, less reserve for obsolescence of \$121 and \$123, respectively	2,462	1,783
Prepaid expenses and other current assets	<u>1,077</u>	<u>1,303</u>
Total current assets	8,241	10,705
Property and equipment:		
Buildings and leasehold improvements	214	211
Machinery and equipment	2,120	2,068
Furniture and fixtures	<u>484</u>	<u>484</u>
Total property and equipment	2,818	2,763
Accumulated depreciation and amortization	<u>(2,230)</u>	<u>(2,178)</u>
Total property and equipment, net	588	585
Other intangible assets	685	685
Other assets	<u>836</u>	<u>1,054</u>
Total assets	<u><u>\$ 10,350</u></u>	<u><u>\$ 13,029</u></u>

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

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>June 30, 2015</b>	<b>December 31,</b>
	<b>(Unaudited)</b>	<b>2014</b>
Current liabilities:		
Current portion of long-term debt	\$ -	\$ 1,241
Accounts payable	679	481
Income taxes payable	59	60
Accrued expenses and other current liabilities	<u>856</u>	<u>961</u>
Total current liabilities	<b>1,594</b>	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	101,536	102,848
Accumulated deficit	(93,328)	(93,086)
Accumulated other comprehensive loss	<u>(21)</u>	<u>(45)</u>
	<b>8,778</b>	10,308
Less treasury stock at cost, 90,548 shares	<u>(22)</u>	<u>(22)</u>
Total stockholders' equity	<b><u>8,756</u></b>	<u>10,286</u>
Total liabilities and stockholders' equity	<b><u>\$ 10,350</u></b>	<b><u>\$ 13,029</u></b>

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

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(Amounts in thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
	<u>          </u>	<u>          </u>
Net revenue	4,066	3,500
Cost of revenue	<u>2,421</u>	<u>2,339</u>
Gross profit	1,645	1,161
Selling, general, and administrative expenses	2,196	2,590
Depreciation	<u>76</u>	<u>87</u>
Operating loss	(627)	(1,516)
Interest expense	(25)	(112)
Interest income	94	110
Gain (loss) on sale of short-term investments	(16)	124
Other income	<u>312</u>	<u>-</u>
Loss from continuing operations before income tax provision	(262)	(1,394)
Income tax provision	<u>-</u>	<u>-</u>
Loss from continuing operations	(262)	(1,394)
Income from discontinued operations, net of tax of \$0	<u>20</u>	<u>408</u>
Net loss	<u><u>(242)</u></u>	<u><u>(986)</u></u>

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

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(Amounts in thousands)

	<b>Three Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
	<u>          </u>	<u>          </u>
Net revenue	2,241	1,817
Cost of revenue	<u>1,267</u>	<u>1,219</u>
Gross profit	974	598
Selling, general, and administrative expenses	1,062	1,185
Depreciation	<u>38</u>	<u>43</u>
Operating loss	(126)	(630)
Interest expense	-	(57)
Interest income	69	63
Gain (loss) on sale of short-term investments	(3)	20
Other loss	<u>(9)</u>	<u>-</u>
Loss from continuing operations before income tax provision	(69)	(604)
Income tax provision	<u>-</u>	<u>(1)</u>
Loss from continuing operations	(69)	(603)
Income from discontinued operations, net of tax of \$0	<u>10</u>	<u>411</u>
Net loss	<u><u>(59)</u></u>	<u><u>(192)</u></u>

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

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(Unaudited)

(Amounts in thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
Net loss	<b>\$ (242)</b>	<b>\$ (986)</b>
Other comprehensive income (loss): unrealized gain (loss) on short-term investments	<b>24</b>	<b>(60)</b>
Total comprehensive loss	<b><u>\$ (218)</u></b>	<b><u>\$ (1,046)</u></b>

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

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(Unaudited)

(Amounts in thousands)

	<b>Three Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
Net loss	<b>\$ (59)</b>	\$ (192)
Other comprehensive income (loss): unrealized gain (loss) on short-term investments	<b>(10)</b>	7
Total comprehensive loss	<b><u>\$ (69)</u></b>	<b><u>\$ (185)</u></b>

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)

