

Consolidated Financial Statements

**Mace Security International, Inc.**

March 31, 2018 and 2017

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Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED BALANCE SHEETS**

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

<b>ASSETS</b>	<b>March 31, 2018 (Unaudited)</b>	<b>December 31, 2017</b>
Current assets:		
Cash and cash equivalents	\$ 208	\$ 662
Short-term investments	253	251
Accounts receivable, less allowance for doubtful accounts of \$106 and \$121 at March 31, 2018 and December 31, 2017, respectively	1,422	1,622
Inventories	2,586	2,317
Notes receivable and other current assets	<u>1,051</u>	<u>1,143</u>
Total current assets	5,520	5,995
Property and equipment:		
Buildings and leasehold improvements	240	240
Machinery and equipment	2,702	2,630
Furniture and fixtures	<u>348</u>	<u>348</u>
Total property and equipment	3,290	3,218
Accumulated depreciation and amortization	<u>(2,486)</u>	<u>(2,437)</u>
Total property and equipment, net	804	781
Goodwill	817	771
Intangible assets, net	3,144	3,211
Notes receivable and other assets	<u>874</u>	<u>906</u>
Total other assets	4,835	4,888
Total assets	<u><u>\$ 11,159</u></u>	<u><u>\$ 11,664</u></u>

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

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>March 31, 2018</b>	<b>December 31, 2017</b>
	<u>(Unaudited)</u>	<u></u>
Current liabilities:		
Current portion of long-term debt	\$ 630	\$ 427
Accounts payable	362	457
Income taxes payable	57	62
Accrued expenses and other current liabilities	<u>362</u>	<u>633</u>
Total current liabilities	1,411	1,579
Long-term debt, net of current portion	630	678
Other liabilities	<u>1</u>	<u>2</u>
Total liabilities	2,042	2,259
Stockholders' equity:		
Preferred stock, \$.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at March 31, 2018 and December 31, 2016	-	-
Common stock, \$.01 par value; authorized 100,000,000 shares, issued and outstanding shares of 62,896,858 at both March 31, 2018 and December 31, 2017	629	629
Additional paid-in capital	102,774	102,729
Accumulated deficit	(94,264)	(93,928)
Accumulated other comprehensive loss	<u>-</u>	<u>(3)</u>
Less treasury stock at cost, 90,548 shares	9,139	9,427
	<u>(22)</u>	<u>(22)</u>
Total stockholders' equity	9,117	9,405
Total liabilities and stockholders' equity	<u>\$ 11,159</u>	<u>\$ 11,664</u>

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

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(Amounts in thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<u>2018</u>	<u>2017</u>
Net sales	<b>\$ 2,364</b>	\$ 1,710
Cost of goods sold	<b>1,376</b>	1,036
	<u>988</u>	674
Gross profit		
Selling, general, and administrative expenses	<b>1,213</b>	964
Depreciation	<b>49</b>	41
	<u>(274)</u>	(331)
Operating loss		
Interest expense	<b>(15)</b>	(5)
Interest income	<b>20</b>	29
Gain (loss) on short-term investments	<b>2</b>	(12)
Amortization of intangible assets	<b>(67)</b>	-
	<u>(334)</u>	(319)
Loss before income tax provision		
Income tax provision	<u>-</u>	-
Net loss	<b><u>\$ (334)</u></b>	<b><u>\$ (319)</u></b>

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

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(Unaudited)

(Amounts in thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
Net loss	<b>\$ (334)</b>	<b>\$ (319)</b>
Other comprehensive income: unrealized gain on short-term investments	<b>-</b>	<b>13</b>
Total comprehensive loss	<b><u>\$ (334)</u></b>	<b><u>\$ (306)</u></b>

