MACE SECURITY INTERNATIONAL INC
Form 10-Q
August 13, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED JUNE 30, 2008
COMMISSION FILE NO. 0-22810

MACE SECURITY INTERNATIONAL, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	**03-0311630**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

240 Gibraltar Road, Suite 220, Horsham, Pennsylvania 19044
(Address of Principal Executive Offices)

Registrant's Telephone No., including area code: **(267) 317-4009**

401 East Las Olas Boulevard, Suite 1570, Fort Lauderdale, Florida 33301
(Former Address)

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 the (“ Exchange Act”) during the preceding 12 months (or for such shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check One):

Large accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)
Accelerated filer ¨	Smaller reporting company x

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock:

As of August 7, 2008, there were 16,465,253 Shares of the registrant’s Common Stock, par value $.01 per share, outstanding.

Mace Security International, Inc.
Form 10-Q
Quarter Ended June 30, 2008

Contents

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

Mace Security International, Inc.
Consolidated Balance Sheets

(In thousands, except share information)

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,922	$ 8,103
Short-term investments	4,323	4,249
Accounts receivable, less allowance for doubtful accounts of $893 and $791 in 2008 and 2007, respectively	2,316	2,920
Inventories	9,798	9,296
Prepaid expenses and other current assets	1,707	2,241
Assets held for sale	4,600	5,665
Total current assets	33,666	32,474
Property and equipment:		
Land	8,914	12,322
Buildings and leasehold improvements	14,628	17,418
Machinery and equipment	5,797	6,353
Furniture and fixtures	700	558
Total property and equipment	30,039	36,651
Accumulated depreciation and amortization	(7,400)	(8,477)
Total property and equipment, net	22,639	28,174
Goodwill	8,231	8,231
Other intangible assets, net of accumulated amortization of $1,262 and $1,123 in 2008 and 2007, respectively	3,874	5,565
Other assets	943	992
Total assets	$ 69,353	$ 75,436

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

		June 30, 2008 (Unaudited)		December 31, 2007
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term debt	$	1,569	$	2,022
Accounts payable		3,215		4,661
Accrued expenses and other current liabilities		3,253		2,581
Income taxes payable		733		778
Deferred revenue		140		174
Liabilities related to assets held for sale		1,842		4,494
Total current liabilities		10,752		14,710
Long-term debt, net of current portion		4,810		7,160
Commitments		-		-
Stockholders' equity:				
Preferred stock, $.01 par value:				
Authorized shares of 10,000,000				
Issued and outstanding shares - none		-		-
Common stock, $.01 par value:				
Authorized shares - 100,000,000				
Issued and outstanding shares of 16,465,253 at June 30, 2008 and December 31, 2007		165		165
Additional paid-in capital		93,979		93,685
Accumulated other comprehensive income		209		322
Accumulated deficit		(40,451)		(40,495)
		53,902		53,677
Less treasury stock at cost-53,909 shares		(111)		(111)
Total stockholders' equity		53,791		53,566
Total liabilities and stockholders' equity	$	69,353	$	75,436

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

Mace Security International, Inc.
Consolidated Statements of Operations
(Unaudited)
(In thousands, except share and per share information)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Revenues:		
Security	$ 5,555	$ 5,625
Digital media marketing	5,472	-
Car wash and detailing services	2,528	2,367
Lube and other automotive services	732	750
Fuel and merchandise	812	298
	15,099	9,040
Cost of revenues:		
Security	3,930	4,191
Digital media marketing	3,334	-
Car wash and detailing services	1,969	1,973
Lube and other automotive services	532	622
Fuel and merchandise	807	258
	10,572	7,044
Selling, general and administrative expenses	5,491	3,817
Depreciation and amortization	352	304
Asset impairment charges	2,608	-
Operating loss	(3,924)	(2,125)
Interest expense, net	(13)	(71)
Other income	111	298
Loss from continuing operations before income taxes	(3,826)	(1,898)
Income tax expense	25	25
Loss from continuing operations	(3,851)	(1,923)
(Loss) income from discontinued operations, net of tax of $0 in 2008 and 2007	(78)	659
Net loss	$ (3,929)	$ (1,264)
Per share of common stock (basic and diluted):		
Loss from continuing operations	$ (0.24)	$ (0.12)
(Loss) income from discontinued operations	-	.04
Net loss	$ (0.24)	$ (0.08)
Weighted average shares outstanding:		
Basic	16,465,253	15,275,382
Diluted	16,465,253	15,275,382

