Consolidated Financial Statements and
Independent Auditors' Report

Mace Security International, Inc. and Subsidiaries

December 31, 2017 and 2016

SKODA MINOTTI
CPAs, BUSINESS & FINANCIAL ADVISORS

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Contents

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS
MACE SECURITY INTERNATIONAL, INC. AND SUBSIDIARIES

We have audited the accompanying consolidated financial statements of Mace Security International, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mace Security International, Inc. and Subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

SKODA MINOTTI & CO.

Skoda Minotti

Cleveland, Ohio
March 9, 2018

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016
(Amounts in thousands, except share and per share information)

ASSETS	2017	2016
Current assets:		
Cash and cash equivalents	$ 662	$ 970
Restricted cash	-	60
Short-term investments	251	1,794
Accounts receivable, less allowance for doubtful accounts of $121 and $114 in 2017 and 2016, respectively	1,622	1,655
Inventories	2,317	1,568
Notes receivable and other current assets	1,143	952
Total current assets	5,995	6,999
Property and equipment:		
Buildings and leasehold improvements	240	216
Machinery and equipment	2,630	2,405
Furniture and fixtures	348	342
Total property and equipment	3,218	2,963
Accumulated depreciation and amortization	(2,437)	(2,249)
Total property and equipment, net	781	714
Goodwill	771	-
Intangible assets, net	3,211	685
Note receivable and other assets	906	1,184
Total other assets	4,888	1,869
Total assets	$ 11,664	$ 9,582

LIABILITIES AND STOCKHOLDERS' EQUITY	**2017**	**2016**
Current liabilities:		
Current portion of long-term debt	**$ 427**	$ -
Accounts payable	**457**	194
Income taxes payable	**62**	60
Accrued expenses and other current liabilities	**633**	518
Total current liabilities	**1,579**	772
Long-term debt, net of current portion	**678**	-
Other liabilities	**2**	4
Total liabilities	**2,259**	776
Stockholders' equity:		
Preferred stock, $.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at December 31, 2017 and 2016	**-**	-
Common stock, $.01 par value; authorized 100,000,000 shares, issued and outstanding shares of 62,896,858 and 60,781,858 at December 31, 2017 and 2016, respectively	**629**	608
Additional paid-in capital	**102,729**	102,098
Accumulated deficit	**(93,928)**	(93,863)
Accumulated other comprehensive loss	**(3)**	(15)
	9,427	8,828
Less treasury stock at cost, 90,548 shares in both 2017 and 2016	**(22)**	(22)
Total stockholders' equity	**9,405**	8,806
Total liabilities and stockholders' equity	**$ 11,664**	$ 9,582

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

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2017 and 2016
(Amounts in thousands, except per share data)

	2017	2016
Net sales	**$ 9,983**	$ 9,054
Cost of goods sold	**5,580**	5,369
Gross profit	**4,403**	3,685
Selling, general, and administrative expenses	**4,121**	3,719
Depreciation	**188**	155
Operating income (loss)	**94**	(189)
Interest expense	**(45)**	(48)
Interest income	**96**	136
Loss on sale of short-term investments	**(12)**	(15)
Amortization of intangible assets	**(174)**	-
Other expense, net	**-**	(4)
Loss from continuing operations before income tax provision	**(41)**	(120)
Income tax (benefit) provision	**2**	(19)
Loss from continuing operations	**(43)**	(101)
Income (loss) from discontinued operations, net of tax of $0 in both 2017 and 2016	**(22)**	351
Net income (loss)	**$ (65)**	$ 250
Income (loss) per share from continuing operations		
Basic	**$ -**	**$ -**
Diluted	**$ -**	**$ -**
Income (loss) per share from discontinuted operations, net of tax		
Basic	**$ -**	**$ 0.01**
Diluted	**$ -**	**$ 0.01**
Net income (loss) per share		
Basic	**$ -**	**$ -**
Diluted	**$ -**	**$ -**
Weighted-average number of common shares (basic)	**61,804**	**60,498**
Weighted-average number of common shares (diluted)	**62,277**	**61,444**

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

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Years Ended December 31, 2017 and 2016
(Amounts in thousands, except per share data)

	2017	2016
Net income (loss)	**$ (65)**	$ 250
Other comprehensive income net of tax of $0 in both 2017 and 2016:		
Unrealized gain on short-term investments	**12**	29
Total comprehensive income (loss)	**$ (53)**	$ 279

