Consolidated Financial Statements

Mace Security International, Inc.

March 31, 2019 and 2018

Contents

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

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

ASSETS	March 31, 2019 (Unaudited)	December 31, 2018
Current assets:		
Cash and cash equivalents	$ 169	$ 198
Short-term investments	131	253
Accounts receivable, less allowance for doubtful accounts of $154 and $130 at March 31, 2019 and December 31, 2018, respectively	2,228	1,955
Inventories	2,073	1,932
Notes receivable, net of allowance, and other current assets	402	642
Total current assets	5,003	4,980
Property and equipment:		
Buildings and leasehold improvements	245	245
Machinery and equipment	2,063	2,032
Furniture and fixtures	110	110
Total property and equipment	2,418	2,387
Accumulated depreciation and amortization	(1,738)	(1,696)
Total property and equipment, net	680	691
Operating lease - right-of-use asset, net of amortization	986	-
Goodwill	1,155	877
Intangible assets, net	2,876	2,943
Notes receivable, net of allowance, and other assets	18	18
Total other assets	4,049	3,838
Total assets	$ 10,718	$ 9,509

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

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2019	December 31, 2018
	(Unaudited)	
Current liabilities:		
Current portion of long-term debt	**$ 1,057**	$ 472
Current operating lease obligations	**240**	-
Accounts payable	**449**	443
Income taxes payable	**55**	55
Accrued expenses and other current liabilities	**618**	399
Total current liabilities	**2,419**	1,369
Long-term debt, net of current portion	**447**	481
Non-current operating lease obligations	**766**	-
Total liabilities	**3,632**	1,850
Stockholders' equity:		
Preferred stock, $.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at March 31, 2019 and December 31, 2018	**-**	-
Common stock, $.01 par value; authorized 100,000,000 shares, issued and outstanding shares of 63,249,834 and 63,054,834 at March 31, 2019 and December 31, 2018, respectively	**633**	631
Additional paid-in capital	**103,208**	102,927
Accumulated deficit	**(96,733)**	(95,877)
	7,108	7,681
Less treasury stock at cost, 90,548 shares at both March 31, 2019 and December 31, 2018	**(22)**	(22)
Total stockholders' equity	**7,086**	7,659
Total liabilities and stockholders' equity	**$ 10,718**	$ 9,509

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

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(Amounts in thousands)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Net sales	**$ 2,712**	$ 2,364
Cost of goods sold	**1,641**	1,376
Gross profit	**1,071**	988
Selling, general, and administrative expenses	**1,806**	1,213
Depreciation	**43**	49
Operating loss	**(778)**	(274)
Interest expense	**(14)**	(15)
Interest income	**4**	20
Gain (loss) on sale of short-term investments	**(1)**	2
Amortization of intangible assets	**(67)**	(67)
Loss before income tax provision	**(856)**	(334)
Income tax provision	**-**	-
Net loss	**$ (856)**	$ (334)

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

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in thousands, except share information)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2017	62,896,858	$ 629	$ 102,729	$ (93,928)	$ (22)	$ (3)	$ 9,405
Stock-based compensation	-	-	45	-	-	-	45
Adoption of ASU 2016-01	-	-	-	(3)	-	3	$ -
Net loss	-	-	-	(334)	-	-	(334)
Balance at March 31, 2018	62,896,858	$ 629	$ 102,774	$ (94,265)	$ (22)	$ -	$ 9,116
Balance at December 31, 2018	63,054,834	$ 631	$ 102,927	$ (95,877)	$ (22)	$ -	$ 7,659
Stock-based compensation	**-**	**-**	**236**	**-**	**-**	**-**	**236**
Exercise of stock options	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Issuance of common stock	**195,000**	**2**	**45**	**-**	**-**	**-**	**47**
Net loss	**-**	**-**	**-**	**(856)**	**-**	**-**	**(856)**
Balance at March 31, 2019	**63,249,834**	**$ 633**	**$ 103,208**	**$ (96,733)**	**$ (22)**	**$ -**	**$ 7,086**

