Consolidated Financial Statements

Mace Security International, Inc.

March 31, 2017 and 2016

Contents

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

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

ASSETS	March 31, 2017 (Unaudited)	December 31, 2016
Current assets:		
Cash and cash equivalents	$ 436	$ 970
Restricted cash	60	60
Short-term investments	605	1,794
Accounts receivable, less allowance for doubtful accounts of $114 at both March 31, 2017 and December 31, 2016	1,458	1,655
Inventories	1,961	1,568
Prepaid expenses and other current assets	796	952
Total current assets	5,316	6,999
Property and equipment:		
Buildings and leasehold improvements	228	216
Machinery and equipment	2,587	2,405
Furniture and fixtures	341	342
Total property and equipment	3,156	2,963
Accumulated depreciation and amortization	(2,289)	(2,249)
Total property and equipment, net	867	714
Goodwill	2,654	-
Other intangible assets	685	685
Other assets	1,136	1,184
Total other assets	1,821	1,869
Total assets	$ 10,658	$ 9,582

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

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2017 (Unaudited)	December 31, 2016
Current liabilities:		
Current portion of long-term debt	**$ 181**	$ -
Accounts payable	**283**	194
Income taxes payable	**60**	60
Accrued expenses and other current liabilities	**373**	518
Total current liabilities	**897**	772
Long-term debt, net of current portion	**819**	-
Other liabilities	**3**	4
Total liabilities	**1,719**	776
Stockholders' equity:		
Preferred stock, $.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at March 31, 2017 and December 31, 2016	**-**	-
Common stock, $.01 par value; authorized 100,000,000 shares, issued and outstanding shares of 61,881,858 and 60,781,858, at March 31, 2017 and December 31, 2016, respectively	**619**	608
Additional paid-in capital	**102,526**	102,098
Accumulated deficit	**(94,182)**	(93,863)
Accumulated other comprehensive loss	**(2)**	(15)
	8,961	8,828
Less treasury stock at cost, 90,548 shares	**(22)**	(22)
Total stockholders' equity	**8,939**	8,806
Total liabilities and stockholders' equity	**$ 10,658**	$ 9,582

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 March 31, 2017	Three Months Ended March 31, 2016
Net revenue	**1,710**	2,079
Cost of revenue	**1,036**	1,262
Gross profit	**674**	817
Selling, general, and administrative expenses	**964**	972
Depreciation	**41**	38
Operating loss	**(331)**	(193)
Interest expense	**(5)**	(10)
Interest income	**29**	37
Loss on sale of short-term investments	**(12)**	-
Loss from continuing operations before income tax provision	**(319)**	(166)
Income tax provision	**-**	-
Loss from continuing operations	**(319)**	(166)
Income from discontinued operations, net of tax of $0	**-**	5
Net loss	**(319)**	(161)

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

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)
(Amounts in thousands)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Net loss	**$ (319)**	$ (161)
Other comprehensive income: unrealized gain on short-term investments	**13**	10
Total comprehensive loss	**$ (306)**	$ (151)

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, 2017	Three Months Ended March 31, 2016
Cash Flows from Operating activities:		
Net loss	**$ (319)**	$ (161)
Income from discontinued operations, net of tax	**-**	(5)
Loss from continuing operations	**(319)**	(166)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	**41**	38
Stock-based compensation	**31**	58
Provision for losses on receivables	**9**	29
Provision for obsolete inventory	**4**	4
Loss on sale of short-term investments	**11**	-
Changes in operating assets and liabilities:		
Accounts receivable	**518**	90
Inventories	**(76)**	(98)
Prepaid expenses and other assets	**177**	(16)
Accounts payable	**89**	124
Accrued expenses and other current liabilities	**(145)**	(81)
Income taxes payable	**-**	(2)
Net cash provided by (used in) operating activities – continuing operations	**340**	(20)
Net cash provided by operating activities – discontinued operations	**-**	117
Net cash proviced by operating activities	**340**	97
Cash Flows from Investing Activities:		
Purchase of property and equipment	**(34)**	(188)
Acquisition of business	**(3,463)**	-
Proceeds from sale of short-term investments	**1,190**	40
Net cash used in investing activities-continuing operations	**(2,307)**	(148)
Net cash provided by investing activities-discontinued operations	**26**	-
Net cash used in investing activities	**(2,281)**	(148)
Cash Flows from Financing Activities:		
Proceeds from long-term debt	**1,000**	-
Exercise of stock options	**17**	
Issuance of common stock	**390**	-
Net cash provided by financing activities – continuing operations	**1,407**	-
Net decrease in cash, cash equivalents and restricted cash	**(534)**	(51)
Cash, cash equivalents and restricted cash at beginning of period	**1,030**	506
Cash, cash equivalents and restricted cash at end of period	**$ 496**	$ 455