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

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2017 and 2016
(Amounts in thousands, except share information)

	Common Stock		Additional Paid-in	Accumulated	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Stock	Income (Loss)	Total
Balance at December 31, 2015	60,285,370	603	101,859	(94,113)	(22)	(44)	8,283
Stock-based compensation	-	-	194	-	-	-	194
Unrealized gain on short-term investments	-	-	-	-	-	29	29
Exercise of stock warrants	196,488	2	(2)	-	-	-	-
Exercise of stock options	300,000	3	47	-	-	-	50
Net income	-	-	-	250	-	-	250
Balance at December 31, 2016	60,781,858	608	102,098	(93,863)	(22)	(15)	8,806
Stock-based compensation	**-**	**-**	**119**	**-**	**-**	**-**	**119**
Unrealized gain on short-term investments	**-**	**-**	**-**	**-**	**-**	**12**	**12**
Exercise of stock options	**115,000**	**1**	**19**	**-**	**-**	**-**	**20**
Acquisition of businesses	**2,000,000**	**20**	**493**	**-**	**-**	**-**	**513**
Net loss	**-**	**-**	**-**	**(65)**	**-**	**-**	**(65)**
Balance at December 31, 2017	**62,896,858**	**$ 629**	**$ 102,729**	**$ (93,928)**	**$ (22)**	**$ (3)**	**$ 9,405**

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

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016
(Amounts in thousands)

	2017	2016
Cash Flows from Operating activities:		
Net income (loss)	**$ (65)**	$ 250
Income (loss) from discontinued operations, net of tax	**(22)**	351
Loss from continuing operations	**(43)**	(101)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	**362**	155
Stock-based compensation	**119**	194
Provision for losses on receivables	**21**	59
Provision for obsolete inventory	**(12)**	134
Loss on sale of property and equipment	**-**	3
Loss on sale of short-term investments	**12**	15
Changes in operating assets and liabilities:		
Accounts receivable	**347**	(152)
Inventories	**(293)**	(101)
Prepaid expenses and other assets	**(110)**	(122)
Accounts payable	**218**	(28)
Accrued expenses and other liabilities	**(77)**	(173)
Income taxes payable	**2**	(1)
Net cash provided by (used in) operating activities – continuing operations	**546**	(118)
Net cash provided by (used in) operating activities – discontinued operations	**-**	331
Net cash provided by operating activities	**546**	213
Cash Flows from Investing Activities:		
Purchase of property and equipment	**(93)**	(351)
Acquisition of businesses	**(2,425)**	-
Proceeds from sale of short-term investments	**1,544**	362
Net cash provided by (used in) investing activities-continuing operations	**(974)**	11
Net cash provided by investing activities-discontinued operations	**175**	250
Net cash provided by (used in) investing activities	**(799)**	261
Cash Flows from Financing Activities:		
Proceeds from exercise of stock options	**20**	50
Repayment of debt	**(135)**	-
Net cash provided by financing activities – continuing operations	**(115)**	50
Net increase (decrease) in cash, cash equivalents and restricted cash	**(368)**	524
Cash, cash equivalents, and restricted cash at beginning of year	**1,030**	506
Cash, cash equivalents, and restricted cash at end of year	**$ 662**	$ 1,030

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 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.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the Company's financial statements. Actual results may differ from these estimates under different assumptions or conditions.

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

Revenue Recognition

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

Cash and Cash Equivalents

The Company maintains its cash accounts in regulated financial institutions. The Company considers all highly liquid short-term investments with original maturities of three months or less to be cash equivalents. A substantial majority of the Company's cash and cash equivalent balances exceeded insured amounts at December 31, 2017 and 2016.

Restricted Cash

The Company had cash in a restricted bank account at December 31, 2016. The restricted balance at December 31, 2016 related to a payment card agreement.

Short Term Investments and Marketable Securities

The Company holds a number of short-term investments. The investments are comprised of short term investments and marketable equity securities, mutual funds and exchange-traded products. All short-term investments are classified as available for sale and are valued and presented on the Consolidated Balance Sheets at current market prices. Dividends and interest earned and gains and losses realized from the sale of investments are reported in interest income and loss on sale of short-term investments in the Consolidated Statements of Operations. Unrealized gains/losses resulting from the increase/decrease in the market value of the investments are reported in accumulated other comprehensive income/loss in the Consolidated Balance Sheets.

