Consolidated Financial Statements and
Independent Auditors' Report

Mace Security International, Inc. and Subsidiaries

December 31, 2018 and 2017

SKODA MINOTTI

CPAs, BUSINESS & FINANCIAL ADVISORS

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SKODA MINOTTI & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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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. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mace Security International, Inc. and Subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

SKODA MINOTTI & CO.

Cleveland, Ohio
March 28, 2019

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Mace Security International, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017
(Amounts in thousands, except share and per share information)

ASSETS	**2018**	**2017**
Current assets:		
Cash and cash equivalents	**$ 198**	$ 662
Short-term investments	**253**	251
Accounts receivable, less allowance for doubtful accounts of $130 and $121 in 2018 and 2017, respectively	**1,955**	1,622
Inventories	**1,932**	2,317
Notes receivable, net of allowance, and other current assets	**642**	1,143
Total current assets	**4,980**	5,995
Property and equipment:		
Buildings and leasehold improvements	**245**	240
Machinery and equipment	**2,032**	2,630
Furniture and fixtures	**110**	348
Total property and equipment	**2,387**	3,218
Accumulated depreciation and amortization	**(1,696)**	(2,437)
Total property and equipment, net	**691**	781
Goodwill	**877**	771
Intangible assets, net	**2,943**	3,211
Note receivable, net of allowance, and other assets	**18**	906
Total other assets	**3,838**	4,888
Total assets	**$ 9,509**	$ 11,664

LIABILITIES AND STOCKHOLDERS' EQUITY	2018	2017
Current liabilities:		
Current portion of long-term debt	**$ 472**	$ 427
Accounts payable	**443**	457
Income taxes payable	**55**	62
Accrued expenses and other current liabilities	**399**	633
Total current liabilities	**1,369**	1,579
Long-term debt, net of current portion	**481**	678
Other liabilities	**-**	2
Total liabilities	**1,850**	2,259
Stockholders' equity:		
Preferred stock, $.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at December 31, 2018 and 2017	**-**	-
Common stock, $.01 par value; authorized 100,000,000 shares, issued and outstanding shares of 63,054,834 and 62,896,858 at December 31, 2018 and 2017, respectively	**631**	629
Additional paid-in capital	**102,927**	102,729
Accumulated deficit	**(95,877)**	(93,928)
Accumulated other comprehensive loss	**-**	(3)
	7,681	9,427
Less treasury stock at cost, 90,548 shares in both 2018 and 2017	**(22)**	(22)
Total stockholders' equity	**7,659**	9,405
Total liabilities and stockholders' equity	**$ 9,509**	$ 11,664

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, 2018 and 2017
(Amounts in thousands)

	2018	2017
Net sales	**$ 11,489**	$ 9,983
Cost of goods sold	**7,133**	5,580
Gross profit	**4,356**	4,403
Selling, general, and administrative expenses	**4,754**	4,121
Depreciation	**195**	188
Operating income (loss)	**(593)**	94
Interest expense	**(43)**	(45)
Interest income	**85**	96
Gain (loss) on sale of short-term investments	**1**	(12)
Amortization of intangible assets	**(268)**	(174)
Provision for note receivable allowance	**(1,064)**	-
Loss on disposal of property and equipment	**(61)**	-
Other expense, net	**(1)**	-
Loss from continuing operations before income tax provision	**(1,944)**	(41)
Income tax provision	**2**	2
Loss from continuing operations	**(1,946)**	(43)
Loss from discontinued operations, net of tax of $0 in both 2018 and 2017	**-**	(22)
Net loss	**$ (1,946)**	$ (65)

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, 2018 and 2017
(Amounts in thousands)

	2018	2017
Net loss	**$ (1,946)**	$ (65)
Other comprehensive income net of tax of $0 in both 2018 and 2017:		
Unrealized gain on short-term investments	**-**	12
Total comprehensive loss	**$ (1,946)**	$ (53)

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, 2018 and 2017
(Amounts in thousands, except share information)