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016
(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, 2016 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 were no new accounting pronouncements that had or are expected to have a material impact on the Company's Consolidated Financial Statements.

NOTE 3 - SUPPLEMENATARY CASH FLOW INFORMATION

Interest paid on all indebtedness was $0 and $50 for the three months ended March 31, 2017 and 2016, respectively.

Income taxes paid totaled approximately $0 and $2 for the three months ended March 31, 2017 and 2016, respectively.

NOTE 4 – BUSINESS ACQUISITION

On March 22, 2017, the Company completed the purchase of the business and substantially all related operating assets of Washington Laboratories, LLC, a private label producer of high quality defense spray products. The purchase price for the business and related assets was approximately $3,418, subject to certain adjustments related principally to customer retention and a working capital adjustment. In addition, the Company assumed certain current operating liabilities of Washington Laboratories, LLC.

The purchase transaction was accounted for under the purchase method of accounting. The final purchase price will be allocated to the assets acquired and liabilities assumed based upon their fair values when appraisals, other studies, and additional information become available.

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

The final purchase price will be allocated to the assets acquired and liabilities assumed based upon their fair values when appraisals, other studies and additional information become available. The preliminary allocation of the purchase price and the estimated goodwill are as follows:

		March 22, 2017
Assets acquired:		
Accounts receivable	$	**329**
Inventory		**320**
Property and equipment		**160**
Goodwill		**2,654**
Liabilities assumed:		
Accounts payable		**45**
Total purchase price	$	**3,418**

The results of operation of the acquired Washington Laboratories business from the date of acquisition are included in the Company's unaudited consolidated statement of operation. The following unaudited pro forma information presents a summary of the results of operations for the Company including Washington Laboratories as if the acquisition had occurred on January 1, 2016.

	Three Months Ended March 31,			
		2017		2016
Net sales	$	**2,195**	$	2,903
Net income		**(182)**		107

NOTE 5 – BUSINESS DIVESTITURES 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.

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 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 2017, the Company amended Note 1 providing for interest only payments commencing February 10, 2017 and the resumption of principal and interest payments on August 10, 2017.

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. 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 March 31, 2017, the current portion of the notes receivable of $213 is in Prepaid Expenses and Other Current Assets, while the non-current portion of $777 is in Other Assets on the Consolidated Balance Sheets.

Electronic Surveillance Equipment Business

In November 2016, the Company completed the sale of its electronic surveillance equipment business, consisting of inventory and a customer list. The Company received a $450 note receivable that is due January 20, 2020. On May 2, 2017, the Company amended this note receivable providing for interest only payments commencing February 20, 2017 and the resumption of principal and interest payments on August 20, 2017. At March 31, 2017, the current portion of the note receivable of $93 is in Prepaid Expenses and Other Current Assets, while the non-current portion of $357 is in Other Assets on the Consolidated Balance Sheets.

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

Discontinued Operations

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
Net sales	$ -	$ 192
Cost of goods sold	-	159
Selling, general and administrative expenses	-	28
Income before income tax provision	-	5
Provision for income tax on operations	-	-
Income from discontinued operations net of tax	$ -	$ 5

Discontinued operations are expected to generate cash flow through the last maturity date of the notes receivable in 2020.