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

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(Amounts in thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating activities:</b>		
Net loss	\$ (334)	\$ (319)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	116	41
Stock-based compensation	45	31
Provision for losses on receivables	(14)	9
Provision for obsolete inventory	4	3
Loss (gain) on sale of short-term investments	(2)	12
Changes in operating assets and liabilities:		
Accounts receivable	168	518
Inventories	(272)	(76)
Prepaid expenses and other assets	55	177
Accounts payable	(95)	89
Accrued expenses and other current liabilities	(272)	(145)
Income taxes payable	(4)	-
Net cash provided by (used in) operating activities – continuing operations	<u>(605)</u>	<u>340</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(72)	(34)
Acquisition of business	-	(3,463)
Proceeds from sale of short-term investments	-	1,190
Net cash used in investing activities-continuing operations	<u>(72)</u>	<u>(2,307)</u>
Net cash provided by investing activities-discontinued operations	<u>69</u>	<u>26</u>
Net cash used in investing activities	<u>(3)</u>	<u>(2,281)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from debt	200	1,000
Repayment of debt	(46)	
Exercise of stock options	-	17
Issuance of common stock	-	390
Net cash provided by financing activities – continuing operations	<u>154</u>	<u>1,407</u>
Net decrease in cash, cash equivalents and restricted cash	<u>(454)</u>	<u>(534)</u>
Cash, cash equivalents and restricted cash at beginning of period	<u>662</u>	<u>1,030</u>
Cash, cash equivalents and restricted cash at end of period	<u>\$ 208</u>	<u>\$ 496</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2018 and 2017

(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, 2017 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 – RECLASSIFICATIONS**

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 consolidated financial statement presentation. Such reclassifications had no effect on net loss as previously reported.

**NOTE 3 – ADOPTION OF NEW ACCOUNTING STANDARDS**

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, “Revenue from Contracts with Customers (Topic 606)” and subsequently issued additional guidance that modified ASU 2014-09 (“ASC 606”). ASC 606 replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and provides for expanded disclosure requirements. ASC 606 requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Effective January 1, 2018, the Company adopted ASC 606 using the modified retrospective method. Under the modified retrospective method, the cumulative effect of initially applying ASC 606 is recognized as an adjustment to the opening balance of accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of ASC 606 did not result in the recognition of a cumulative adjustment to opening accumulated deficit under the modified retrospective method, nor did it have a material effect on the Company’s financial position or results of operations. The adoption of ASC 606 did result in the addition of required disclosures within the notes to the financial statements, as discussed in Note 4, Revenue.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2018 and 2017

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

The cumulative effect of the changes made to the Company's consolidated January 1, 2018 balance sheet for the adoption of ASC 606 were as follows:

	<b>Balance at December 31, 2017</b>	<b>Adjustments due to ASC 606</b>	<b>Balance at January 1, 2018</b>
Assets:			
Accounts receivable, net	1,622	(189)	1,433
Liabilities:			
Accrued expenses and other current liabilities	633	(189)	444
Accumulated deficit	(93,928)	-	(93,928)

In accordance with ASC 606 requirements, the disclosure of the impact of adoption on the Company's consolidated income statement and balance sheet was as follows:

	<b>March 31, 2018</b>		
	<b>As Reported</b>	<b>Balances Without Adoption of ASC 606</b>	<b>Effect of Adoption</b>
Assets:			
Accounts receivable, net	1,422	1,559	(137)
Liabilities:			
Accrued expenses and other current liabilities	362	499	(137)

In January 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 amends guidance on the classification and measurement of financial instruments, including revisions in accounting related to the classification and measurement of investments in equity securities and presentation of certain fair value changes for financial liabilities when the fair value option is elected. ASU 2016-01 requires equity securities to be measured at fair value with changes in fair value recognized through net income and amends certain disclosure requirements associated with fair value of financial instruments. In the period of adoption, the Company is required to reclassify unrealized gains/losses on equity securities within accumulated other comprehensive income (loss) to retained earnings. ASU 2016-01 was adopted by the Company on January 1, 2018. The adoption of ASU 2016-01 did not have a material effect on the Company's financial position or results of operations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2018 and 2017

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

**NOTE 4 – REVENUE**

Virtually all of the Company's net sales are products sold at a point in time through ship-and-bill performance obligations. Revenue is recognized at a point in time when obligations under the terms of a contract with the Company's customer are satisfied. Generally, this occurs with the transfer of control of the Company's products at the time of shipment of products. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring product. In some cases, the nature of the Company's contracts give rise to variable revenue as defined in ASC 606, including rebates, credits, allowances for returns or other similar items that decrease the transaction price. These variable amounts generally are credited to the customer based on achieving certain levels of sales activity, product returns and making payments with specific terms. Variable revenue is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price. Estimates of variable revenue and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the anticipated performance and all information (historical, current and forecasted) that is reasonable available.