	Common Stock		Additional Paid-in	Accumulated	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Stock	Income (Loss)	Total
Balance at December 31, 2016	60,781,858	608	102,098	(93,863)	(22)	(15)	8,806
Stock-based compensation	-	-	119	-	-	-	119
Unrealized gain on short-term investments	-	-	-	-	-	12	12
Exercise of stock options	115,000	1	19	-	-	-	20
Acquisition of businesses	2,000,000	20	493	-	-	-	513
Net loss	-	-	-	(65)	-	-	(65)
Balance at December 31, 2017	62,896,858	629	102,729	(93,928)	(22)	(3)	9,405
Stock-based compensation	**-**	**-**	**156**	**-**	**-**	**-**	**156**
Exercise of stock options	**41,204**	**1**	**(1)**	**-**	**-**	**-**	**-**
Issuance of common stock	**116,772**	**1**	**43**	**-**	**-**	**-**	**44**
Adoption of ASU 2016-01	**-**	**-**	**-**	**(3)**	**-**	**3**	**-**
Net loss	**-**	**-**	**-**	**(1,946)**	**-**	**-**	**(1,946)**
Balance at December 31, 2018	**63,054,834**	**$ 631**	**$ 102,927**	**$ (95,877)**	**$ (22)**	**$ -**	**$ 7,659**

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, 2018 and 2017
(Amounts in thousands)

	2018	2017
Cash Flows from Operating activities:		
Net loss	$ (1,946)	$ (65)
Loss from discontinued operations, net of tax	-	(22)
Loss from continuing operations	(1,946)	(43)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	463	362
Stock-based compensation	156	119
Provision for losses on receivables	10	21
Provision for obsolete inventory	371	(12)
Provision for note receivable allowance	1,064	-
Loss on disposal of property and equipment	61	-
Loss (gain) on sale of short-term investments	(1)	12
Changes in operating assets and liabilities:		
Accounts receivable	(405)	347
Inventories	14	(293)
Prepaid expenses and other assets	77	(110)
Accounts payable	(15)	218
Accrued expenses and other liabilities	(192)	(77)
Income taxes payable	(6)	2
Payment of contingent liability	(60)	-
Net cash provided by (used in) operating activities – continuing operations	(409)	546
Cash Flows from Investing Activities:		
Purchase of property and equipment	(168)	(93)
Acquisition of businesses	-	(2,425)
Proceeds from sale of short-term investments	-	1,544
Net cash used in investing activities-continuing operations	(168)	(974)
Net cash provided by investing activities-discontinued operations	264	175
Net cash provided by (used in) investing activities	96	(799)
Cash Flows from Financing Activities:		
Proceeds from line of credit	1,000	-
Repayments of line of credit	(725)	-
Repayment of debt	(427)	(135)
Exercise of stock options	-	20
Issuance of common stock	1	-
Net cash used in financing activities – continuing operations	(151)	(115)
Net decrease in cash, cash equivalents and restricted cash	(464)	(368)
Cash, cash equivalents, and restricted cash at beginning of year	662	1,030
Cash, cash equivalents, and restricted cash at end of year	$ 198	$ 662

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 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 segment also includes less-lethal tactical munitions and weapons systems for law enforcement, correctional institutions and military markets.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Revenue Recognition

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 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 reasonably 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.

	Year Ended December 31,	
Net Sales by Type of Customer	**2018**	**2017**
Consumer	$ 9,662	$ 8,190
Tactical	679	697
International	981	950
Other	167	146
Total	$ 11,489	$ 9,983

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 FDIC insured amounts at December 31, 2018 and 2017.

Short-Term Investments and Marketable Securities

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

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 several 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 in which the Company operates. 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 most international customers to provide payment in advance of shipment.

During fiscal 2018 and 2017, $17 and $16 of accounts receivable were written off against the allowance for doubtful accounts, respectively. Bad debt expense, net of recoveries of $0 and $2, was $10 and $21 in fiscal 2018 and 2017, 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, 2018, four customers accounted for 14%, 13%, 12% and 12% of the net accounts receivable balance. At December 31, 2017, two customers accounted for 28% and 11% of the net accounts receivable balance. During the year ended December 31, 2018, three customers accounted for 16%, 16%, and 10% of the Company's net sales. During the year ended December 31, 2017, three customers accounted for 14%, 13% and 11% of the Company's net sales.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in first-out (FIFO) method. Inventories consist of defense sprays, and various other security and safety products. The Company periodically reviews the book value of slow-moving inventory items, as well as discontinued product lines, to determine if inventory is properly valued. The Company identifies slow moving or discontinued product lines by a detail review of recent sales volumes of inventory items as well as a review of recent selling prices versus cost and assesses the ability to dispose of inventory items at a price greater than cost. If market value is less than cost, then an adjustment is made to adjust the inventory carrying amount to market value. Provision for obsolete inventory was expense of $371 and income of $12 in fiscal 2018 and 2017, respectively.

