Consolidated Financial Statements

Mace Security International, Inc.

June 30, 2016 and 2015

Contents

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

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

ASSETS	June 30, 2016 (Unaudited)	December 31, 2015
Current assets:		
Cash and cash equivalents	**$ 338**	$ 446
Restricted cash	**60**	60
Short-term investments	**2,126**	2,142
Accounts receivable, less allowance for doubtful accounts of $284 and $251, at June 30, 2016 and December 31, 2015, respectively	**1,575**	1,562
Inventories, less reserve for obsolescence of $76 and $78, at June 30, 2016 and December 31, 2015, respectively	**1,776**	1,601
Prepaid expenses and other current assets	**869**	779
Assets held for sale, net of reserve for obsolescence of $156 and $165, at June 30, 2016 and December 31, 2015, respectively	**275**	430
Total current assets	**7,019**	7,020
Property and equipment:		
Buildings and leasehold improvements	**216**	216
Machinery and equipment	**2,317**	2,017
Furniture and fixtures	**341**	384
Total property and equipment	**2,874**	2,617
Accumulated depreciation and amortization	**(2,170)**	(2,095)
Total property and equipment, net	**704**	522
Other intangible assets	**685**	685
Other assets	**868**	1,034
Total other assets	**1,553**	1,719
Total assets	**$ 9,276**	$ 9,261

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

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2016 (Unaudited)	December 31, 2015
Current liabilities:		
Accounts payable	$ 329	$ 222
Income taxes payable	59	61
Accrued expenses and other current liabilities	547	695
Total current liabilities	935	978
Other liabilities	51	-
Stockholders' equity:		
Preferred stock, $.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at June 30, 2016 and December 31, 2015	-	-
Common stock, $.01 par value; authorized 100,000,000 shares, issued and outstanding shares of 60,481,858 and 60,285,370, at June 30, 2016 and December 31, 2015, respectively	604	603
Additional paid-in capital	101,960	101,859
Accumulated deficit	(94,232)	(94,113)
Accumulated other comprehensive loss	(20)	(44)
	8,312	8,305
Less treasury stock at cost, 90,548 shares	(22)	(22)
Total stockholders' equity	8,290	8,283
Total liabilities and stockholders' equity	$ 9,276	$ 9,261

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)

	Six Months Ended June 30,	
	2016	**2015**
Net revenue	**4,110**	3,385
Cost of revenue	**2,454**	1,996
Gross profit	**1,656**	1,389
Selling, general, and administrative expenses	**1,832**	1,891
Depreciation	**76**	71
Operating loss	**(252)**	(573)
Interest expense	**(23)**	(25)
Interest income	**72**	94
Loss on sale of short-term investments	**-**	(16)
Other income	**-**	312
Loss from continuing operations before income tax provision	**(203)**	(208)
Income tax provision	**-**	-
Loss from continuing operations	**(203)**	(208)
Income (loss) from discontinued operations, net of tax of $0	**84**	(34)
Net loss	**(119)**	(242)

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

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(Amounts in thousands)

	Three Months Ended June 30, 2016	2015
Net revenue	**2,031**	1,896
Cost of revenue	**1,192**	1,059
Gross profit	**839**	837
Selling, general, and administrative expenses	**860**	920
Depreciation	**39**	35
Operating loss	**(60)**	(118)
Interest expense	**(12)**	-
Interest income	**35**	69
Loss on sale of short-term investments	**-**	(3)
Other expense	**-**	(9)
Loss from continuing operations before income tax provision	**(37)**	(61)
Income tax provision	**-**	-
Loss from continuing operations	**(37)**	(61)
Income from discontinued operations, net of tax of $0	**78**	2
Net income (loss)	**41**	(59)

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)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net loss	**$ (119)**	$ (242)
Other comprehensive income: unrealized gain on short-term investments	**24**	24
Total comprehensive loss	**$ (95)**	$ (218)

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

Mace Security International, Inc. and Subsidiaries

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

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015	
Net income (loss)	**$**	**41**	$	(59)
Other comprehensive income (loss): unrealized gain (loss) on short-term investments		**14**		(10)
Total comprehensive income (loss)	**$**	**55**	$	(69)