	<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash Flows from Operating activities:</b>		
Net loss	\$ (242)	\$ (986)
Income from discontinued operations, net of tax	(20)	(408)
Loss from continuing operations	<u>(262)</u>	<u>(1,394)</u>
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	76	87
Stock-based compensation	66	122
Provision for losses on receivables	30	18
Provision for obsolete inventory	8	57
Loss on sale of property and equipment	9	1
Loss (gain) on sale of short-term investments	15	(124)
Amortization of discount on debt	-	65
Gain on retirement of debt	(322)	-
Changes in operating assets and liabilities:		
Accounts receivable	(265)	663
Inventories	(687)	(239)
Prepaid expenses and other assets	204	316
Accounts payable	197	(43)
Accrued expenses and other current liabilities	(105)	(443)
Income taxes payable	(1)	(3)
Net cash used in operating activities – continuing operations	<u>(1,037)</u>	<u>(917)</u>
Net cash used in operating activities – discontinued operations	-	(23)
Net cash used in operating activities	<u>(1,037)</u>	<u>(940)</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(88)	(95)
Purchase of short-term investments	-	(5,234)
Proceeds from sale of short-term investments	<u>2,987</u>	<u>2,147</u>
Net cash provided by (used in) investing activities-continuing operations	<u>2,899</u>	<u>(3,182)</u>
Net cash used in investing activities-discontinued operations	<u>241</u>	<u>430</u>
Net cash provided by (used in) investing activities	<u>3,140</u>	<u>(2,752)</u>
<b>Cash Flows from Financing Activities:</b>		
Retirement of convertible debt	(2,297)	-
Increase in restricted cash	-	(63)
Net cash used in financing activities – continuing operations	<u>(2,297)</u>	<u>(63)</u>
Net cash used in financing activities – discontinued operations	-	-
Net cash used in financing activities	<u>(2,297)</u>	<u>(63)</u>
Net decrease in cash and cash equivalents	(194)	(3,755)
Cash and cash equivalents at beginning of period	<u>359</u>	<u>4,923</u>
Cash and cash equivalents at end of period	<u>\$ 165</u>	<u>\$ 1,168</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 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 - SUPPLEMENTARY CASH FLOW INFORMATION**

Interest paid on all indebtedness, including discontinued operations, was approximately \$50 and \$43 for the six months ended June 30, 2015 and 2014, respectively.

Income taxes paid totaled approximately \$1 and \$3 for the six months ended June 30, 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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2015 and 2014

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

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.

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

In April 2015, the Company amended its \$1,491 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 June 30, 2015, the current portion of the \$1,491 note receivable of \$531 is in Prepaid Expenses and Other Current Assets, while the non-current portion of \$556 is in Other Assets on the Consolidated Balance Sheets. The \$250 note receivable is due on July 17, 2017 and is recorded in Other Assets on the Consolidated Balance Sheets.

There were no assets or liabilities held for sale at June 30, 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:

	<b>Six months ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
Net sales	\$ -	\$ -
Income (loss) before income tax provision	20	(1)
Provision for income tax on operations	-	-
Income (loss) from operations, net of tax	<u>\$ 20</u>	<u>\$ (1)</u>
Gain on sale of discontinued operations	\$ -	\$ 409
Provision for income tax on gain on sale	-	-
Gain on sale of discontinued operations, net of tax	<u>-</u>	<u>409</u>
Income from discontinued operations net of tax	<u>\$ 20</u>	<u>\$ 408</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2015 and 2014

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

	<u>Three months ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Net sales	\$ -	\$ -
Income before income tax provision	10	2
Provision for income tax on operations	-	-
Income from operations, net of tax	<u>\$ 10</u>	<u>\$ 2</u>
Gain on sale of discontinued operations	\$ -	\$ 409
Provision for income tax on gain on sale	-	-
Gain on sale of discontinued operations, net of tax	<u>-</u>	<u>409</u>
Income from discontinued operations net of tax	<u>\$ 10</u>	<u>\$ 411</u>

**NOTE 6 – ACCUMULATED OTHER COMPREHENSIVE LOSS**

The components of other comprehensive loss are as follows:

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Change in value of short-term investments	<u>\$ (21)</u>	<u>\$ (45)</u>

**NOTE 7 – OTHER INTANGIBLE ASSETS**

Other intangible assets consist of:

	<u>June 30, 2015</u>		<u>December 31, 2014</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Non-amortized trademarks	<u>\$ 685</u>	<u>\$ -</u>	<u>\$ 685</u>	<u>\$ -</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2015 and 2014

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

**NOTE 8 – INVENTORIES**

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

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Finished goods	\$ 1,602	\$ 1,016
Raw materials	<u>860</u>	<u>767</u>
Total inventories	<u>\$ 2,462</u>	<u>\$ 1,783</u>

**NOTE 9 – LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Convertible note payable to Merlin Partners, LP	\$ -	\$ 1,241
Less: current portion of convertible note payable to Merlin Partners, LP	<u>-</u>	<u>1,241</u>
Total long-term debt	<u>\$ -</u>	<u>\$ -</u>

On January 13, 2015, the Company repaid its convertible \$1,400 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 note current conversion value, and a premium to its face value. The repayment of the convertible note 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 note of \$0 and \$65 for the six months ended June 30, 2015 and 2014, respectively.

