Consolidated Financial Statements and Report of Independent Certified Public Accountants

Mace Security International, Inc.

December 31, 2014 and 2013

SKODA MINOTTI

CPAs, BUSINESS & FINANCIAL ADVISORS

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Contents

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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. (a Delaware corporation) and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated 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 audit. We conducted our audit 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.

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Opinion

In our opinion, the 2014 consolidated financial statements present fairly, in all material respects, the financial position of Mace Security International, Inc. and subsidiaries as of December 31, 2014, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Consolidated Financial Statements

The consolidated financial statements of Mace Security International, Inc. and subsidiaries as of December 31, 2013, were audited by other auditors whose report dated April 25, 2014, expressed an unmodified opinion on those statements.

SKODA MINOTTI

Skoda Minotti

Cleveland, Ohio
March 2, 2015

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2014 and 2013
(Amounts in thousands, except share and per share information)

ASSETS	**2014**	**2013**
Current assets:		
Cash and cash equivalents	**$ 359**	$ 4,923
Restricted cash	**60**	127
Short-term investments	**5,848**	2,597
Accounts receivable, less allowance for doubtful accounts of $260 and $478 in 2014 and 2013, respectively	**1,352**	1,732
Inventories, less reserve for obsolescence of $134 and $209 in 2014 and 2013, respectively	**1,783**	1,578
Prepaid expenses and other current assets	**1,303**	1,419
Total current assets	**10,705**	12,376
Property and equipment:		
Buildings and leasehold improvements	**211**	168
Machinery and equipment	**2,068**	2,027
Furniture and fixtures	**484**	462
Total property and equipment	**2,763**	2,657
Accumulated depreciation and amortization	**(2,178)**	(2,092)
Total property and equipment, net	**585**	565
Other intangible assets	**685**	685
Other assets	**1,054**	1,148
Total assets	**$ 13,029**	$ 14,774

LIABILITIES AND STOCKHOLDERS' EQUITY	2014	2013
Current liabilities:		
Current portion of long-term debt and capital lease obligations	**$ 1,241**	$ -
Accounts payable	**481**	392
Income taxes payable	**60**	62
Accrued expenses and other current liabilities	**961**	1,086
Total current liabilities	**2,743**	1,540
Long-term debt, net of current portion	**-**	1,106
Other liabilities	**-**	230
Stockholders' equity:		
Preferred stock, $.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at December 31, 2014 and 2013	**-**	-
Common stock, $.01 par value; authorized 100,000,000 shares, issued and outstanding shares of 59,106,441 and 58,946,441 at December 31, 2014 and 2013, respectively	**591**	589
Additional paid-in capital	**102,848**	102,628
Accumulated deficit	**(93,086)**	(91,382)
Accumulated other comprehensive income (loss)	**(45)**	84
	10,308	11,919
Less treasury stock at cost, 90,548 and 18,332 shares in 2014 and 2013, respectively	**(22)**	(21)
Total stockholders' equity	**10,286**	11,898
Total liabilities and stockholders' equity	**$ 13,029**	$ 14,774

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, 2014 and 2013
(Amounts in thousands)

	2014	2013
Net revenue	**$ 7,794**	$ 8,018
Cost of revenue	**4,939**	4,931
Gross profit	**2,855**	3,087
Selling, general, and administrative expenses	**4,849**	6,336
Depreciation	**166**	161
Operating loss	**(2,160)**	(3,410)
Interest expense	**(229)**	(221)
Interest income	**240**	60
Gain on sale of short-term investments	**137**	13
Note receivable write-down	**(100)**	-
Other income (expense)	**7**	(22)
Loss from continuing operations before income tax provision	**(2,105)**	(3,580)
Income tax provision	**1**	1
Loss from continuing operations	**(2,106)**	(3,581)
Income from discontinued operations, net of tax of $1 and $5 in 2014 and 2013, respectively	**402**	1,560
Net loss	**$ (1,704)**	$ (2,021)

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

Mace Security International, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the Years Ended December 31, 2014 and 2013
(Amounts in thousands)

	2014	2013
Net loss	**$ (1,704)**	$ (2,021)
Other comprehensive income (loss): unrealized gain (loss) on short-term investments	**(129)**	96
Total comprehensive loss	**$ (1,833)**	$ (1,925)