Accounts Receivable

The Company's accounts receivable are primarily due from trade customers. Credit is extended based on evaluation of customers' financial condition and, generally, collateral is not required. Customer credit terms vary. Amounts due from customers are stated in the financial statements net of an allowance for doubtful accounts. Accounts which are outstanding longer than the credit terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they are deemed uncollectible. Any payments subsequently received on such receivables are credited to the Consolidated Statements of Operations. International credit risk is managed by requiring substantially all international customers to provide payment in advance of shipment.

During fiscal 2017 and 2016, $16 and $196 of accounts receivable were written off against the allowance for doubtful accounts, respectively. Bad debt expense, net of recoveries of $2 and $0, was $21 and $59 in fiscal 2017 and 2016, respectively.

Concentration of Significant Customers

The Company routinely assesses the financial strength of its customers. As a result, the Company believes that its accounts receivable credit risk exposure is limited and has not experienced significant write-offs of its accounts receivable balances. At December 31, 2017, two customers accounted for 28% and 11% of the net accounts receivable balance. At December 31, 2016, three customers accounted for 20%, 20%, and 19% of the net accounts receivable balance. During the year ended December 31, 2017, three customers accounted for 14%, 13%, and 11% of the Company's net sales. During the year ended December 31, 2016, one customer accounted for 14% of the Company's net revenue.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in first-out (FIFO) method. Inventories consist of defense sprays, and various other consumer security and safety products. The Company periodically reviews the book value of slow moving inventory items, as well as discontinued product lines, to determine if inventory is properly valued. The Company identifies slow moving or discontinued product lines by a detail review of recent sales volumes of inventory items as well as a review of recent selling prices versus cost and assesses the ability to dispose of inventory items at a price greater than cost. If market value is less than cost, then an adjustment is made to adjust the inventory to market value.

Property and Equipment

The Company leases all of its facilities. Property and equipment are stated at cost. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets, which are generally as follows: leasehold improvements - 8 to 10 years; machinery and equipment - 3 to 10 years; and furniture and fixtures - 3 to 10 years. Significant additions or improvements extending assets' useful lives or their capabilities are capitalized; normal maintenance and repair costs are expensed as incurred. Depreciation expense from continuing operations was approximately $188 and $155 for the years ended December 31, 2017 and 2016, respectively. Maintenance and repairs are charged to expense as incurred and amounted to approximately $56 and $37 for the years ended December 31, 2017 and 2016, respectively.

Impairment of Long-Lived Assets

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

Intangible Assets

Intangible assets consist primarily of customer relationships and trademarks. The intangible assets which arose from the 2017 business acquisitions are amortized over their respective estimated useful lives. Certain trademarks are considered to have indefinite lives, and as such, are not subject to amortization. These assets along with the Company’s goodwill are tested for impairment using a discounted cash flow methodology annually and whenever there is an impairment indicator. Estimating future cash flows requires significant judgment and projections may vary from cash flows eventually realized. Several impairment indicators are beyond the Company’s control, and determining whether or not they will occur cannot be predicted with any certainty.

Income Taxes

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

Advertising and Marketing Costs

The Company expenses advertising costs, including advertising production cost, as the costs are incurred. Advertising expense from continuing operations was approximately $282 and $115 for the years ended December 31, 2017 and 2016, respectively.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, short-term investments, trade receivables, notes receivable, trade payables and debt instruments. The carrying values of the Company's financial instruments are considered to be representative of their respective fair values.

In accordance with the Accounting Standards Codification ("ASC") 820, "Fair Value Measurement and Disclosures", a hierarchy is established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring the fair value. The hierarchy defines three levels of inputs that may be used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets for identical unrestricted assets and liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Inputs other than the quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market data for substantially the entire contractual term of the asset or liability.

Level 3 – Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in the pricing of an asset or liability and are consequently not based on market activity but rather through particular valuation techniques. The fair value of the Company's notes receivable is determined by calculating the expected amount of cash to be received. Given the relative short-term nature of the notes receivable, discount rate and prepayments were not factors in determining the fair value of the notes receivable. See Note 5, Business Divestitures, Assets Held for Sale and Discontinued Operations for additional information regarding the notes receivable. The fair value of the Company's note payable is determined by calculating the expected amount of cash to be paid. Given the relative short-term nature of the note payable, discount rate and prepayments were not factors in determining the fair value of the note payable. The contingent note payable and contingent stock payable fair values were based on discounted cash flow analyses reflecting the possible achievement of specified performance measures and capturing the contractual nature of the contingencies, commercial risk and the time value of money.