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

5

Mace Security International, Inc.
Consolidated Statements of Operations
(Unaudited)
(In thousands, except share and per share information)

	Six Months Ended June 30, 2008	2007
Revenues:		
Security	$ 10,841	$ 11,060
Digital media marketing	10,917	-
Car wash and detailing services	4,665	4,929
Lube and other automotive services	1,413	1,555
Fuel and merchandise	1,081	561
	28,917	18,105
Cost of revenues:		
Security	7,676	8,238
Digital media marketing	6,924	-
Car wash and detailing services	3,785	4,022
Lube and other automotive services	1,071	1,256
Fuel and merchandise	1,076	502
	20,532	14,018
Selling, general and administrative expenses	11,246	7,737
Depreciation and amortization	703	605
Asset impairment charges	2,608	-
Operating loss	(6,172)	(4,255)
Interest expense, net	(39)	(244)
Other income	225	426
Loss from continuing operations before income taxes	(5,986)	(4,073)
Income tax expense	50	50
Loss from continuing operations	(6,036)	(4,123)
Income from discontinued operations, net of tax of $0 in 2008 and 2007	6,080	2,201
Net income (loss)	$ 44	$ (1,922)
Per share of common stock (basic and diluted):		
Loss from continuing operations	$ (0.37)	$ (0.27)
Income from discontinued operations	0.37	.014
Net income (loss)	$ -	$ (0.13)
Weighted average shares outstanding:		
Basic	16,465,253	15,275,382
Diluted	16,465,253	15,275,382

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

Mace Security International, Inc.
Consolidated Statement of Stockholders' Equity
(Unaudited)

(In thousands, except share information)

	Common Stock		Additional	Accumulated Other			
	Shares	Amount	Paid-in Capital	Comprehensive Income	Accumulated Deficit	Treasury Stock	Total
Balance at December 31, 2007	16,465,253	$ 165	$ 93,685	$ 322	$ (40,495)	$ (111)	$ 53,566
Stock-based compensation expense (see note 6)	-	-	294	-	-	-	294
Unrealized loss on short-term investments	-	-	-	(113)	-	-	(113)
Net income	-	-	-	-	44	-	44
Total comprehensive loss	-	-	-	-	-	-	(69)
Balance at June 30, 2008	16,465,253	$ 165	$ 93,979	$ 209	$ (40,451)	$ (111)	$ 53,791

The accompanying notes are an integral part of this financial statement.

Mace Security International, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Six Months Ended June 30, 2008	2007
Operating activities		
Net income (loss)	$ 44	$ (1,922)
Income from discontinued operations, net of tax	6,080	2,201
Loss from continuing operations	(6,036)	(4,123)
Adjustments to reconcile loss from continuing operations to net cash (used in) provided by operating activities:		
Depreciation and amortization	703	605
Stock-based compensation (see Note 6)	291	310
Provision for losses on receivables	118	140
Loss (gain) on sale of property and equipment	7	(9)
Gain on short-term investments	(185)	(210)
Asset impairment charges	2,608	-
Changes in operating assets and liabilities:		
Accounts receivable	480	(209)
Inventories	(460)	79
Prepaid expenses and other assets	577	18
Accounts payable	(1,302)	(311)
Deferred revenue	(142)	(98)
Accrued expenses	850	348
Income taxes payable	(52)	(44)
Net cash (used in) provided by operating activities-continuing operations	(2,543)	(3,504)
Net cash used in operating activities-discontinued operations	(1,107)	(339)
Net cash used in operating activities	(3,650)	(3,843)
Investing activities		
Purchase of property and equipment	(332)	(156)
Proceeds from sale of property and equipment	1	294
Payments for intangibles	(13)	(4)
Net cash (used in) provided by investing activities-continuing operations	(344)	134
Net cash provided by investing activities-discontinued operations	7,948	17,218
Net cash provided by investing activities	7,604	17,352
Financing activities		
Payments on long-term debt	(932)	(356)
Net cash used in financing activities-continuing operations	(932)	(356)
Net cash used in financing activities-discontinued operations	(203)	(714)
Net cash used in financing activities	(1,135)	(1,070)
Net increase in cash and cash equivalents	2,819	12,439
Cash and cash equivalents at beginning of period	8,103	4,055
Cash and cash equivalents at end of period	$ 10,922	$ 16,494