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, 2014 and 2013
(Amounts in thousands, except share information)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance at December 31, 2012	58,946,441	$ 589	$ 102,379	$ (89,361)	$ (50)	$ (12)	$ 13,545
Stock-based compensation	-	-	213	-	-	-	213
Sale of treasury stock	-	-	36	-	29	-	65
Unrealized gain on short-term investments	-	-	-	-	-	96	96
Net loss	-	-	-	(2,021)	-	-	(2,021)
Balance at December 31, 2013	58,946,441	589	102,628	(91,382)	(21)	84	11,898
Stock-based compensation	**-**	**-**	**221**	**-**	**-**	**-**	**221**
Unrealized loss on short-term investments	**-**	**-**	**-**	**-**	**-**	**(129)**	**(129)**
Exercise of stock options	**160,000**	**2**	**(1)**	**-**	**(1)**	**0**	**0**
Net loss	**-**	**-**	**-**	**(1,704)**	**-**	**-**	**(1,704)**
Balance at December 31, 2014	**59,106,441**	**$ 591**	**$ 102,848**	**$ (93,086)**	**$ (22)**	**$ (45)**	**$ 10,286**

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, 2014 and 2013
(Amounts in thousands)

	2014	2013
Cash Flows from Operating activities:		
Net loss	**$ (1,704)**	$ (2,021)
Income from discontinued operations, net of tax	**402**	1,560
Loss from continuing operations	**(2,106)**	(3,581)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation	**166**	161
Stock-based compensation	**221**	213
Provision for losses on receivables	**20**	77
Provision for obsolete inventory	**69**	47
Note receivable write-down	**100**	-
Loss (gain) on sale of property and equipment	**(6)**	56
Gain on sale of short-term investments	**(137)**	-
Amortization of discount on debt	**135**	126
Changes in operating assets and liabilities:		
Accounts receivable	**360**	(647)
Inventories	**(274)**	496
Prepaid expenses and other assets	**42**	(224)
Accounts payable	**89**	(361)
Deferred revenue	**-**	(15)
Accrued expenses and other current liabilities	**(355)**	110
Income taxes payable	**(2)**	-
Net cash used in operating activities – continuing operations	**(1,678)**	(3,542)
Net cash provided by (used in) operating activities – discontinued operations	**(8)**	350
Net cash used in operating activities	**(1,686)**	(3,192)
Cash Flows from Investing Activities:		
Purchase of property and equipment	**(187)**	(353)
Purchase of short-term investments, net	**(5,834)**	(102)
Proceeds from sale of property and equipment	**7**	-
Proceeds from sale of short-term investments	**2,591**	-
Other	**-**	(1)
Net cash used in investing activities-continuing operations	**(3,423)**	(456)
Net cash provided by investing activities-discontinued operations	**478**	6,155
Net cash (used in) provided by investing activities	**(2,945)**	5,699
Cash Flows from Financing Activities:		
Payments on long-term debt and capital lease obligations	**-**	(27)
Decrease in restricted cash	**67**	313
Sale of treasury stock	**-**	65
Net cash provided by financing activities – continuing operations	**67**	351
Net cash provided by financing activities	**67**	351
Net increase (decrease) in cash and cash equivalents	**(4,564)**	2,858
Cash and cash equivalents at beginning of year	**4,923**	2,065
Cash and cash equivalents at end of year	**$ 359**	$ 4,923

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013
(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, personal defense, and electronic surveillance equipment and products to retailers, distributors, and individual consumers. In December 2013, the Company sold its wholesale security monitoring business that was conducted by the Company's Mace CSSS, Inc. subsidiary.

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 – 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 and Deferred Revenue

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 fees are 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, 2014 and 2013.

Restricted Cash

The Company has cash in a restricted bank account. The restricted balance at December 31, 2014 is related to a payment card agreement. The restricted balance at December 31, 2013 is related to a payment card agreement and a letter of credit.