Sales, value-added or other taxes collected by the Company concurrent with revenue producing activities are excluded from revenue. The Company allows customers to return product when the product is defective as manufactured. The Company accrues for estimated future warranty cost in the period in which the sale is recorded. The expected cost associated with the Company's warranties is recognized in cost of goods sold in the consolidated statements of operations. The Company calculates its warranty accrual based on historic warranty loss experience. Amounts billed to customers in sales transactions related to shipping and handling represent revenues earned for the product provided and are included in net sales. Costs of shipping and handling are included in cost of goods sold.

The following table disaggregates our net sales revenue by distribution channel.

<u>Net Sales by Distribution Channel</u>	<u>Three Months Ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Consumer	\$ 1,962	\$ 1,416
Tactical	165	135
International	219	123
Other	18	36
Total	<u>\$ 2,364</u>	<u>\$ 1,710</u>

**NOTE 5 – 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 6 - SUPPLEMENTARY CASH FLOW INFORMATION**

Interest paid on all indebtedness was \$11 and \$0 for the three months ended March 31, 2018 and 2017, respectively. Income tax paid was \$4 and \$0 for the three months ended March 31, 2018 and 2017, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2018 and 2017

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

**NOTE 7 – 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.

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
	<hr/>
Total purchase price	<u>\$ 1,003</u>

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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2018 and 2017

(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:

	<b>March 22, 2017 as Initially Reported</b>	<b>Measurement Period Adjustments</b>	<b>As Adjusted</b>
Assets acquired:			
Accounts receivable	\$ 329	\$ (15)	\$ 314
Inventory	320	(2)	318
Property and equipment	160	-	160
Intangible assets	-	2,070	2,070
Goodwill	2,654	(2,073)	581
Total purchase price	<b>\$ 3,463</b>	<b>\$ (20)</b>	<b>\$ 3,443</b>

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 2018 consolidated statement of operations. For the three months ended March 31, 2018, these acquisitions contributed \$778 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, 2017. These amounts have been calculated by combining the Company's results with the stand-alone results of the two 2017 acquisitions for the pre-acquisition periods, which were adjusted to account for certain transactions and other costs that would have been incurred during the pre-acquisition period. In addition, these amounts reflect intangible asset amortization and debt interest that would have been incurred assuming the acquisitions occurred on January 1, 2017.

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Net sales	\$ 2,364	\$ 2,482
Net loss	(330)	(230)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2018 and 2017

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

**NOTE 8 – BUSINESS DIVESTITURES**

**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 April 2018, in exchange for a \$10 fee, the Company amended Note 1 providing for the extension of the maturity date to December 10, 2020.

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, 2018, the current portion of the notes receivable of \$278 is in notes receivable and other current assets, while the non-current portion of \$526 is in notes receivable and other assets on the Consolidated Balance Sheets.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2018 and 2017

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

**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 March 31, 2018, the current portion of the note receivable of \$107 is in notes receivable and other current assets, while the non-current portion of \$358 is in notes receivable and other assets on the Consolidated Balance Sheets.

**NOTE 9 – 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, 2017	\$	(3)
Reclassification into accumulated deficit in conjunction with adoption of ASU 2016-01		<u>3</u>
Balance at March 31, 2018	<u>\$</u>	<u>(0)</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2018 and 2017

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

**NOTE 10 – GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill and intangible assets consist of:

	<u>Estimated Useful Life</u>	<u>Original Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
<b><u>March 31, 2018</u></b>				
Goodwill		\$ 817	\$ -	\$ 817
Non-competition agreement	4 years	20	(2)	18
Trademarks	15 years	630	(18)	612
Customer Relationships	9 years	1,900	(211)	1,689
Licenses	15 years	150	(10)	140
Non-amortized trademarks		685	-	685
Total goodwill and intangible assets		<u>\$ 4,202</u>	<u>\$ (241)</u>	<u>\$ 3,961</u>

	<u>Estimated Useful Life</u>	<u>Original Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
<b><u>December 31, 2017</u></b>				
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		<u>\$ 4,156</u>	<u>\$ (174)</u>	<u>\$ 3,982</u>

Included in intangible assets at March 31, 2018 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 7. These acquired intangible assets consist of:

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2018 and 2017

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

Included in intangible assets at March 31, 2018 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 7. These acquired intangible assets consist of:

	<u>Estimated Useful Life</u>	<u>Fair Value</u>
Non-competition agreement	4 years	20
Trademarks	15 years	610