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

Mace Security International, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Mace Security International, Inc. and its wholly owned subsidiaries (collectively, the "Company" or "Mace"). All significant intercompany transactions have been eliminated in consolidation. The Company currently operates in three business segments: the Security Segment, producing, for sale, consumer safety and personal defense products, as well as electronic surveillance and monitoring products; the Digital Media Marketing Segment, providing online marketing services and selling consumer products on the internet; and the Car Wash Segment, supplying complete car care services (including wash, detailing, lube, and minor repairs). The Company entered the Digital Media Marketing business with its acquisition of Linkstar Interactive, Inc. ("Linkstar") on July 20, 2007 (See Note 4. Business Acquisitions and Divestitures).

The Company's remaining car wash operations as of June 30, 2008 were located in Texas. The Company entered into two separate agreements in May 2008 and June 2008 to sell two of its Lubbock, Texas car washes, an agreement in July 2008 to sell one of its Dallas, Texas car washes, and an agreement in August 2008 to sell one of its Arlington, Texas car washes. The four agreements have not yet been consummated. Additionally, the Company consummated the sales of its six Florida car washes from January 4, 2008 to March 3, 2008. The Company also completed the sale of its Arizona car wash region in May 2007 and completed the divesture of its Northeast car wash region in August 2007. Additionally, the Company sold its five truck washes on December 31, 2007 under a lease-to-sell agreement entered into on December 31, 2005 with Eagle United Truck Wash, LLC ("Eagle") to lease Mace's five truck washes for two years beginning January 1, 2006. The Company did not recognize revenue or operating expenses of the truck washes during the term of the lease other than rental income, depreciation expense and interest expense. The results for the Arizona, Northeast, Lubbock, Texas and Florida car wash regions and the Company's truck washes have been classified as discontinued operations in the accompanying statements of operations and cash flows. The statements of operations and the statements of cash flows for the prior period have been restated to reflect the discontinued operations in accordance with Statement of Financial Accounting Standards ("SFAS") 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (See Note 5. Discontinued Operations and Assets Held for Sale).

2. New Accounting Standards

The company has partially adopted SFAS No. 157, *Fair Value Measurements,* ("SFAS 157"), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements for those assets and liabilities measured at fair value on a recurring and nonrecurring basis. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. The provisions of SFAS 157 were deferred for those nonfinancial assets and nonfinancial liabilities that are typically valued by the Company on a nonrecurring basis which include long-lived assets, goodwill and other intangible assets.

The following table shows the assets included in the accompanying balance sheet which are measured at fair value on a recurring basis and the source of the fair value measurement:

(In thousands)		Fair Value Measurement Using		
Description	**Fair Value at June 30, 2008**	**Quoted Market Prices(1)**	**Observable Inputs(2)**	**Unobservable Inputs(3)**
Short-term investments	$ 4,323	$ 4,323	$ -	$ -

(1) The highest level of fair value input and represents inputs to fair value from quoted prices in active markets for identical assets and liabilities to those being valued.
(2) Directly or indirectly observable inputs, other than quoted prices in active markets, for the assets or liabilities being valued including but not limited to, interest rates, yield curves, principal-to-principal markets, etc.
(3) Lowest level of fair value input because it is unobservable and reflects the Company's own assumptions about what market participants would use in pricing assets and liabilities at fair value.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* was also effective at the beginning of the Company's 2008 fiscal year. The Company has elected not to apply the fair value option to measure any of the financial assets and liabilities on its balance sheet not already valued at fair value under other accounting pronouncements. These other financial assets and liabilities are primarily accounts receivable, account payable and debt which are reported at historical value. The fair value of these financial assets and liabilities approximate their fair value because of their short duration and, in the case of the debt, because it carries variable interest rates which are reset frequently.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*. This statement replaces SFAS No. 141, *Business Combinations*, requires an acquirer to recognize the assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. SFAS No. 141R requires costs incurred to effect the acquisition to be recognized separately from the acquisition as period costs. SFAS No. 141R also requires the acquirer to recognize restructuring costs that the acquirer expects to incur, but is not obligated to incur, separately from the business combination. In addition, this statement requires an acquirer to recognize assets and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. Other key provisions of this statement include the requirement to recognize the acquisition-date fair values of research and development assets separately from goodwill and the requirement to recognize changes in the amount of deferred tax benefits that are recognizable due to the business combination in either income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. With the exception of certain tax-related aspects described above, this statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period after December 15, 2008. The Company will comply with the provisions of SFAS No. 141R should the Company complete an acquisition subsequent to December 31, 2008.