Short Term Investments and Marketable Securities

The Company holds a number of short-term investments. The investments are comprised of 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 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 2014 and 2013, $235 and $80 of accounts receivable were written off against the allowance for doubtful accounts, respectively. Bad debt expense totaled $20 and $77 in fiscal 2014 and 2013, 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, 2014, two customers accounted for 28% and 22% of the net accounts receivable balance. At December 31, 2013, two customers accounted for 17% and 13% of net accounts receivable balance. During the years ended December 31, 2014 and 2013, one customer accounted for 13% and another customer accounted for 12% of the Company's net revenue.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in first-out (FIFO) method. Inventories consist of defense sprays, electronic security monitors, cameras and digital recorders, 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 the Company's obsolescence reserve to adjust the inventory to market value. When products are sold at a price less than cost, the difference between cost and selling price is charged against the established obsolescence reserve.

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 - 7 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 $166 and $161 for the years ended December 31, 2014 and 2013, respectively. Maintenance and repairs are charged to expense as incurred and amounted to approximately $32 and $27 for the years ended December 31, 2014 and 2013, 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.

Other Intangible Assets

Other intangible assets consist primarily of trademarks. The trademarks are considered to have indefinite lives, and as such, are not subject to amortization. These assets 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.

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

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 $298 and $230 for the years ended December 31, 2014 and 2013, respectively.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, short-term investments, trade receivables, 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 following tables summarize the Company's short term investments recorded at fair value by fair value hierarchy levels as of December 31, 2014 and 2013:

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Short-term investments	**$ 5,848**	**$ -**	**$ -**	**$ 5,848**
	$ 5,848	**$ -**	**$ -**	**$ 5,848**

	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Short-term investments	$ 2,241	$ 356	$ -	$ 2,597
	$ 2,241	$ 356	$ -	$ 2,597

Impact of Newly Issued Accounting Standards

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income", which provides guidance on disclosure requirements for items reclassified out of Accumulated Other Comprehensive Loss ("AOCL"). This new guidance requires entities to present (either on the face of the statement of operations or in the notes to the financial statements) the effects on the statement of operations of amounts reclassified out of AOCL. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements; see Note 5, Accumulated Other Comprehensive Loss.

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-8, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" to modify the requirements for reporting a discontinued operation. The amended definition of "discontinued operations" includes only disposals or held-for-sale classifications of components or groups of components of an entity that represent a strategic shift that either has or will have a major effect on the entity's operations and financial results. This new guidance also expands the disclosure requirements required when an entity reports a discontinued operation or when it disposes of or classifies as held for sale an individually significant component that does not meet the definition of a discontinued operation. This new guidance is effective prospectively for all disposals or classifications as held for sale that occur after December 31, 2014. The Company does not expect the adoption of this new standard to have a material impact on its consolidated financial statements.

In May 2014, the 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 the Company beginning in fiscal 2018 and allows for either full retrospective adoption or modified retrospective adoption. The Company is currently assessing the impact adopting this new accounting guidance will have on its consolidated financial statements and disclosures.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, "Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period". This new standard requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This accounting standards update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. This standard applies to all entities and is effective for annual and interim reporting periods beginning after December 15, 2015, with early adoption permitted. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, "Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern". This standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern. This standard applies to all entities and is effective for annual and interim reporting periods ending after December 15, 2016, with early adoption permitted. The Company does not expect that the adoption of this standard will have a material effect on its consolidated financial statements.

No other new accounting pronouncement issued or effective during 2014 or 2013 had or is expected to have a material impact on the Consolidated Financial Statements.

Reclassifications

Certain 2013 amounts have been reclassified to conform to the current year presentation.

NOTE 3 - SUPPLEMENATARY CASH FLOW INFORMATION

Interest paid on all indebtedness, including discontinued operations, was approximately $105 and $94 for the years ended December 31, 2014 and 2013, respectively.

Income taxes paid totaled approximately $4 and $6 in the years ended December 31, 2014 and 2013, respectively.

NOTE 4 – BUSINESS DIVESTITURES, ASSETS HELD FOR SALE, AND DISCONTINUED OPERATIONS

Car Wash Segment

In 2006, the Company began the divestiture of its Car Wash Segment. By September 2011, all but three of the Company's car wash facilities were sold. The Car Wash Segment ceased operations in August 2012.