Amortization of intangible asset expense was \$67 and \$0 in the three months ended March 31, 2018 and 2017, respectively. Amortization of intangible asset expense is expected to be as follows:

	<u>Amortization Expense</u>
Fiscal year 2018	\$ 268
Fiscal year 2019	268
Fiscal year 2020	268
Fiscal year 2021	267
Fiscal year 2022	263
Thereafter	1,192
	<u>2,526</u>

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 11 – INVENTORIES**

Inventories consist of the following:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Finished goods	\$ 1,202	\$ 1,030
Raw materials	1,384	1,287
	<u>\$ 2,586</u>	<u>\$ 2,317</u>
Total inventories		



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2018 and 2017

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

**NOTE 12 – LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Line of credit	200	-
\$1,000 secured note payable to seller of acquired business	\$ 820	\$ 865
\$300 unsecured note payable to seller of acquired business	240	240
Total debt	<u>1,260</u>	<u>1,105</u>
Less: current portion of notes payable to sellers of acquired business	<u>(630)</u>	<u>(427)</u>
Total long-term debt	<u>\$ 630</u>	<u>\$ 678</u>

During 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 3.42% at March 31, 2018.

\$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 subordinated to the bank line of credit and is collateralized by all of the Company’s assets. The Company recognized interest expense associated with this note of \$11 and \$1 in the three months ended March 31, 2018 and 2017, 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 March 31, 2018. The Company recognized interest expense associated with this note of \$4 and \$0 in the three months ended March 31, 2018 and 2017, respectively.

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

Fiscal year 2018	\$ 382
Fiscal year 2019	197
Fiscal year 2020	207
Fiscal year 2021	218
Fiscal year 2022	<u>56</u>
Total	<u>\$ 1,060</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2018 and 2017

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

**NOTE 13 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the following:

	<u>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Accrued employee compensation	\$ 81	\$ 124
Co-operative advertising and other sales allowances	-	189
Accrued commissions	35	28
Amounts due customers	46	46
Accrued non-income based taxes	21	37
Contingent consideration related to business acquisition at fair value	80	80
Other	<u>99</u>	<u>129</u>
Total accrued expenses and other current liabilities	<u>\$ 362</u>	<u>\$ 633</u>

**NOTE 14 – 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 either exercisable immediately or exercisable based upon graduated vesting schedules as determined by the Committee.

As of March 31, 2018, 5,173,966 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2018 and 2017

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

Activity with respect to these plans is as follows:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Options outstanding at December 31, 2017	5,898,262	\$ 0.52
Options exercised	-	-
Options forfeited	(223,296)	\$ 0.39
Options expired	(501,000)	\$ 0.79
Options outstanding at March 31, 2018	<u>5,173,966</u>	\$ 0.50
Options exercisable	<u>4,623,148</u>	\$ 0.51
Shares available for granting of options	<u>8,307,035</u>	

In connection with the Vigilant Personal Protection Systems acquisition discussed in Note 7, 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 \$22 and \$31 for the three months ended March 31, 2018 and 2017, respectively. No tax benefit was recognized for this compensation expense. At March 31, 2018, total unrecognized stock-based compensation expense is \$266, which has a weighted average period to be recognized of approximately 2.2 years.

The following table provides additional information regarding options outstanding as of March 31, 2018:

Option Exercise Price Range	Options Exercisable		Options Outstanding		Options Vested or Expected to Vest	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
\$0.01 to \$0.39	3,262,320	\$ 0.38	3,813,138	\$ 0.38	3,813,138	\$ 0.38
\$0.40 to \$1.00	1,064,161	\$ 0.62	1,064,161	\$ 0.62	1,064,161	\$ 0.62
\$1.01 to \$1.99	296,667	\$ 1.49	296,667	\$ 1.49	296,667	\$ 1.49
	<u>4,623,148</u>		<u>5,173,966</u>		<u>5,173,966</u>	

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2018 and 2017

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

	<b>Options Exercisable</b>	<b>Options Outstanding</b>	<b>Options Vested or Expected to Vest</b>
Weighted average years remaining term	1.1	1.3	1.3
Aggregate intrinsic value	\$ 62	\$ 70	\$ 70

**NOTE 15 – SUBSEQUENT EVENTS**

The Company evaluated its March 31, 2018 financial statements for subsequent events through May 11 2018, 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 8, Business Divestitures, which would require recognition or disclosure in the consolidated financial statements.