Property and Equipment

The Company leases its facilities. Property and equipment are stated at cost. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets, which are generally as follows: leasehold improvements - 8 to 10 years; machinery and equipment - 3 to 10 years; and furniture and fixtures - 3 to 10 years. Significant additions or improvements extending assets' useful lives or their capabilities are capitalized; normal maintenance and repair costs are expensed as incurred. Depreciation expense from continuing operations was approximately $195 and $188 for the years ended December 31, 2018 and 2017, respectively. Maintenance and repairs are charged to expense as incurred and amounted to approximately $38 and $56 for the years ended December 31, 2018 and 2017, respectively. During fiscal 2018, the Company wrote-off $937 of fully depreciated property and equipment which was no longer being used.

Impairment of Long-Lived Assets

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

value. If the fair value of an asset or asset group is determined to be less than the carrying amount of the asset or asset group, impairment in the amount of the difference is recorded.

Intangible Assets

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

Income Taxes

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

Advertising and Marketing Costs

The Company expenses advertising costs, including advertising production cost, as the costs are incurred. Advertising expense from continuing operations was approximately $556 and $282 for the years ended December 31, 2018 and 2017, respectively.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, short-term investments, trade receivables, notes receivable, contingent stock payable 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 could 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 valuation techniques. The fair value of the Company's notes receivable is determined by calculating the expected amount of cash to be received. Given the relative short-term nature of the notes receivable, discount rate and prepayments were not considered in determining the fair value of the notes receivable. See Note 6, Business Divestitures for additional information regarding the notes receivable. The fair value of the Company's note payable is determined by calculating the expected amount of cash to be paid. Given the relative short-term nature of the note payable, discount rate and prepayments were not considered in determining the fair value of the note payable. The contingent note payable and contingent stock payable fair values were based on discounted cash flow analyses reflecting the possible achievement of specified performance measures and capturing the contractual nature of the contingencies, commercial risk and the time value of money.

The following tables summarize the Company's short-term investments, notes receivable and debt instruments recorded at fair value by fair value hierarchy levels as of December 31, 2018 and 2017:

	December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Short-term investments	$ 253	$ -	$ -	$ 253
Note receivable, net of allowance	-	-	26	26
Total assets	$ 253	$ -	$ 26	$ 279
Liabilities:				
Note payable	$ -	$ -	$ 678	$ 678
Contingent stock payable	-	-	36	36
Total liabilities	$ -	$ -	$ 714	$ 714

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

The following table summarizes the changes in assets measured at fair value using Level 3 inputs for the years ended December 31, 2018 and 2017:

	Year ended December 31,	
	2018	**2017**
Balance at January 1	**$ 1,339**	$ 1,466
Payments	**(265)**	(197)
Increase in notes receivable	**-**	70
Provision for note receivable allowance	**(1,048)**	-
Balance at December 31	**$ 26**	$ 1,339

The following table summarizes the changes in liabilities measured at fair value using Level 3 inputs for the years ended December 31, 2018 and 2017:

	Year ended December 31,	
	2018	**2017**
Balance at January 1	**$ 1,185**	$ -
Payments	**(471)**	(135)
Increase in debt	**-**	1,320
Balance at December 31	**$ 714**	$ 1,185

Impact of Newly Issued 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 will 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.

The Company adopted ASU 2016-02 effective January 1, 2019, using the optional transition method described in the previous paragraph. The Company will elect 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 will also elect 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 Company has substantially completed the process of assessing the impact of adoption of this standard will have on its consolidated financial statements. The Company estimates the impact to be $1,000 to $1,100 recognized as total right-of-use assets and total lease liabilities in its consolidated balance sheet as of January

1, 2019. Other than this impact, the Company does not expect the new standard to have a material impact on its other consolidated financial statements.