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)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash Flows from Operating activities:		
Net loss	**$ (119)**	$ (242)
Loss (income) from discontinued operations, net of tax	**(84)**	34
Loss from continuing operations	**(203)**	(208)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	**77**	76
Stock-based compensation	**102**	66
Provision for losses on receivables	**40**	30
Provision for obsolete inventory	**(3)**	6
Loss on sale of property and equipment	**-**	9
Loss on sale of short-term investments	**-**	15
Gain on retirement of debt	**-**	(322)
Changes in operating assets and liabilities:		
Accounts receivable	**(52)**	(265)
Inventories	**(172)**	(430)
Prepaid expenses and other assets	**76**	204
Accounts payable	**106**	197
Accrued expenses and other current liabilities	**(97)**	(105)
Income taxes payable	**(2)**	(1)
Net cash used in operating activities – continuing operations	**(128)**	(728)
Net cash provided by (used in) operating activities – discontinued operations	**239**	(309)
Net cash proviced by (used in) operating activities	**111**	(1,037)
Cash Flows from Investing Activities:		
Purchase of property and equipment	**(259)**	(88)
Proceeds from sale of short-term investments	**40**	2,987
Net cash provided by (used in) investing activities-continuing operations	**(219)**	2,899
Net cash provided by investing activities-discontinued operations	**-**	241
Net cash provided by (used in) investing activities	**(219)**	3,140
Cash Flows from Financing Activities:		
Retirement of convertible debt	**-**	(2,297)
Net cash used in financing activities – continuing operations	**-**	(2,297)
Net cash used in financing activities – discontinued operations	**-**	-
Net cash used in financing activities	**-**	(2,297)
Net decrease in cash and cash equivalents	**(108)**	(194)
Cash and cash equivalents at beginning of period	**446**	359
Cash and cash equivalents at end of period	**$ 338**	$ 165

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015
(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 and personal defense products to retailers, distributors, and individual consumers. The Company also supplies less-lethal tactical munitions and weapons systems for law enforcement, correctional institutions and military markets.

These unaudited consolidated financial statements should be read in conjunction with the Company's December 31, 2015 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

In February 2016, the FASB issued Accounting Standards Update No. 2016-02: "Leases". Under this standard, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. This standard offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This standard is effective for annual reporting periods beginning after December 15, 2018 and requires a modified retrospective adoption, with early adoption permitted. The Company is assessing the impact adopting this new accounting guidance will have on its consolidated financial statements and disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09: "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This accounting standard update will directly impact the tax administration of equity plans. The standard is effective for fiscal years beginning after December 15, 2016, including interim periods with those fiscal years. Early adoption is permitted and any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently in the process of evaluating the impact of adoption on its consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13: "Financial Instruments – Credit Losses". This new standard requires trade accounts receivable to be presented at the net amount expected to be collected. The standard eliminates the probable initial recognition threshold in current accounting standards and, instead, requires an entity's current estimates of all expected credit losses. The standard is effective for fiscal years beginning after December 15, 2019. The Company does not expect that the adoption of this standard will have a material effect on its consolidated financial statements.

No other new accounting pronouncement had or is expected to have a material impact on the Company's Consolidated Financial Statements.

NOTE 3 - RECLASSIFICATIONS

Certain 2015 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 $50 for the six months ended June 30, 2016 and 2015, respectively.

Income taxes paid totaled approximately $2 and $1 for the six months ended June 30, 2016 and 2015, 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 ($1,497 ("Note 1") and $250 ("Note 2") 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 Note 1, resulting in a principal balance of $1,591.

In October 2014, the Company renegotiated Note 1. 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 Note 1 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.

In January 2016, the Company amended Note 1 providing for the deferral of interest and principal payments from August 11, 2015 to no later than March 10, 2016. Thereafter regular monthly interest and principal payments resume. The amendment further provides for the payment of interest accrued during the deferral period by no later than March 10, 2016 and extends the due date of the note to December 10, 2017. The deferred interest was paid in July 2016.

In July 2016, the Company amended Note 1 providing for interest only payments commencing August 10, 2016 and the resumption of principal and interest payments on January 10, 2017 and the extension of the maturity date of Note 1 to December 10, 2019.

In January 2016, the Company amended Note 2 providing for the deferral of interest payments from August 18, 2015 to no later than March 17, 2016. Thereafter regular monthly interest payments resume.

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

The amendment provides for the payment of interest accrued during the deferral period by no later than March 17, 2016. Note 2 was fully paid off, including accrued interest, in July 2016.

At June 30, 2016, the current portion of the notes receivable of $408 is in Prepaid Expenses and Other Current Assets, while the non-current portion of $858 is in Other Assets on the Consolidated Balance Sheets.

Electronic Surveillance Equipment Business

In December 2015, the Company exited the electronic surveillance equipment business. Inventory associated with this business is reported in Assets Held for Sale on the Consolidated Balance Sheets. At June 30, 2016 and December 31, 2015, electronic surveillance equipment inventory held for sale was $275 and $430, respectively, net of reserve for obsolescence of $156 and $165, respectively. The Company anticipates selling remaining inventory to existing customers and in a bulk sale during 2016.