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

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in thousands)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Cash Flows from Operating activities:		
Net loss	**$ (856)**	$ (334)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization, including right-of-use asset amortization	**164**	116
Stock-based compensation	**236**	45
Provision for losses on receivables	**24**	(14)
Provision for obsolete inventory	**7**	4
Loss (gain) on sale of short-term investments	**1**	(2)
Changes in operating assets and liabilities:		
Accounts receivable	**(363)**	168
Inventories	**(116)**	(272)
Prepaid expenses and other assets	**231**	55
Accounts payable	**7**	(95)
Accrued expenses and other liabilities	**101**	(272)
Income taxes payable	**-**	(4)
Net cash used in operating activities – continuing operations	**(564)**	(605)
Cash Flows from Investing Activities:		
Purchase of property and equipment	**(31)**	(72)
Acquisition of business	**(115)**	-
Proceeds from sale of short-term investments	**121**	-
Net cash used in investing activities-continuing operations	**(25)**	(72)
Net cash provided by investing activities-discontinued operations	**9**	69
Net cash used in investing activities	**(16)**	(3)
Cash Flows from Financing Activities:		
Proceeds from line of credit	**575**	200
Increase in debt	**25**	-
Repayment of debt	**(49)**	(46)
Net cash provided by financing activities – continuing operations	**551**	**154**
Net decrease in cash and cash equivalents	**(29)**	(454)
Cash and cash equivalents at beginning of period	**198**	662
Cash and cash equivalents at end of period	**$ 169**	$ 208

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

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 segment also includes 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, 2018 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 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 – ADOPTION OF NEW ACCOUNTING STANDARDS

In 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02: "Leases". This ASU and subsequently issued amendments require leases with durations greater than 12 months to be recognized on the balance sheet and is effective for annual reporting periods beginning after December 15, 2018. In July 2018, the FASB issued ASU No. 2018-11, "Targeted Improvements – Leases". This update provides an optional transition method that allows entities to elect to apply the standard prospectively at its effective date, versus recasting the prior periods presented. If elected, an entity would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In March 2019, the FASB issued ASU No. 2019-01, "Codification Improvements" in response to implementation inquiries regarding several specific areas.

The Company adopted ASU 2016-02 effective January 1, 2019, using the optional transition method described in the previous paragraph. The Company elected the package of practical expedients permitted under the transition guidance, which allows the Company to carryforward its historical lease classification, its assessment on whether a contract is or contains a lease, and its initial direct costs for any lease that exist prior to adoption of the new standard. The Company also elected to combine lease and non-lease components and to keep leases with an initial term of 12 months or less off the balance sheet. The impact of adoption of this standard was the recognition of $1,040 total right-of-use assets and $1,064 total lease liabilities in the Company's consolidated balance sheet as of January 1, 2019. Other than this impact, the adoption of the new standard did not have a material impact on the Company's other consolidated financial statements.

NOTE 3 – REVENUE

Virtually all 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

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

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. Such estimated amounts are recognized as revenue is recorded. 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 type of customer.

	Three Months Ended March 31,	
Net Sales by Type of Customer	2019	2018
Consumer	$ 2,231	$ 1,962
Tactical	168	165
International	289	219
Other	24	18
Total	$ 2,712	$ 2,364

NOTE 4 – IMPACT OF NEWLY ISSUED ACCOUNTING STANDARDS

There were no new accounting pronouncements in 2019 that had or are expected to have a material impact on the Company's Consolidated Financial Statements.

NOTE 5 - SUPPLEMENTARY CASH FLOW INFORMATION

Interest paid on all indebtedness was $14 and $11 for the three months ended March 31, 2019 and 2018, respectively.

Income tax paid was $0 and $4 for the three months ended March 31, 2019 and 2018, respectively.

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

NOTE 6 – BUSINESS ACQUISITION

In January 2019, the Company acquired the assets of Tornado Security Products, a personal self-defense business based in Ferndale, Washington, for $115 of cash and $65 of forgiven accounts receivable, including $5 paid to the seller for the relocation of certain inventory. The purchase price for the business and related assets is subject to an earn-out calculation providing for additional consideration of up to $175 cash, with an acquisition date fair value of $130, which may be paid out through January 2022.

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

Assets acquired:		
Inventory	$	**32**
Goodwill		**278**
Total purchase price	$	**310**

The Company is in the process of determining the fair values of assets acquired and liabilities assumed.