By late 2012, the Company had disposed of all former car wash facilities with the exception of one facility located in Arlington, Texas. The Company recognized impairment charges of $45 related to this facility during the year ended December 31, 2012. This facility was further impaired prior to its sale in October 2013 in the amount of $66. On October 28, 2013, the Company sold its last remaining car wash facility in Arlington, Texas for a sale price of $175. The net book value of this car wash was $175, net of impairments recognized during 2013 and 2012.

In 2014, the Company incurred $6 of discontinued operations expense primarily related to closure costs.

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 ($250 and $1,497) totaling $1,747. The transaction resulted in a pre-tax gain of $2,340 in fiscal 2013.

Under the asset purchase agreement, the purchase price for the business was adjusted for revisions to dealer contract values during the second quarter of fiscal 2014. As a result of this adjustment, the purchase price was increased by $430, resulting in an additional pretax gain of $409, net of customary transaction fees. The Company received additional net cash proceeds of $315 and the balance of the adjustment to the purchase price was added to the $1,497 notes receivable, resulting in a principal balance of $1,591.

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

In October 2014, the Company renegotiated the $1,591 note receivable due from Security Partners, LLC. 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.

At December 31, 2014, the current portion of the notes receivable of $548 is in Prepaid Expenses and Other Current Assets, while the non-current portion of $780 is in Other Assets on the Consolidated Balance Sheets.

There were no assets or liabilities held for sale at December 31, 2014 and 2013.

Discontinued Operations

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

	Year ended December 31,	
	2014	**2013**
Net sales	$ **-**	$ 4,101
Income (loss) before income tax provision	**403**	(775)
Provision for income tax on operations	**1**	5
Income (loss) from operations, net of tax	$ **402**	$ (780)
Gain on sale of discontinued operations	$ **-**	$ 2,340
Provision for income tax on gain on sale	**-**	-
Gain on sale of discontinued operations, net of tax	**-**	2,340
Income from discontinued operations net of tax	$ **402**	$ 1,560

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

NOTE 5 –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, 2012	$	(12)
Changes in value (net of tax effect of $0)		136
Reclassification into earning (net of tax effect of $0)		(40)
Balance at December 31, 2013		84
Changes in value (net of tax effect of $0)		**(30)**
Reclassification into earning (net of tax effect of $0)		**(99)**
Balance at December 31, 2014	**$**	**(45)**

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

NOTE 6 – OTHER INTANGIBLE ASSETS

Other intangible assets consist of:

	December 31, 2014				**December 31, 2013**			
	Gross Carrying Amount		**Accumulated Amortization**		**Gross Carrying Amount**		**Accumulated Amortization**	
Non-amortized trademarks	**$**	**685**	**$**	**-**	$	685	$	-
Total other intangible assets	**$**	**685**	**$**	**-**	$	685	$	-

The Company annually performs impairment testing of its intangible assets, consisting primarily of the Company's trademarks. The most recent evaluation was performed as of December 31, 2014. As a result of this evaluation, it was determined that there was no impairment of the Company's intangible assets as of December 31, 2014.

NOTE 7 – INVENTORIES

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

	For the year ended December 31,			
	2014		**2013**	
Finished goods	**$**	**767**	$	711
Raw materials		**1,016**		867
Total inventories	**$**	**1,783**	$	1,578

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

NOTE 8 – LONG-TERM DEBT

Long-term debt consists of the following:

	December 31, 2014	December 31, 2013
Convertible debenture note payable to Merlin Partners, LP	**$ 1,241**	$ 1,106
Less: current portion of convertible debenture note payable to Merlin Partners, LP	**1,241**	-
Total long-term debt	**$ -**	$ 1,106

Convertible debenture note payable at December 31, 2014 consists of a $1,400 note with Merlin Partners, LP. The convertible debenture note bears interest at the rate of 6% with an extended maturity date of March 30, 2016. On December 24, 2014, the Company entered into an agreement to repay the convertible debenture note for $2,297 in January 2015. See Note 15, Subsequent Events. The convertible debenture note is collateralized by a security interest in the trade name "Mace" and a pledge of the stock of Mace CSSS, Inc. The recorded value of the convertible debenture note excludes unamortized discounts for warrants and a conversion option in the amount of $159 and $294 at December 31, 2014 and 2013, respectively. See Note 14, Related Party Transactions for additional information regarding the Merlin note. The Company recognized convertible debenture interest expense of $84 in both the years ended December 31, 2014 and 2013. The Company recognized non-cash interest expense for amortization of the debt discount related to the convertible debenture of $135 and $126 in the years ended December 31, 2014 and 2013, respectively.