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

The following tables summarize the Company's short term investments, notes receivable and debt instruments recorded at fair value by fair value hierarchy levels as of December 31, 2017 and 2016:

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Short-term investments	**$ 251**	**$ -**	**$ -**	**$ 251**
Notes receivable	**-**	**-**	**1,339**	**1,339**
Total assets	**$ 251**	**$ -**	**$ 1,339**	**$ 1,590**
Liabilities				
Note payable	**$ -**	**$ -**	**$ 865**	**$ 865**
Contingent note payable	**-**	**-**	**240**	**240**
Contingent stock payable	**-**	**-**	**80**	**80**
Total liabilities	**$ -**	**$ -**	**$ 1,185**	**$ 1,185**

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Short-term investments	$ 1,794	$ -	$ -	$ 1,794
Notes receivable	-	-	1,466	1,466
Total assets	$ 1,794	$ -	$ 1,466	$ 3,260

The following table summarizes the changes in assets measured at fair value using Level 3 inputs for the years ended December 31, 2017 and 2016:

	Year ended December 31,	
	2017	**2016**
Balance at January 1	$ **1,466**	$ 1,266
Payments	**(197)**	(250)
Increase in notes receivable	**70**	450
Balance at December 31	$ **1,339**	$ 1,466

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

The following table summarizes the changes in liabilities measured at fair value using Level 3 inputs for the years ended December 31, 2017 and 2016:

	Year ended December 31,	
	2017	**2016**
Balance at January 1	$ **-**	$ -
Payments	**(135)**	-
Increase in debt	**1,320**	-
Balance at December 31	$ **1,185**	$ -

Impact of Newly Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". This new standard provides a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, which supersedes most current revenue recognition guidance. This new revenue recognition model requires entities to conduct a five-step analysis to determine when and how revenue is recognized. The new model requires revenue recognition to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. This standard is effective for annual reporting periods beginning after December 15, 2017 and allows for either full retrospective adoption or modified retrospective adoption. The Company expects to adopt this standard using the modified retrospective method and does not expect that the adoption of this standard will have a material effect on its consolidated financial statements.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11: "Simplifying the Measurement of Inventory", which applies to inventory that is measured using first-in, first-out or average cost. As proscribed in this update, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This update is effective for annual and interim reporting periods beginning after December 15, 2016, and should be applied prospectively, with early adoption permitted at the beginning of an interim or annual reporting period. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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 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.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, which provides guidance for specific statement of cash flows issues. The standard is effective for fiscal years beginning after December 15, 2017. The Company does not expect that the adoption of this standard will have a material effect on its consolidated financial statements.

In January 2017, The FASB issued Accounting Standards Update No. 2017-04: "Intangibles—Goodwill and Other (Topic 350)". This new standard simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of good will under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following procedures that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under this standard, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The loss should not exceed the total amount of goodwill allocated to that reporting unit. This standard is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, which clarifies when a change to the terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance requires modification accounting if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change to the terms and conditions of the share-based payment award. The new guidance is effective for fiscal years beginning after December 15, 2017. The Company does not expect the adoption of this standard to have a material impact 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.

Reclassifications

Certain reclassifications have been made to the 2016 consolidated financial statements to conform to the 2017 consolidated financial statement presentation.

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

Net Income per Share

The Company's net income (loss) per basic share has been computed based on the weighted-average number of common shares outstanding. The Company calculates diluted earnings per share based upon the weighted-average number of shares outstanding plus the dilutive effect of share equivalents calculated using the treasury stock method.

The dilutive effect of the Company's stock options was as follows:

	For the year ended December 31,	
	2017	**2016**
Weighted-average shares outstanding - basic	**61,804,166**	60,498,053
Dilutive effect of stock options	**472,731**	946,377
Weighted-average shares outstanding - diluted	**62,276,897**	61,444,430

Outstanding stock options relating to approximately 3,156,659 and 1,682,373 weighted-average shares were excluded from the calculation of diluted earnings per share for the year ended December 31, 2017 and 2016, respectively, as the impact of including such stock options in the calculation of diluted earnings per share would have an anti-dilutive effect.

NOTE 3 - SUPPLEMENATARY CASH FLOW INFORMATION

Interest paid on all indebtedness, including discontinued operations, was approximately $41 and $50 for the years ended December 31, 2017 and 2016, respectively.