The results of operation of the acquired business from the date of acquisition are included in the Company's 2019 consolidated statement of operations. Because Tornado Security Products has previously been a customer of the Company, the impact of the acquisition on the Company's net sales is nominal. However, the acquisition provides the Company with access to several key customer accounts and the opportunity to offer these accounts a wider array of products. Net income contributed by these acquisitions is not separately identifiable due to the integration of the acquired business into the Company and is impracticable to provide. Because of the forgoing, quantification of unaudited pro forma information presenting a summary of the results of operations for the Company including the acquired business as if the acquisition had occurred on January 1, 2018 is impractical to provide.

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

NOTE 7– GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of:

March 31, 2019	Estimated Useful Life	Original Cost	Accumulated Amortization	Net Book Value
Goodwill		$ 1,155	$ -	$ 1,155
Non-competition agreement	4 years	20	(7)	13
Trademarks	15 years	630	(60)	570
Customer Relationships	9 years	1,900	(422)	1,478
Licenses	15 years	150	(20)	130
Non-amortized trademarks		685	-	685
Total goodwill and intangible assets		$ 4,540	$ (509)	$ 4,031

December 31, 2018	Estimated Useful Life	Original Cost	Accumulated Amortization	Net Book Value
Goodwill		$ 877	$ -	$ 877
Non-competition agreement	4 years	20	(6)	14
Trademarks	15 years	630	(50)	580
Customer Relationships	9 years	1,900	(369)	1,531
Licenses	15 years	150	(17)	133
Non-amortized trademarks		685	-	685
Total goodwill and intangible assets		$ 4,262	$ (442)	$ 3,820

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

Amortization of intangible asset expense was $67 in both of the three months ended March 31, 2019 and 2018, respectively. Amortization of intangible asset expense is expected to be as follows:

	Amortization Expense
Fiscal year 2019 (remaining)	$ 201
Fiscal year 2020	268
Fiscal year 2021	267
Fiscal year 2022	263
Fiscal year 2023	263
Thereafter	929
	$ 2,191

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, 2018. As a result of this evaluation, it was determined that there was no impairment of the Company's intangible assets as of December 31, 2018.

NOTE 8 – INVENTORIES

Inventories consist of the following:

	March 31, 2019	**December 31, 2018**
Raw materials	**$ 945**	$ 855
Finished goods	**1,128**	1,077
Total inventories	**$ 2,073**	**$** 1,932

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

NOTE 9 – LONG-TERM DEBT

Long-term debt consists of the following:

	March 31, 2019	December 31, 2018
Line of credit	$ **850**	$ 275
$1,000 secured note payable to seller of acquired business	**654**	678
Total debt	**1,504**	953
Less: current portion of debt	**(1,057)**	(472)
Total long-term debt	$ **447**	$ 481

The Company has 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 4.24% at March 31, 2019. The Company recognized interest expense associated with this line of credit of $6 and $0 in the three months ended March 31, 2019 and 2018, respectively.

$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 $8 and $11 in the three months ended March 31, 2019 and 2018, respectively. In 2019, the note payable was increased by $25 as a result of a final working capital adjustment under the asset purchase agreement.

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

Fiscal year 2019 (remaining)	**$ 155**
Fiscal year 2020	**215**
Fiscal year 2021	**226**
Fiscal year 2022	**58**
Total	**$ 654**

(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:

	March 31, 2018	December 31, 2018
Accrued employee compensation	$ **273**	$ 118
Warranty and returns reserves	**64**	59
Accrued commissions	**24**	19
Amounts due customers	**46**	51
Accrued non-income based taxes	**22**	34
Contingent consideration related to business acquisition at fair value	**130**	36
Other	**59**	82
Total accrued expenses and other current liabilities	$ **618**	$ 399

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 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 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 are exercisable no later than five (5) years after date of grant and vest either immediately or based upon graduated vesting schedules as determined by the Committee.