The Company had outstanding letters of credit in the amount of $0 and $86 at December 31, 2014 and 2013, respectively. The letters of credit were collateralized by deposits in restricted cash accounts.

NOTE 9 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	December 31, 2014	December 31, 2013
Accrued employee compensation	**$ 56**	$ 219
Co-operative advertising and other sales allowances	**299**	179
Amounts due customers	**69**	112
Accrued non-income based taxes	**23**	132
CSSS purchase holdback	**234**	-
Other	**280**	444
Total accrued expenses and other current liabilities	**$ 961**	$ 1,086

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

NOTE 10 – 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 exercisable based upon graduated vesting schedules as determined by the Committee.

As of December 31, 2014, 6,448,603 nonqualified stock options were outstanding under the 1999 and 2012 Plans.

Activity with respect to these plans is as follows:

	2014		**2013**	
	Number	**Weighted Average Exercise Price**	**Number**	**Weighted Average Exercise Price**
Options outstanding beginning of period	**6,312,670**	**$ 0.92**	4,619,665	$ 1.36
Options granted	**969,300**	**$ 0.38**	2,677,500	$ 0.39
Options exercised	**(160,000)**	**$ 0.17**	-	$ -
Options forfeited	**(140,200)**	**$ 0.38**	(866,328)	$ 1.54
Options expired	**(533,167)**	**$ 3.97**	(118,167)	$ 1.74
Options outstanding end of period	**6,448,603**	**$ 0.62**	6,312,670	$ 0.92
Options exercisable	**4,706,061**	**$ 0.72**	3,907,920	$ 1.30
Shares available for granting of options	**10,529,400**		11,358,500	

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 $221 and $213 for the years ended December 31, 2014 and 2013, respectively. No tax benefit was recognized for this compensation expense.

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

The following table provides additional information regarding options outstanding as of December 31, 2014:

	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 $0.39	**2,872,908**	**$ 0.28**	**4,528,300**	**$ 0.31**	**4,225,800**	**$ 0.31**
$0.40 to $1.00	**872,152**	**$ 0.68**	**959,302**	**$ 0.66**	**934,302**	**$ 0.66**
$1.01 to $1.99	**451,667**	**$ 1.56**	**451,667**	**$ 1.56**	**451,667**	**$ 1.65**
$2.00 to $3.00	**509,334**	**$2.54**	**509,334**	**$ 2.54**	**509,334**	**$ 2.54**
	4,706,061		**6,448,603**			

The fair values of the Company's options were estimated at the dates of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Year Ended December 31,	
	2014	**2013**
Expected term (years)	**5**	5
Risk-free interest rate	**1.68%**	1.17%
Volatility	**58.2%**	59.7%
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.

During the years ended December 31, 2014 and 2013, the Company granted 969,300 and 2,677,500 stock options, respectively. The weighted-average of the fair value of stock option grants are $0.38 and $0.39 per share for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014, total unrecognized stock-based compensation expense is $285, which has a weighted average period to be recognized of approximately 3.1 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

In 2010, the Company issued warrants to purchase a total of 314,715 shares of the Company's stock at an exercise price of $0.20 per share in connection with a Promissory Note with Merlin Partners, LP. The warrants were accounted for under the equity method at a Black-Scholes' fair value of $0.20 per share or a total value of $63 and are classified in equity. No warrants to purchase common stock related to the note have been exercised through December 31, 2014. These warrants were issued with an expiration date of December 28, 2015.

In 2011, the Company issued additional warrants to purchase a total of 1,428,535 shares of the Company's stock at an exercise price of $0.20 per share in connection with the December 2010 Promissory Note with Merlin Partners, LP and a March 2011 Debenture Agreement with Merlin Partners, LLP. The 1,428,535 warrants issued in 2011 included 1,271,178 warrants issued on August 2, 2011 upon completion of the Company's Stock Rights Offering under anti-dilution provisions contained in the original issued warrants. See Note 14, Related Party Transactions. The warrants issued in March 2011 in connection with the Debenture Agreement were accounted for under the equity method at a Black-Scholes' fair value of $0.20 per share or a total value of $47. No warrants to purchase common stock related to the note or debenture have been exercised through December 31, 2014.