There were no other new accounting pronouncements in 2018 that had or are expected to have a material impact on the Company's Consolidated Financial Statements.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 consolidated financial statement presentation.

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 2, Summary of Significant Accounting Policies.

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:

	Balance at December 31, 2017	**Adjustments due to ASC 606**	**Balance at January 1, 2018**
Assets:			
Accounts receivable, net	**1,622**	**(189)**	**1,433**
Liabilities and stockholders' equity:			
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 balance sheet was as follows:

	December 31, 2018		
	Balances Without Adoption of ASC 606	**Effect of Adoption**	**As Reported**
Assets:			
Accounts receivable, net	**2,119**	**(164)**	**1,955**
Liabilities:			
Accrued expenses and other current liabilities	**539**	**(164)**	**375**

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 accumulated deficit. 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.

NOTE 4 - SUPPLEMENTARY CASH FLOW INFORMATION

Interest paid on all indebtedness, including discontinued operations, was approximately $46 and $41 for the years ended December 31, 2018 and 2017, respectively.

Income taxes paid totaled approximately $9 and $0 in the years ended December 31, 2018 and 2017, respectively.

NOTE 5 – 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. In the second quarter of 2018, the Company determined that the financial objectives with respect to the $300 cash payment were met and the payment was made in the third quarter of 2018. In the fourth quarter of 2018, the Company determined that the financial results through October 19, 2018 of the acquired business were such that 116,772 shares of the

Company's common stock were issued from the 400,000 shares which were potentially issuable under the asset purchase agreement. The seller of this business was retained as an Executive Vice President of the Company through February 28, 2019.

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:

	October 19, 2017 as Initially Reported	Measurement Period Adjustments in 2018	As Adjusted December 31, 2018
Assets acquired:			
Accounts receivable	$ 8	$ -	$ 8
Inventory	126	-	126
Property and equipment	3	-	3
Intangible assets	630	-	630
Goodwill	236	60	296
Total purchase price	$ 1,003	$ 60	$ 1,063

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.

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

	March 22, 2017 as Initially Reported	Measurement Period Adjustments in 2017	Measurement Period Adjustments in 2018	As Adjusted December 31, 2018
Assets acquired:				
Accounts receivable	$ 329	$ 31	$ (46)	$ 314
Inventory	320	(2)	-	318
Property and equipment	160	-	-	160
Intangible assets	-	2,070	-	2,070
Goodwill	2,654	2,119	46	581
Total purchase price	$ 3,463	$ (20)	$ -	$ 3,443

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.

For the year ended December 31, 2018 and 2017, these acquisitions contributed $3,188 and $2,167, respectively, 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 results of operation of the acquired businesses from the dates of acquisition are included in the Company's consolidated statement of operations.

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.

	Year Ended December 31,	
	2018	2017
Net sales	$ **11,489**	$ 11,402
Net loss	**(1,587)**	(36)

NOTE 6 – 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.

In 2018, Security Partners, LLC defaulted on its Note 1 to the Company. The Company, upon consideration of the financial information that was available to it regarding Security Partners, LLC, determined that the principal amount and related accrued interest may not be fully recoverable. As a result, an allowance of $706 was established through an impairment charge on the note receivable ($690) and accrued interest ($16) and is included in the consolidated statements of operations.

Electronic Surveillance Equipment Business

In November 2016, the Company completed the sale of its electronic surveillance equipment business to SecureCheck LLC, based in Texas, 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.

Effective December 17, 2018, the Company agreed to the transfer of this note receivable and of the rights and obligations arising from the original November 2016 sale agreement to Aegis Security, LLC, leaving SecureCheck, LLC obligated on the note receivable on a co-borrower basis.

In March 2019, Aegis Security, LLC and SecureCheck, LLC defaulted on the note to the Company. The Company, upon consideration of the events culminating in the debtors' response to their default, determined that the principal amount may not be fully recoverable. As a result, an allowance of $358 was established through an impairment charge on the note receivable and is included in the consolidated statements of operations.

NOTE 7 – ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table shows the beginning balance, annual activity and ending balance of accumulated other comprehensive loss, all of which pertains to the Company's short-term investments.