Discontinued Operations

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

	Six months ended June 30,	
	2016	**2015**
Net sales	$ **405**	$ 682
Cost of goods sold	**282**	425
Selling, general and administrative expenses	**39**	286
Depreciation	**-**	5
Other income	**-**	-
Income (loss) before income tax provision	**84**	(34)
Provision for income tax on operations	**-**	-
Income (loss) from operations, net of tax	$ **84**	$ (34)
Income (loss) from discontinued operations net of tax	$ **84**	$ (34)

	Three months ended June 30,	
	2016	**2015**
Net sales	$ **213**	$ 344
Cost of goods sold	**124**	207
Selling, general and administrative expenses	**11**	133
Depreciation	**-**	2
Other income	**-**	-
Income (loss) before income tax provision	**78**	2
Provision for income tax on operations	**-**	-
Income (loss) from operations, net of tax	$ **78**	$ 2
Income (loss) from discontinued operations net of tax	$ **78**	$ 2

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

NOTE 6 – ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table shows the beginning balance, annual activity and ending balance of accumulated other comprehensive loss, all of which pertains to the Company's short-term investments.

Balance at December 31, 2015	$	(44)
Changes in value (net of tax effect of $0)		24
Balance at June 30, 2016	**$**	**(20)**

NOTE 7 – OTHER INTANGIBLE ASSETS

Other intangible assets consist of:

	June 30, 2016		December 31, 2015	
	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. The most recent evaluation was performed as of December 31, 2015. As a result of this evaluation, it was determined that there was no impairment of the Company's intangible assets as of December 31, 2015.

NOTE 8 – INVENTORIES

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

	June 30, 2016	December 31, 2015
Finished goods	**$ 647**	$ 611
Raw materials	**1,129**	990
Total inventories	**$ 1,776**	**$** 1,601

NOTE 9 – VENDOR FINANCED PROPERTY AND EQUIPMENT

In January 2016, the Company acquired tooling from a vendor of components. This purchase was financed by the vendor and is to be paid over 30 months. The total purchase financed by the vendor was $160. Since January 2016, the Company made $45 of principal payments, and as of June 30, 2016, $64 and $51 were recorded in accrued liabilities and other liabilities – non-current, respectively, based on the payment terms.

(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:

	June 30, 2016	December 31, 2015
Accrued employee compensation	$ **53**	$ 224
Co-operative advertising and other sales allowances	**252**	363
Amounts due customers	**78**	22
Accrued non-income based taxes	**5**	3
Accrued for vendor financed property and equipment	**64**	-
Other	**95**	83
Total accrued expenses and other current liabilities	$ **547**	$ 695

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.

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

As of June 30, 2016, 7,307,596 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, 2015	6,730,886	$ 0.58
Options granted	753,377	$ 0.40
Options forfeited	(176,667)	$ 2.40
Options outstanding at June 30, 2016	7,307,596	$ 0.51
Options exercisable	5,818,212	$ 0.56
Shares available for granting of options	9,333,739	

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 $102 and $66 for the six months ended June 30, 2016 and 2015, respectively. No tax benefit was recognized for this compensation expense. At June 30, 2016, total unrecognized stock-based compensation expense is $275, which has a weighted average period to be recognized of approximately 2.7 years.

The following table provides additional information regarding options outstanding as of June 30, 2016:

	Options Exercisable		Options Outstanding		Options Vested or Expected to Vest	
Option Exercise Price Range	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
$0.01 to $0.39	4,088,750	$ 0.30	5,547,434	$ 0.33	5,547,434	$ 0.33
$0.40 to $1.00	1,033,461	$ 0.63	1,064,161	$ 0.62	1,064,161	$ 0.62
$1.01 to $1.99	451,667	$ 1.56	451,667	$ 1.56	451,667	$ 1.56
$2.00 to $3.00	244,334	$ 2.60	244,334	$ 2.60	244,334	$ 2.60
	5,818,212		7,307,596		7,307,596	

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

	Options Exercisable	**Options Outstanding**	**Options Vested or Expected to Vest**
Weighted average years remaining term	**2.3**	**2.6**	**2.6**
Aggregate intrinsic value	**$ 320**	**$ 324**	**$ 324**

The following table details the weighted-average grant-date fair values and the assumptions used for estimating the fair values of the Company's options at the dates of grant using a Black-Scholes option pricing model:

	Six months ended June 30,	
	2016	**2015**
Weighted-average per share grant-date fair value	**$0.174**	$0.194
Expected term (years)	**5**	5
Risk-free interest rate	**1.23%**	1.60%
Volatility	**49.44%**	56.8%
Dividend yield	**0%**	0%
Forfeiture rate	**0%**	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.

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 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, and on December 24, 2015, additional warrants for 423,726 and 8,381 shares, respectively, expiring on March 30, 2016, were issued to Merlin Partners, LP. Merlin Partners, LP did a cashless exercise of 589,464 of these options during the six months ended June 30, 2016 resulting in the issuance of 196,488 shares of the Company's stock. See Note 12, Related Party Transactions.

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

NOTE 12 – RELATED PARTY TRANSACTIONS

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.

Concurrent with repaying its convertible $1,400 Merlin note in January 2015, the Company entered into a Put Option Agreement ("Put Option"), expiring January 17, 2017 with several investors 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 was paid in February 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. – 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
	100.0 %

NOTE 13 – SUBSEQUENT EVENTS

The Company evaluated its June 30, 2016 financial statements for subsequent events through August 5, 2016, 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.