3. Other Intangible Assets

The following table reflects the components of intangible assets, excluding goodwill (in thousands):

	June 30, 2008		December 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Non-compete agreement	$ 465	$ 128	$ 465	$ 91
Customer lists	1,184	586	2,751	591
Product lists	590	236	590	207
Software	883	135	883	61
Deferred financing costs	231	177	231	173
Total amortized intangible assets	3,353	1,262	4,920	1,123
Non-amortized intangible assets:				
Trademarks-Security Segment	1,292	-	1,285	-
Trademarks-Digital Media Marketing Segment	478	-	478	-
Patent costs	13	-	5	-
Total non-amortized intangible assets	1,783	-	1,768	-
Total intangible assets	$ 5,136	$ 1,262	$ 6,688	$ 1,123

The following sets forth the estimated amortization expense on intangible assets for the fiscal years ending December 31 (in thousands):

2008	$	422
2009	$	386
2010	$	377
2011	$	377
2012	$	367

Amortization expense of other intangible assets was approximately $149,000, and $72,000 for the three months ended June 30, 2008 and 2007 and $298,000 and $145,000 for the six months ended June 30, 2008 and 2007, respectively. The weighted average useful life of amortizing intangible assets was 8.1 years at June 30, 2008.

4. Business Acquisitions and Divestitures

On July 20, 2007, the Company completed the purchase of all of the outstanding common stock of Linkstar from Linkstar's shareholders. Linkstar is an online internet advertising and e-commerce direct marketing company. Linkstar's primary assets at the time of purchase were inventory, accounts receivable, proprietary software, customer contracts, and its business methods. The acquisition of Linkstar enabled the Company to expand the marketing of its security products through online channels and provides the Company with a presence in the online and digital media services industry. The Company paid approximately $10.5 million to the Linkstar shareholders consisting of $7.0 million in cash at closing, $500,000 of promissory notes bearing a 5% interest rate paid on January 18, 2008 and 1,176,471 unregistered shares of the Company's common stock. The Company's stock was issued based on a closing price of $2.55 per share or a total value of $2.9 million. In addition to the $10.5 million of consideration at closing, the Company incurred approximately $261,000 in related acquisition costs and recorded an additional estimated receivable of $160,000 for working capital acquired below the minimum working capital requirement of $500,000, as per the purchase agreement. The purchase price was allocated as follows: approximately (i) $248,000 cash; (ii) $183,000 for inventory; (iii) $1.12 million for accounts receivable; (iv) $41,000 for prepaids; (v) $80,000 for equipment; (vi) the assumption of $1.26 million of liabilities, and (vii) the remainder, or $10.18 million, allocated to goodwill and other intangible assets. Of the $10.18 million of acquired intangible assets, $478,000 was assigned to trademarks and $6.89 million was assigned to goodwill, neither of which is subject to amortization expense. The remaining intangible assets were assigned to customer relationships for $1.57 million, non-compete agreements for $367,000 and software for $883,000. The allocation of the purchase price of the Linkstar acquisition reflects certain reclassifications from the allocation reported as of September 30, 2007 as a result of refinements to certain data utilized for the acquisition valuation. Customer relationships, non-compete agreements, and software costs were assigned a life of nine, seven, and six years, respectively. The acquisition was accounted for as a business combination in accordance with SFAS 141, *Business Combinations*.

Unaudited proforma financial information, assuming the Linkstar acquisition occurred on January 1, 2007, is as follows (in thousands, except per shares amounts):

	Three Months Ended June 30, 2007		**Six Months Ended June 30, 2007**	
Revenues	$	14,116	$	28,960
Net loss	$	(1,056)	$	(1,584)
Loss per share-basic and dilutive	$	(0.07)	$	(0.10)

In the first quarter ended March 31, 2007, the Company sold seven car washes consisting of: (i) three full service car washes in the Philadelphia area on January 29, 2007 and a full service car wash in Cherry Hill, New Jersey on February 1, 2007 for a total of $7.8 million in cash at a gain of approximately $1.0 million; (ii) an exterior car wash in

Moorestown, New Jersey on January 5, 2007 for $350,000 cash, which approximates book value; (iii) an exterior car wash in Philadelphia, Pennsylvania on March 1, 2007 for $475,000 in cash at a gain of approximately $141,000; and (iv) a full service car wash in Fort Worth, Texas on March 7, 2007 for $285,000 in cash at a gain of approximately $9,000.