During the exercise period, the Company will reserve a sufficient number of shares of its common stock to provide for the exercise of the rights represented by option holders.

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

NOTE 11 – INCOME TAXES

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

	Year Ended December 31, 2014	2013
Tax at U.S. federal statutory rate	**$ (720)**	$ (1,217)
State taxes, net of federal benefit	**(43)**	(94)
Nondeductible costs	**1**	11
IRS audit adjustment	**188**	-
Other	**44**	(199)
Increase in valuation allowance	**531**	1,500
Total income tax expense	**$ 1**	$ 1

The components of income tax expense from continuing operations are:

	Year Ended December 31, 2014	2013
Current (principally state taxes)	**$ 1**	$ 1
Deferred:		
Loss carryforward	**(1,475)**	(1,706)
Other deferred tax benefits	**944**	(245)
Valuation allowance	**531**	1,951
	-	-
Total income tax expense	**$ 1**	$ 1

(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, 2014 and 2013 are as follows:

	December 31,	
	2014	**2013**
Deferred tax assets:		
Allowance for doubtful accounts	**$ 98**	$ 177
Inventories	**221**	188
Net operating and capital loss carryforwards	**24,125**	23,494
Vesting stock options	**698**	702
Other, net	**245**	269
Total deferred tax assets	**25,387**	24,830
Valuation allowance for deferred tax assets	**(25,102)**	(24,571)
Deferred tax asset after valuation allowance	**285**	259
Deferred tax liabilities:		
Property, equipment and intangibles	**(285)**	(259)
Net deferred tax assets	**$ -**	**$ -**

At December 31, 2014, the Company had U.S. federal net operating loss carryforwards ("NOLs") of approximately $58,229 expiring in 2018 through 2034.

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 our 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 our 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 increased its valuation allowance against deferred tax assets by $531 in 2014 resulting in a total valuation allowance of $25,102 at December 31, 2014 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 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 losses in its fiscal year ended December 31, 2014, and the uncertainty of and the ultimate extent of growth in the Company's Security Segment.

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, 2014 and 2013, 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, 2014 and 2013 was insignificant and when incurred is reported as interest or penalties expense, as applicable.

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

The Company is subject to income taxes in the U.S. federal jurisdiction, and various state and local jurisdictions. The Internal Revenue Service completed its review of the Company's federal income tax return for fiscal 2011 during fiscal 2014. The review resulted in an insignificant adjustment to the Company's net operating loss carryforwards. 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 2009.

NOTE 12 – 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.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Company leases buildings and equipment under non-cancelable operating lease agreements expiring at various dates through 2023. Total rent expense was $291 and $243 for the years ended December 31, 2014 and 2013, respectively.

At December 31, 2014, future minimum lease commitments are as follows:

2015	$	**239**
2016		**227**
2017		**223**
2018		**223**
2019 and thereafter		**1,002**
Total	$	**1,914**

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 14 – RELATED PARTY TRANSACTIONS

The Company borrowed $1.35 million from Merlin Partners, LP ("Merlin") in 2010. Merlin is a fund managed by Ancora Advisors, LLC, and an entity within the Ancora Group. Richard A. Barone, a Company Director, is a portfolio manager and an owner of Ancora Advisors LLC. Denis J. Amato, a Company Director, is a portfolio manager and an owner of Ancora Advisors, LLC. While this loan was repaid in 2011, as part of the consideration for the financing, Merlin was granted a Common Stock Purchase Warrant to purchase up to 314,715 shares of the Company's common stock at an exercise price of $0.20 per share, expiring on December 28, 2015. The warrant contained an anti-dilution provision. On August 2, 2011, upon conclusion of the Company's Stock Rights Offering, a warrant for 847,452 shares was issued to Merlin under the anti-dilution provision.