Concurrent with repaying its convertible \$1,400 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% fee for the Put Option. \$50 of the Put Option fee was paid in January 2015, and the remainder is due February 15, 2016. The Put Option fee is amortized to interest expense over the life of the Put Option. See Note 12, Related Party Transactions.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2015 and 2014

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

**NOTE 10 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the following:

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Accrued employee compensation	\$ 42	\$ 56
Co-operative advertising and other sales allowances	347	299
Amounts due customers	45	69
Accrued non-income based taxes	15	23
Business purchase holdback	237	234
Other	<u>170</u>	<u>280</u>
Total accrued expenses and other current liabilities	<u>\$ 856</u>	<u>\$ 961</u>

**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.

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 June 30, 2015, 6,736,785 nonqualified stock options were outstanding under the 1999 and 2012 Plans.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2015 and 2014

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

Activity with respect to these plans is as follows:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Options outstanding at December 31, 2014	6,587,203	\$ 0.62
Options granted	450,000	\$ 0.39
Options forfeited	(253,750)	\$ 0.35
Options expired	(46,668)	\$ 1.30
Options outstanding at June 30, 2015	<u>6,736,785</u>	\$ 0.61
Options exercisable	<u>5,019,329</u>	\$ 0.69
Shares available for granting of options	<u>10,154,550</u>	

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 \$66 and \$122 for the six months ended June 30, 2015 and 2014, respectively. No tax benefit was recognized for this compensation expense.

The fair values of the Company's options awarded during the six months ended June 30, 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	56.8%
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 June 30, 2015, total unrecognized stock-based compensation expense is \$331, which has a weighted average period to be recognized of approximately 3.0 years.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

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

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 a warrant, expiring December 28, 2015, to Merlin Partners, LP to purchase 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 warrant was accounted for under the equity method at a Black-Scholes' fair value of \$0.20 per share or a total value of \$63 and was recorded in equity. The warrant contained an anti-dilution provision. Consequently, August 2, 2011, upon conclusion of the Company's Stock Rights Offering, an additional warrant for 847,452 shares, expiring on December 28, 2015, was issued to Merlin Partners, LP. No warrants to purchase common stock related to the Promissory Note have been exercised through June 30, 2015. See Note 12, Related Party Transactions.

In 2011, the Company issued a warrant, expiring March 30, 2016, to purchase 157,357 shares of the Company's stock at an exercise price of \$0.20 per share in connection with entering into a \$1,400 convertible note agreement with Merlin Partners, LP. The warrant issued in March 2011 in connection with the \$1,400 convertible note was accounted for under the equity method at a Black-Scholes' fair value of \$0.20 per share or a total value of \$47. The warrant contained an anti-dilution provision. Consequently, on August 2, 2011, upon conclusion of the Company's Stock Rights Offering, an additional warrant for 423,726 shares, expiring on March 30, 2016, was issued to Merlin Partners, LP. No warrants to purchase common stock related to the \$1,400 Promissory Note have been exercised through June 30, 2015. See Note 12, Related Party Transactions.

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

### NOTE 12 – RELATED PARTY TRANSACTIONS

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. As part of the consideration for the financing, Merlin was issued a warrant to purchase 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, expiring on December 28, 2015, was issued to Merlin under the anti-dilution provision. This loan was repaid in 2011.

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 convertible note was repaid in January 2015. See Note 9 – Long-Term Debt. As compensation for the \$1,400 convertible note, Merlin received a five year warrant exercisable into 157,357 shares of common stock at an exercise

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price of \$0.20 per share, expiring on March 30, 2016. 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, expiring on March 30, 2016, was issued to Merlin under the anti-dilution provision. 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 convertible note and as additional paid-in capital. The discount was accreted as a charge to interest expense over the maturity period of the convertible note with an offsetting credit to the loan balance. The Company recognized non-cash interest expense for the accretion of the discount of \$0 and \$65 in the six months ended June 30, 2015 and 2014, respectively. Merlin earned \$0 and \$42 of interest related to the \$1,400 loan in six months ended June 30, 2015 and 2014, respectively.

Concurrent with repaying its convertible \$1,400 Merlin note in January 2015, the Company entered into a Put Option Agreement, expiring January 17, 2017, 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:

<u>Investor</u>	<u>Percentage</u>
Richard A. Barone – Company Director	50.0
Denis J. Amato – Company Director	15.0
Diamond A Partners, L.P. – 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, L.P. – a shareholder of the Company	3.8

**NOTE 13 – SUBSEQUENT EVENTS**

The Company evaluated its June 30, 2015 financial statements for subsequent events through August 6, 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.