Income taxes paid totaled approximately $0 and $2 in the years ended December 31, 2017 and 2016, respectively.

NOTE 4 – BUSINESS ACQUISITIONS

On October 19, 2017, the Company completed the purchase of the business and substantially all related operating assets of Vigilant Personal Protection Systems, a top rated personal security and home medical product e-commerce marketing business, for $397 of cash, 500,000 shares of the Company's common stock with an acquisition date fair value of $143 and the assumption of liabilities totaling $143. The purchase price for the business and related assets is subject to an earn-out calculation providing for additional consideration of up to $300 of cash and 400,000 shares of the Company's common stock, with an acquisition date fair value of $240 and $80, respectively, which may be paid upon the achievement of certain defined financial objectives through October 19, 2020.

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

The purchase transaction was accounted for under the purchase method of accounting. The allocation of the purchase price, including amounts attributed to goodwill and intangible assets are as follows:

Assets acquired:		
Accounts receivable	$	**8**
Inventory		**126**
Property and equipment		**3**
Intangible assets		**630**
Goodwill		**236**
Total purchase price	$	**1,003**

The above fair values of assets acquired and liabilities assumed were based upon appraisals, other studies and additional information. The Company believes that such information provided a reasonable basis for determining the fair values of the assets acquired and liabilities assumed.

On March 22, 2017, the Company completed the purchase of the business and substantially all related operating assets of Washington Laboratories, LLC, a custom manufacturer of high quality defense spray products, for $2,028 cash, $1,000 note, 1,000,000 shares of the Company's stock with an acquisition date fair value of $370 and the assumption of liabilities totaling $45. The purchase price for the business and related assets is subject to certain adjustments related principally to customer retention and a working capital adjustment.

The purchase transaction was accounted for under the purchase method of accounting. The allocation of the purchase price, including amounts attributed to goodwill and intangible assets are as follows:

	March 22, 2017 as Initially Reported	**Measurement Period Adjustments**	**As Adjusted**
Assets acquired:			
Accounts receivable	$ **329**	**$ 31**	**$ 360**
Inventory	**320**	**(2)**	**318**
Property and equipment	**160**	**-**	**160**
Intangible assets	**-**	**2,070**	**2,070**
Goodwill	**2,654**	**(2,119)**	**535**
Total purchase price	$ **3,463**	**$ (20)**	**$ 3,443**

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

The above fair values of assets acquired and liabilities assumed were based upon appraisals, other studies and additional information. Measurement period adjustments reflect new information obtained about facts and circumstances that existed as of the acquisition date. The Company believes that such information provided a reasonable basis for determining the fair values of the assets acquired and liabilities assumed.

The results of operation of the acquired businesses from the dates of acquisition are included in the Company's 2017 consolidated statement of operations. For the year ended December 31, 2017, these acquisitions contributed $2,167 to the Company's net sales. Net income contributed by these acquisitions is not separately identifiable due to the integration of the acquired businesses into the Company and is impracticable to provide. The following unaudited pro forma information presents a summary of the results of operations for the Company including the acquired businesses as if the acquisitions had occurred on January 1, 2016.

	Year Ended December 31,	
	2017	2016
Net sales	$ **11,402**	$ 12,735
Net income (loss)	**(36)**	803

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.

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 December 31, 2017, the current portion of the notes receivable of $329 is in notes receivable and other current assets, while the non-current portion of $529 is in notes receivable and 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. In April 2017, the Company agreed to a $22 reduction in the sale price of this business.

In May 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.

In September 2017, the Company amended this note receivable by (a) increasing it by $70 related primarily to (i) purchases of inventory made by the Company on behalf of the buyer of this business and (ii) transitional services provided by the Company to the buyer of this business, (b) extending the due date of the note to February 25, 2020, (c) reducing the monthly payments to $10 per month and (d) providing for a $255 balloon payment at the new maturity date of this note.