Balance at December 31, 2016	$	(15)
Changes in value (net of tax effect of $0)		-
Reclassification into earnings (net of tax effect of $0)		12
Balance at December 31, 2017		(3)
Reclassification into accumulated deficit in conjunction with adoption of ASU 2016-01		**3**
Balance at December 31, 2018	**$**	**-**

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

NOTE 8 – GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of:

	Estimated Useful Life	Original Cost	Accumulated Amortization	Net Book Value
December 31, 2018				
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
December 31, 2017				
Goodwill		$ 771	$ -	$ 771
Non-competition agreement	4 years	20	(1)	19
Trademarks	15 years	630	(7)	623
Customer Relationships	9 years	1,900	(158)	1,742
Licenses	15 years	150	(8)	142
Non-amortized trademarks		685	-	685
Total goodwill and intangible assets		$ 4,156	$ (174)	$ 3,982

Included in intangible assets at December 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 5. These acquired intangible assets consist of:

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

Included in intangible assets at December 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 5. These acquired intangible assets consist of:

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

Amortization of intangible asset expense was $268 and $174 in the years ended December 31, 2018 and 2017, respectively. Amortization of intangible asset expense is expected to be as follows:

	Amortization Expense
Fiscal year 2019	$ 268
Fiscal year 2020	268
Fiscal year 2021	267
Fiscal year 2022	263
Fiscal year 2023	263
Thereafter	929
	2,258

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 9 – INVENTORIES

Inventories consist of the following:

	For the year ended December 31,	
	2018	2017
Raw materials	**$ 855**	$ 1,030
Finished goods	**1,077**	1,287
Total inventories	**$ 1,932**	$ 2,317

NOTE 10 – LONG-TERM DEBT

Long-term debt consists of the following:

	December 31, 2018	December 31, 2017
Line of credit	**$ 275**	$ -
$1,000 secured note payable to seller of acquired business	**678**	865
$300 unsecured note payable to seller of acquired business	**-**	240
Total debt	**953**	1,105
Less: current portion of debt	**(472)**	(427)
Total long-term debt	**$ 481**	$ 678

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 4.096% at December 31, 2018. The Company recognized interest expense associated with this line of credit of $5 and $0 in the years ended December 31, 2018 and 2017, 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 $38 and $35 in the years ended December 31, 2018 and 2017, respectively.

$300 unsecured contingent note payable to seller of acquired business consists of a 5% $300 note payable which matured on April 19, 2018 and entered into in conjunction with the October 2017 acquisition. This obligation is subordinated to the bank line of credit. In the second quarter of 2018, the Company determined that the financial objectives with respect to the $300 contingent note payable were met. This obligation was paid to the seller of the acquired business during the third quarter of 2018. The Company recognized no interest expense associated with this note in the year ended December 31, 2018 because the interest was waived by the seller of the acquired business.

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

Fiscal year 2019	**$ 472**
Fiscal year 2020	**207**
Fiscal year 2021	**218**
Fiscal year 2022	**56**
Total	**$ 953**

NOTE 11 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	December 31,	
	2018	**2017**
Accrued employee compensation	**$ 118**	$ 124
Cooperative advertising and other sales allowances	**-**	189
Warranty and return reserves	**59**	53
Accrued commissions	**19**	28
Amounts due to customers	**51**	46
Accrued non-income based taxes	**34**	37
Contingent consideration related to business acquisition at fair value	**36**	80
Other	**82**	76
Total accrued expenses and other current liabilities	**$ 399**	$ 633

NOTE 12 – STOCK-BASED COMPENSATION

The Company's stock option plans are administered by the Compensation Committee (the "Committee") of the Board of Directors.

In 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 December 31, 2018, 3,236,496 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.