As of March 31, 2019, 3,963,246 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:

	Number	Weighted Average Exercise Price
Options outstanding at December 31, 2018	**3,236,496**	**$ 0.45**
Options granted	**1,270,000**	**$ 0.33**
Options expired	**(543,250)**	**$ 0.40**
Options outstanding at March 31, 2019	**3,963,246**	**$ 0.42**
Options exercisable	**3,163,246**	**$ 0.44**
Shares available for granting of options	**9,046,755**	

In January 2019, a change of control under the Company's 2012 Plan occurred ("Change of Control"). The Company's 2012 Plan defines a change of control to have occurred if, during any period of 24 consecutive months, individuals who at the beginning of such period constituted the Board, cease for any reason (other than death or disability) to constitute at least a majority thereof. Under the 2012 Plan, upon a change of control, the exercise of any stock award shall be automatically accelerated or waived so that the stock award may be exercised at the time of the occurrence of the change of control. As a result of the Change of Control, 709,888 stock options vested.

In connection with the Vigilant Personal Protection Systems acquisition in 2017, 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. 250,000 of these shares vested in 2018, while the balance vested in 2019 as a result of the January 2019 Change of Control. Also, in connection with this acquisition, the purchase price for the business and related assets was subject to an earn-out calculation providing for additional consideration of up to 400,000 shares of the Company's common stock, which may be paid out upon the achievement of certain defined financial objectives through October 19, 2020. Under this agreement, a Change of Control results in the issuance of the remaining contingently issuable shares. Consequently, upon the occurrence of the January 2019 Change of Control, 175,000 shares of common stock were issued.

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 and stock-based awards issued. Total stock compensation expense was $236 and $45 for the three months ended March 31, 2019 and 2018, respectively. No tax benefit was recognized for this compensation expense. At March 31, 2019, total unrecognized stock-based compensation expense is $82, which has a weighted average period to be recognized of approximately 3.5 years. The Company has elected to recognize forfeitures as they occur.

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

The following table provides additional information regarding options outstanding as of March 31, 2019:

	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 $0.39	**2,632,668**	**$ 0.37**	**3,432,668**	**$ 0.37**	**3,432,668**	**$ 0.37**
$0.40 to $1.00	**523,911**	**$ 0.75**	**523,911**	**$ 0.75**	**523,911**	**$ 0.75**
$1.01 to $1.99	**6,667**	**$ 1.05**	**6,667**	**$ 1.05**	**6,667**	**$ 1.05**
	3,163,246		**3,963,246**		**3,963,246**	

	Options Exercisable	Options Outstanding	Options Vested or Expected to Vest
Weighted average years remaining term	**2.4**	**2.9**	**2.9**
Aggregate intrinsic value	**$ 10**	**$ 10**	**$ 10**

NOTE 12 – LEASES

The Company determines whether an arrangement is a lease at inception and whether that lease meets the classification criteria of a finance or operating lease. Some of the Company's lease arrangements contain lease components (e.g. minimum rent payments) and non-lease components (real estate tax, maintenance, etc.). The Company leases its facilities and certain office equipment. All such leases are operating leases. For real estate leases, the Company accounts for lease components together with non-lease components.

As the Company's leases do not provide an implicit interest rate. The Company uses its incremental borrowing rate, which is based on the lease term and adjusted for impacts of collateral, in determining the present value of lease payments.

The Company's leases have remaining lease terms of 2 to 4.5 years, some of which include options to extend the lease for up to three additional 5-year terms. The exercise of lease renewal options is at the Company's discretion. Renewals to extend the lease term are not included in the Company's Right-of-use asset and Lease liabilities as they are not reasonably certain of exercise. The Company's leases do not contain any material residual value guarantees or material restrictive covenants. Lease expense is recognized on a straight-line basis over the term of the lease.

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

The following table presents information about the amount, timing and cash flows arising from the Company's operating leases.

	Three Months Ended March 31, 2019
Components of lease cost:	
Operating lease cost	$ 65
Variable lease cost	-
Short-term lease cost	5
Total	$ 70
Maturity of lease liabilities:	
2019 (remaining)	$ 209
2020	279
2021	253
2022	237
2023	120
Thereafter	-
Total undiscounted operating lease payments	1,098
Less: Imputed interest	(92)
Present value of operating lease liabilities	$ 1,006
Operating cash flow information:	
Cash paid for amounts included in the measurement of lease liabilities	50
Initial right-of-use asset recognized	1,040
Other information:	
Weighted-average remaining lease term	49 months
Weighted-average discount rate	4.26%

NOTE 13 – SUBSEQUENT EVENTS

The Company evaluated its March 31, 2019 financial statements for subsequent events through May 10, 2019, 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.