At December 31, 2017, the current portion of the note receivable of $97 is in Notes receivable and other current assets, while the non-current portion of $384 is in Notes receivable and 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:

	Year ended December 31, 2017	Year ended December 31, 2016
Net sales	$ **-**	$ 630
Cost of goods sold	**-**	413
Selling, general, and administrative expenses	**-**	78
Depreciation	**-**	-
Operating income (loss)	**-**	139
Other income (expense)	**(22)**	212
Income (loss) before income tax provision	**(22)**	351
Provision for income tax on operations	**-**	-
Income (loss) from operations, net of tax	$ **(22)**	$ 351
Income (loss) from discontinued operations, net of tax	$ **(22)**	$ 351

Discontinued operations are expected to generate cash flows 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, 2015	$ (44)
Changes in value (net of tax effect of $0)	7
Reclassification into earnings (net of tax effect of $0)	22
Balance at December 31, 2016	(15)
Changes in value (net of tax effect of $0)	**-**
Reclassification into earnings (net of tax effect of $0)	**12**
Balance at December 31, 2017	**$ (3)**

Amounts reclassified for investments are recorded in loss on sale of short-term investments in the Consolidated Statements of Operations.

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

NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of:

December 31, 2017	Estimated Useful Life	Original Cost	Accumulated Amortization	Net Book Value
Goodwill		$ 771	$ -	$ 771
Non-competition agreement	4 years	20	(1)	19
Trademarks	15 years	630	(7)	623
Customer Relationships	9 years	1,900	(158)	1,742
Licenses	15 years	150	(8)	142
Non-amortized trademarks		685	-	685
Total goodwill and intangible assets		$ 4,156	$ (174)	$ 3,982

December 31, 2016	Estimated Useful Life	Original Cost	Accumulated Amortization	Net Book Value
Non-amortized trademarks		685	-	685
Total intangible assets		$ 685	$ -	$ 685

Included in intangible assets at December 31, 2017 are assets acquired in connection with the purchase of the operating assets of Washington Laboratories, LLC in March 2017, as discussed more fully in Note 4. These acquired intangible assets consist of:

	Estimated Useful Life	Fair Value
Trademarks	15 years	20
Customer Relationships	9 years	1,900
Licenses	15 years	150

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

Included in intangible assets at December 31, 2017 are assets acquired in connection with the purchase of the operating assets of Vigilant Personal Protection Systems in October 2017, as discussed more fully in Note 4. These acquired intangible assets consist of:

	Estimated Useful Life	Fair Value
Non-competition agreement	**4 years**	**20**
Trademarks	**15 years**	**610**

Amortization of intangible asset expense was $174 and $0 in the years ended December 31, 2017 and 2016, respectively. Amortization of intangible asset expense is expected to be as follows:

	Amortization Expense
Fiscal year 2018	$ 268
Fiscal year 2019	268
Fiscal year 2020	268
Fiscal year 2021	267
Fiscal year 2022	263
Thereafter	1,192
	2,526

All of the goodwill is expected to be deductible for income tax purposes. 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, 2017. As a result of this evaluation, it was determined that there was no impairment of the Company's intangible assets as of December 31, 2017.

NOTE 8 – INVENTORIES

Inventories consist of the following:

	For the year ended December 31,	
	2017	2016
Raw materials	**$ 1,030**	$ 760
Finished goods	**1,287**	808
Total inventories	**$ 2,317**	$ 1,568

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

NOTE 9 – LONG-TERM DEBT

Long-term debt consists of the following:

	December 31, 2017	December 31, 2016
$1,000 secured note payable to seller of acquired business	$ **865**	$ -
$300 unsecured note payable to seller of acquired business	**240**	-
Total debt	**1,105**	-
Less: current portion of notes payable to sellers of acquired business	**(427)**	-
Total long-term debt	$ **678**	$ -

$1,000 secured note payable to seller of acquired business consists of a 5% $1,000 note payable due March 22, 2022 entered into in conjunction with the March 2017 acquisition. The note is collateralized by all of the Company's assets. The Company recognized interest expense associated with this note of $35 and $0 in the years ended December 31, 2017 and 2016, respectively.

$300 unsecured contingent note payable to seller of acquired business consists of a 5% $300 note payable due April 19, 2018 entered into in conjunction with the October 2017 acquisition. The ultimate amount paid under this note is dependent upon the achievement of certain defined financial objectives. The note had a fair value of $240 at December 31, 2017. The Company recognized interest expense associated with this note of $3 and $0 in the years ended December 31, 2017 and 2016, respectively.

During the third quarter of fiscal year 2017, the Company entered into a $1,500 line of credit agreement with a bank (the "Credit Agreement"), that is secured by substantially all the Company's assets and payable on demand. The Credit Agreement provides for monthly interest payments at a rate equal to LIBOR plus 1.75%. The interest rate was 3.122% at December 31, 2017. No amount was drawn upon the Credit Agreement at December 31, 2017.