Activity with respect to these plans is as follows:

	2018		2017	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options outstanding beginning of period	**5,898,262**	**$ 0.46**	7,056,596	$ 0.50
Options granted	**525,000**	**$ 0.40**	300,000	$ 0.38
Options exercised	**(325,000)**	**$ 0.37**	(115,000)	$ 0.17
Options forfeited	**(355,516)**	**$ 0.39**	-	-
Options expired	**(2,506,250)**	**$ 0.62**	(1,343,334)	$ 0.47
Options outstanding end of period	**3,236,496**	**$ 0.45**	5,898,262	$ 0.46
Options exercisable	**2,526,608**	**$ 0.46**	5,287,430	$ 0.51
Shares available for granting of options	**9,789,505**		7,983,739	

In connection with the Vigilant Personal Protection Systems acquisition discussed in Note 5, 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. 250,000 of these shares vested in 2018.

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 $156 and $119 for the years ended December 31, 2018 and 2017, respectively. No tax benefit was recognized for this compensation expense. At December 31, 2018, total unrecognized stock-based compensation expense is $180, which has a weighted average period to be recognized of approximately 2.9 years. The Company has elected to recognize forfeitures as they occur.

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

	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 $0.39	**2,000,030**	**$ 0.38**	**2,709,918**	**$ 0.39**	**2,709,918**	**$ 0.39**
$0.40 to $1.00	**519,911**	**$ 0.77**	**519,911**	**$ 0.77**	**519,911**	**$ 0.77**
$1.01 to $1.99	**6,667**	**$ 1.05**	**6,667**	**$ 1.05**	**6,667**	**$ 1.05**
	2,526,608		**3,236,496**		**3,236,496**	

	Options Exercisable	**Options Outstanding**	**Options Vested or Expected to Vest**
Weighted average years remaining term	**1.3**	**1.8**	**1.8**
Aggregate intrinsic value	**$ -**	**$ -**	**$ -**

Information related to stock options exercised follows:

	Year Ended December 31,	
	2018	**2017**
Proceeds from the exercise of stock options	**-**	20
Intrinsic value of stock options exercised	**17**	25
Income tax benefit related to stock options exercised	**17**	45

The following table details the weighted-average grant-date fair values and the assumptions used for estimating the fair values of the Company's options at the dates of grant using a Black-Scholes option pricing model:

	Year Ended December 31,	
	2018	**2017**
Weighted-average per share grant-date fair value	**$0.13089**	$0.15092
Expected term (years)	**5**	5
Risk-free interest rate	**2.81%**	1.83%
Volatility	**31.71%**	43.5%
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, considering 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 foreseeable future.

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

NOTE 13 – INCOME TAXES

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

	Year Ended December 31,	
	2018	**2017**
Tax at U.S. federal statutory rate	**$ (408)**	$ (14)
State taxes, net of federal benefit	**(53)**	(1)
Permanent items	**5**	7
Deferred tax – tax rate change	**-**	8,120
Exercise of stock options	**23**	(9)
Expiration of net operating loss carryforward	**262**	-
Other	**1**	1
Increase (decrease) in valuation allowance	**172**	(8,102)
Total income tax provision (benefit)	**$ 2**	$ 2

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

	Year Ended December 31,	
	2018	**2017**
Current US state and local income tax provision	**$ 2**	$ 2

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

As a result of the TCJA, the Company revalued its net deferred tax assets in 2017 at the lower 21% rate and recognized a one-time reduction in its net deferred tax assets of $8,120, which is principally made up of the $7,796 reduction of net operating loss carryforwards. The one-time reduction was fully offset by a corresponding reduction in the Company's valuation allowance of $8,120.

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, 2018 and 2017 are as follows:

	December 31,	
	2018	**2017**
Deferred tax assets:		
Allowance for doubtful accounts	**$ 283**	$ 29
Inventories	**102**	100
Net operating and capital loss carryforwards	**14,316**	14,392
Vesting stock options	**530**	548
Other, net	**102**	71
Total deferred tax assets	**15,333**	15,140
Valuation allowance for deferred tax assets	**(15,162)**	(14,990)
Deferred tax asset after valuation allowance	**171**	150
Deferred tax liabilities:		
Property, equipment and intangibles	**(171)**	(150)
Net deferred tax assets	**$ -**	**$ -**

At December 31, 2018, the Company had U.S. federal net operating loss carryforwards ("NOLs") of approximately $59,652 expiring as follows:

Fiscal year 2019	**$ 4,425**
Fiscal year 2020	**3,241**
Fiscal year 2021	**1,584**
Fiscal year 2022	**2,797**
Fiscal years 2023 - 2027	**11,818**
Fiscal years 2028 - 2032	**29,062**
Fiscal years 2032 – 2036	**5,969**
No expiration	**756**
Total	**$ 59,652**

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. Under the applicable GAAP rules, the ability to assume future income is heavily influenced by the recent history of financial reporting income. The Company performed a detailed review of the considerations influencing its ability to realize the future benefit of the NOLs, including the extent of recently used NOLs, the turnaround of future deductible temporary differences, and the duration of the NOL carryforward period. Utilization of the Company's net operating loss and tax credit carryforwards may be subject to annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss or tax credits before utilization. In 2018, $1,089 of net operating loss carryforwards expired. The Company increased its total valuation allowance against deferred tax assets by $172 in 2018 resulting in a total valuation allowance of $15,162 at December 31, 2018, representing the amount of its deferred income tax assets in excess of the Company's deferred income tax liabilities. The valuation allowance was recorded because the Company's management was unable to conclude that realization of the net deferred income tax asset was more likely than not. This determination was a result of the Company's continued operating losses in its fiscal year ended December 31, 2018, and the uncertainty of and the ultimate extent of growth in the Company's business.

The Company follows the appropriate accounting pronouncements which prescribe a model for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on recognition, classification, interest and penalties, disclosure and transition. At December 31, 2018 and 2017, 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, 2018 and 2017 was insignificant and when incurred is reported as interest or penalties expense, as applicable.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various state and local jurisdictions. The Company 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 2014.

NOTE 14 – DEFINED CONTRIBUTION RETIREMENT PLAN

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

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The Company leases buildings and equipment under non-cancelable operating lease agreements expiring at various dates through 2023. The Company has the ability to extend its primary building lease for up to 3 additional 5 year terms starting in 2023. Total rent expense was $272 and $245 for the years ended December 31, 2018 and 2017, respectively.

At December 31, 2018, future minimum lease commitments are as follows:

Fiscal year 2019	$	**278**
Fiscal year 2020		**279**
Fiscal year 2021		**253**
Fiscal year 2022		**238**
Fiscal year 2023		**120**
Total	**$**	**1,168**

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 16 – RELATED PARTY TRANSACTIONS

From time to time, the Company may enter into agreements with related parties in the ordinary course of its business and on terms and conditions it believes are as fair as those it offers and receives from independent parties. Such agreements are subject to approval by the Company's Chief Executive Officer and/or the Board of Directors.

In December 2018, the Company entered into an agreement with its Executive Vice President. Under this agreement, the Company sold close-out product, with a cost of $111, to its Executive Vice President for $91. Payment on this transaction is due in August 2019.

In May 2018, the Company entered into an agreement with its Executive Chairman and Vice-Chairman engaging them in their capacity as members of the Board of Directors to provide strategic business direction and advise to the rest of the Board of Directors and the Company's Chief Executive Officer with the intention of enhancing the Company's market value and overall profitability for the benefit of all stockholders of the Company. In exchange for their services, the agreement provides for the payment of a bonus based upon the achievement of specific financial results. This agreement is effective through December 31, 2021, and it may be extended for up to an additional two (2) years by mutual written agreement. In 2018, no bonus was earned or paid under this agreement.

Companies affiliated with a member of the Board of Directors provide the Company with investment management and defined contribution retirement plan administration services. In 2018 and 2017, $3 and $2, respectively, were paid to these companies for their services.

In February 2019, the Company entered into a separation agreement with its former Chief Executive Officer providing for the payment of severance through January 2020 totaling $280.

NOTE 17 – SUBSEQUENT EVENTS

The Company evaluated its December 31, 2018 financial statements for subsequent events through March 28, 2019, the date the financial statements were available to be issued.

In January 2019, a change of control under the Company's 2012 Plan occurred. The Company's 2012 Plan defines a change of control to have ocurred 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.

In January 2019, the Company acquired the assets of Tornado Security Products, a personal self-defense business based in Ferndale, Washington, for $175 of cash. 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, which may be paid out through January 2022.

The Company is not aware of any subsequent events other than the above and those described in Notes 2, 6 and 16, which would require recognition or disclosure in the consolidated financial statements.