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, 2016	$ (15)
Changes in value (net of tax effect of $0)	**1**
Reclassification into earnings (net of tax effect of $0)	**12**
Balance at March 31, 2017	**$ (2)**

NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets consist of:

	March 31, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Goodwill	**$ 2,654**	**$ -**	$ -	$ -
Non-amortized trademarks	**685**	**-**	685	-
	$ 3,339	**$ -**	$ 685	$ -

All of the goodwill is expected to be deductible for income tax purposes.

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

The Company's goodwill and non-amortized trademarks are not amortized, but are instead subject to an annual impairment test. The most recent evaluation was performed as of December 31, 2016. As a result of this evaluation, it was determined that there was no impairment of the Company's intangible assets as of December 31, 2016.

NOTE 8 – INVENTORIES

Inventories consist of the following:

	March 31, 2017	December 31, 2016
Finished goods	**$ 994**	$ 760
Raw materials	**997**	808
Total inventories	**$ 1,961**	$ 1,568

NOTE 9 – LONG-TERM DEBT

Long-term debt consists of the following:

	March 31, 2017	December 31, 2016
Promissory note payable to sellers of Washington Laboratories business	$ **1,000**	$ -
Less: current portion of promissory note payable to sellers of Washington Laboratories business	**181**	-
Total long-term debt	$ **819**	$ -

Promissory note payable to sellers of Washington Laboratories business at March 31, 2017 consists of a 5% $1,000 note payable due March 22, 2022 entered into in conjunction with the acquisition of the Washington Laboratories business in March 2017. The promissory note is collateralized by all of the Company's assets. The Company recognized promissory note payable interest expense of $1 and $0 in the three months ended March 31, 2017 and 2016 respectively.

NOTE 10 – 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 $123 of principal payments, and as of March 31, 2017, $37 was recorded in accrued liabilities.

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

NOTE 11 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	March 31, 2017	December 31, 2016
Accrued employee compensation	$ **12**	$ 152
Co-operative advertising and other sales allowances	**155**	217
Accrued commissions	**32**	21
Amounts due customers	**76**	40
Accrued non-income based taxes	**8**	11
Accrued for vendor financed property and equipment	**37**	41
Other	**53**	36
Total accrued expenses and other current liabilities	$ **373**	$ 518

NOTE 12 – 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 March 31, 2017, 6,728,262 nonqualified stock options were outstanding under the 1999 and 2012 Plans.

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

Activity with respect to these plans is as follows:

	Number	Weighted Average Exercise Price
Options outstanding at December 31, 2016	7,056,596	$ 0.50
Options exercised	(100,000)	$ 0.17
Options expired	(228,334)	$ 1.61
Options outstanding at March 31, 2017	6,728,262	$ 0.47
Options exercisable	5,761,004	$ 0.49
Shares available for granting of options	9,183,739	

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 $31 and $58 for the three months ended March 31, 2017 and 2016, respectively. No tax benefit was recognized for this compensation expense. At March 31, 2017, total unrecognized stock-based compensation expense is $175, which has a weighted average period to be recognized of approximately 2.1 years.

The following table provides additional information regarding options outstanding as of March 31, 2017:

	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	4,247,376	$ 0.33	5,197,434	$ 0.34	5,197,434	$ 0.34
$0.40 to $1.00	1,046,961	$ 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	15,000	$ 2.52	15,000	$ 2.52	15,000	$ 2.52
	5,761,004		6,728,262		6,728,262	

	Options Exercisable	Options Outstanding	Options Vested or Expected to Vest
Weighted average years remaining term	1.6	1.9	1.9
Aggregate intrinsic value	$ 281	$ 293	$ 293

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

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:

	Three months ended March 31, 2016
Weighted-average per share grant-date fair value	$0.196
Expected term (years)	5
Risk-free interest rate	1.21%
Volatility	53.3%
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.

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 13 – SUBSEQUENT EVENTS

The Company evaluated its March 31, 2017 financial statements for subsequent events through May 12, 2017, the date the financial statements were available to be issued. The Company is not aware of any subsequent events, other than as discussed in Note 5, Business Divestitures and Discontinued Operations, which would require recognition or disclosure in the consolidated financial statements.