Minimum payments on long-term debt over the next 5 years are as follows:

Fiscal year 2018	**$ 427**
Fiscal year 2019	**197**
Fiscal year 2020	**207**
Fiscal year 2021	**218**
Fiscal year 2022	**56**
Total	**$ 1,105**

(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:

	December 31,	
	2017	**2016**
Accrued employee compensation	**$ 124**	$ 152
Co-operative advertising and other sales allowances	**242**	217
Accrued commissions	**28**	21
Amounts due to customers	**46**	40
Accrued non-income based taxes	**37**	11
Accrued for vendor financed property and equipment	**-**	41
Contingent consideration related to business acquisition at fair value	**80**	-
Other	**76**	36
Total accrued expenses and other current liabilities	**$ 633**	$ 518

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 terminated March 26, 2009. 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 either exercisable immediately or exercisable based upon graduated vesting schedules as determined by the Committee.

As of December 31, 2017, 5,898,262 nonqualified stock options were outstanding under the 1999 and 2012 Plans. Newly issued shares or, to the extent possible, shares of treasury stock are used to satisfy requirements resulting from the exercise of stock options.

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

Activity with respect to these plans is as follows:

	2017		2016	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options outstanding beginning of period	**7,056,596**	**$ 0.50**	6,730,886	$ 0.58
Options granted	**300,000**	**$ 0.38**	903,377	$ 0.40
Options exercised	**(115,000)**	**$ 0.17**	(300,000)	$ 0.16
Options expired	**(1,343,334)**	**$ 0.47**	(277,667)	$ 2.42
Options outstanding end of period	**5,898,262**	**$ 0.46**	7,056,596	$ 0.50
Options exercisable	**5,287,430**	**$ 0.51**	5,923,696	$ 0.53
Shares available for granting of options	**7,983,739**		9,183,739	

In connection with the Vigilant Personal Protection Systems acquisition discussed in Note 4, Business Acquisitions, the Company entered into an agreement with the seller of the business under which it issued 500,000 shares of common stock, which vest over 2 years, with an acquisition date fair value of $190.

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 $119 and $194 for the years ended December 31, 2017 and 2016, respectively. No tax benefit was recognized for this compensation expense. At December 31, 2017, total unrecognized stock-based compensation expense is $323, which has a weighted average period to be recognized of approximately 2.4 years.

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

The following table provides additional information regarding options outstanding as of December 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 $0.39	**3,774,002**	**$ 0.38**	**4,382,434**	**$ 0.38**	**4,382,434**	**$ 0.38**
$0.40 to $1.00	**1,061,761**	**$ 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**
	5,287,430		**5,898,262**		**5,898,262**	

	Options Exercisable	Options Outstanding	Options Vested or Expected to Vest
Weighted average years remaining term	**1.4**	**1.5**	**1.5**
Aggregate intrinsic value	**$ 15**	**$ 16**	**$ 16**

Information related to stock options exercised follows:

	Year Ended December 31,	
	2017	**2016**
Proceeds from the exercise of stock options	**20**	50
Intrinsic value of stock options exercised	**25**	66
Income tax benefit related to stock options exercised	**45**	116

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:

	Year Ended December 31,	
	2017	**2016**
Weighted-average per share grant-date fair value	**$0.15092**	$0.1719
Expected term (years)	**5**	5
Risk-free interest rate	**1.83%**	1.28%
Volatility	**43.5%**	48.7%
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.

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

NOTE 12 – INCOME TAXES

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

	Year Ended December 31,	
	2017	**2016**
Tax at U.S. federal statutory rate	**$ (14)**	$ (41)
State taxes, net of federal benefit	**(1)**	(13)
Permanent items	**7**	(17)
Deferred tax – tax rate change	**8,120**	-
Exercise of stock options	**(9)**	(23)
Other	**1**	(16)
Increase (decrease) in valuation allowance	**(8,102)**	91
Total income tax provision (benefit)	**$ 2**	$ (19)

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

	Year Ended December 31,	
	2017	**2016**
Current US state and local income tax provision (benefit)	**$ 2**	$ (19)

On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJA") was enacted in the United States. The TCJA represents sweeping changes in U.S. tax law. Among the numerous changes in tax law, the TCJA permanently reduces the U.S. corporate income tax rate to 21%, effective January 1, 2018.