On March 30, 2011, the Company borrowed $1,400 with an interest rate of 6% per annum from Merlin to fund the acquisition of TCCI, a wholesale security monitoring company. The loan is secured by a security interest in the "Mace" name and a pledge of the stock of Mace CSSS, Inc. (the "Company's wholesale monitoring subsidiary). The loan was originally due March 30, 2013; however, Merlin had the right to call the loan commencing on September 27, 2011, forty trading days after the completion of the Company's Rights Offering and Merlin's purchase of the Additional Stock (the "Call Trigger Event"). Merlin's right to call the loan expired on March 27, 2012, six months from September 27, 2011. As Merlin did not call the loan by March 27, 2012, the maturity date of the loan automatically extended to March 30, 2016 with Merlin continuing its right to convert the loan into common stock through March 30, 2016, the new maturity date. The conversion right is at a per share price of $0.192, which is equal to the ten day average closing sales price of the common stock, starting with September 14, 2011, the trading day which is 30 trading days after the Call Trigger Event. In accordance with ASC 815, "Derivatives and Hedging," the Company determined that the conversion feature of the Debenture met the criteria of an embedded derivative, and therefore the conversion feature of this Debenture needed to be bifurcated and accounted for as a derivative. The conversion option was marked-to-market each reporting period, with future changes in fair value reported in earnings. The fair value of the embedded conversion was estimated at $590 at the date of issuance of the debenture and each subsequent quarter using the Monte Carlo model with the following assumptions: risk free interest rate: 0.16%; expected life of the option to convert of 4.7 years; and volatility: 48%. With the Call Trigger Event occurring and the conversion price and number of conversion shares known, the fair value of the conversion option was estimated at $516 at September 30, 2011 using the Black-Scholes valuation model. Accordingly, for the year ended December 31, 2011, the Company recorded a gain on valuation of derivative of $74 to reflect the reduction in the market value of the derivative. Additionally, with the debenture conversion price and number of conversion shares to be issued upon a conversion known, the initial bifurcated derivative no longer met the criteria to be recorded as a derivative liability. Accordingly, the $516 conversion option at September 30, 2011, was reclassified from a liability to stockholder's equity as additional paid-in-capital and as a discount to the $1,400 Merlin loan. The conversion option is being accreted as a charge to interest expense over a 60 month period with an offsetting credit to the loan balance.

As compensation for the $1,400 loan, Merlin received a five year warrant exercisable into 157,357 shares of common stock at an exercise price of $0.20 per share. The warrant contains an anti-dilution provision that provides that the Company will issue Merlin a warrant equal to 1% percent of any shares issued by the Company for one year after the date the warrant was issued. Any new warrant issued will be exercisable at $0.20 cents per share. On August 2, 2011, after the completion of the Company's Rights Offering, a warrant for 423,726 shares was issued to Merlin under the anti-dilution provision. The conversion features of the loan and the warrant may result in additional dilution to stockholders. The initial warrants were accounted for at a Black-Scholes fair value of the warrant of $47 recorded as a discount to the $1,400 Merlin loan and as additional paid-in capital. The discount is being accreted as a charge to interest expense over the initial 24 month maturity period of the loan with an offsetting credit to the loan balance. Merlin earned $84 of interest related to the $1,400 loan in 2014 and 2013. In addition, the Company recognized non-cash interest expense for the accretion of the discounts to the Merlin promissory note and debenture for related warrants and a conversion option of $135 and $126 in 2014 and 2013, respectively.

On December 24, 2014, the Company entered into an agreement to repay the convertible debenture note for $2,297 in January 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013
(Amounts in thousands, except share and per share amounts)

NOTE 15 – SUBSEQUENT EVENTS

The Company evaluated its December 31, 2014 financial statements for subsequent events through March 2, 2015, the date the financial statements were available to be issued. On January 13, 2015, the Company repaid its convertible $1,400 debenture with a payment of $2,297 to Merlin pursuant to an agreement entered into on December 24, 2014. The Company recognized a gain of approximately $322 in conjunction with this repayment. This repayment is at a significant discount to the convertible debenture current conversion value, and a premium to its face value. The repayment of the convertible debenture will result in lower interest expense over the next 15 months. The repayment also eliminates the potential issuance of approximately 7,291,666 shares of Mace common stock. The Company is not aware of any other subsequent events, which would require recognition or disclosure in the consolidated financial statements.