As a result of the TCJA, the Company revalued its net deferred tax assets at the lower 21% rate and recognized a one-time reduction in its net deferred tax assets of $8,120, which is principally made up of the $7,796 reduction of net operating loss carryforwards. The one-time reduction was fully offset by a corresponding reduction in the Company's valuation allowance of $8,120.

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

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2017 and 2016 are as follows:

	December 31,	
	2017	**2016**
Deferred tax assets:		
Allowance for doubtful accounts	**$ 29**	$ 42
Inventories	**100**	224
Net operating and capital loss carryforwards	**14,392**	22,208
Vesting stock options	**548**	814
Other, net	**71**	148
Total deferred tax assets	**15,140**	23,436
Valuation allowance for deferred tax assets	**(14,990)**	(23,092)
Deferred tax asset after valuation allowance	**150**	344
Deferred tax liabilities:		
Property, equipment and intangibles	**(150)**	(344)
Net deferred tax assets	**$ -**	**$ -**

At December 31, 2017, the Company had U.S. federal net operating loss carryforwards ("NOLs") of approximately $59,967 expiring in 2018 through 2036 as follows:

Fiscal year 2018	**$ 989**
Fiscal year 2019	**4,507**
Fiscal year 2020	**3,241**
Fiscal year 2021	**1,584**
Fiscal years 2022 - 2026	**14,600**
Fiscal years 2027 - 2031	**23,678**
Fiscal years 2032 – 2036	**11,638**
Total	**$ 59,967**

Realization of the future tax benefits related to the deferred tax assets is dependent upon many factors, including the Company's ability to generate taxable income in future years. The Company performed a detailed review of the considerations influencing its ability to realize the future benefit of the NOLs, including the extent of recently used NOLs, the turnaround of future deductible temporary differences, the duration of the NOL carryforward period, and the Company's future projection of taxable income. Utilization of the Company's net operating loss and tax credit carryforwards may be subject to annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss or tax credits before utilization. The Company decreased its total valuation allowance against deferred tax assets by $8,102 in 2017 resulting in a total valuation allowance of $14,990 at December 31, 2017, representing the amount of its deferred income tax assets in excess of the Company's deferred income tax liabilities. The valuation allowance was recorded because the Company's management was unable to conclude that realization of the net deferred income tax asset was more likely than not. This determination was a result of the Company's continued operating losses in its fiscal year ended December 31, 2017, and the uncertainty of and the ultimate extent of growth in the Company's business.

The Company follows the appropriate accounting pronouncements which prescribe a model for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on recognition, classification, interest and penalties, disclosure and transition. At December 31, 2017 and 2016, the Company did not have any significant unrecognized tax benefits. The total amount of interest and penalties recognized in the Consolidated Statements of Operations for the years ended December 31, 2017 and 2016 was insignificant and when incurred is reported as interest or penalties expense, as applicable.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various state and local jurisdictions. The Company believes it has appropriate support for its federal income tax returns. The Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for fiscal years prior to 2013.

NOTE 13 – DEFINED CONTRIBUTION PLAN

Substantially all employees of the Company are eligible to participate in the Company's defined contribution plan. The Company currently is not making any matching contributions to the plan.

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

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Company leases buildings and equipment under non-cancelable operating lease agreements expiring at various dates through 2023. The Company has the ability to extend its primary building lease for up to 3 additional 5 year terms starting in 2023. Total rent expense was $245 and $243 for the years ended December 31, 2017 and 2016, respectively.

At December 31, 2017, future minimum lease commitments are as follows:

Fiscal year 2018	$	**226**
Fiscal year 2019		**233**
Fiscal year 2020		**232**
Fiscal year 2021		**232**
Fiscal year 2022		**229**
Thereafter		**115**
Total	**$**	**1,267**

In the normal course of business, the Company may be involved in ordinary, routine legal actions. The Company cannot reasonably estimate future costs, if any, related to these matters; however, it does not believe any such matters are material to its financial condition or results of operations. The Company maintains various liability insurance policies to protect its assets from losses arising out of or involving activities associated with ongoing and normal business operations; however, it is possible that the Company's future operating results could be affected by future costs of litigation.

NOTE 15 – RELATED PARTY TRANSACTIONS

In January 2015, the Company entered into a Put Option Agreement ("Put Option"), which expired on 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 was 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 16 – SUBSEQUENT EVENTS

The Company evaluated its December 31, 2017 financial statements for subsequent events through March 9, 2018, 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.