In the second quarter ended June 30, 2007, the Company sold 14 car washes consisting of: (i) an exterior car wash in Yeadon, Pennsylvania on May 14, 2007 for $100,000 in cash at a gain of approximately $90,000; (ii) twelve full service car washes in the Phoenix, Arizona area representing our entire Arizona region on May 17, 2007 for $19,380,000 in cash at a gain of approximately $413,000; and (iii) an exterior car wash in Smyrna, Delaware on May 31, 2007 for $220,000 in cash at a gain of approximately $202,000.

In the third quarter ended September 30, 2007, the Company sold its two remaining exterior car wash sites in Camden and Sicklerville, New Jersey on August 3, 2007 for total cash consideration of $1.38 million at a gain of approximately $179,000.

In the fourth quarter ending December 31, 2007, the Company sold two of its San Antonio, Texas car wash sites in two separate transactions on November 8, 2007 and November 13, 2007 for total cash consideration of $2.96 million at a total gain of approximately $38,000. Additionally, on December 31, 2007, the Company completed the sale of its five truck washes under its lease-to-sell agreement with Eagle United Truck Wash, LLC (“Eagle”). Eagle purchased the five truck washes for total consideration of $1.2 million, consisting of $280,000 cash and a $920,000 five year note payable to Mace secured by mortgages on the truck washes. The current portion of the note payable, approximately $28,000, is included in prepaid expenses and other current assets and the non-current portion, approximately $892,000 is included in other assets. The Company recorded a gain of approximately $279,000 on the sale.

In the first quarter ending March 31, 2008, the Company sold its six full service car washes in Florida in three separate transactions from January 4, 2008 to March 3, 2008 for total cash consideration of approximately $12.5 million at a gain of approximately $6.9 million. Simultaneously with the sale, $4.2 million of cash was used to pay down related mortgage debt.

On May 17, 2008 and June 30, 2008, the Company entered into two separate agreements to sell two of its three full service car washes in Lubbock, Texas for total cash consideration of $3.66 million. The agreements provide for up to 180 days due diligence periods. On July 18, 2008, the Company entered into an agreement to sell one of its full service car washes in Dallas, Texas for a total cash consideration of $1.8 million. The agreement has a 45-day financing contingency. Additionally, on August 7, 2008, the Company entered into an agreement to sell a full service car wash in Arlington, Texas for total cash consideration of $3.6 million. The agreement provides for a 6% broker fee and a 30-day financing contingency.

5. Discontinued Operations and Assets Held for Sale

On December 7, 2006, the Company signed an agreement with Twisted Cactus Enterprises, LLC to sell its Arizona car washes. This transaction closed on May 17, 2007. Additionally, the Company sold nine of its Northeast region car washes in the nine months ended September 30, 2007 which represent all of the revenues within the Northeast region. The Company completed the sale of its truck washes on December 31, 2007 under a lease-to-sell agreement executed on December 31, 2005 with Eagle to lease Mace’s five truck washes beginning January 1, 2006 through December 31, 2007. The Company did not recognize revenue or operating expenses during the term of the lease other than rental income, depreciation expense and interest expense. The Company also entered into two separate agreements on November 8, 2007 and November 19, 2007 to sell five of its six full service car washes and a third agreement in January 2008 to sell its final car wash in the Sarasota, Florida area. All six Florida car washes were sold from January 4, 2008 to March 3, 2008. Finally, On May 17, 2008 and June 30, 2008, the Company entered into two separate agreements to sell two of its three full service car washes in Lubbock, Texas for total cash consideration of $3.66 million. The agreements provide for up to 180 days due diligence periods. Accordingly, for financial statement purposes, the assets, liabilities, results of operations and cash flows of the operations of our Arizona, Northeast, Lubbock, Texas and Florida car washes and our truck washes have been segregated from those of continuing operations and are presented in the Company’s consolidated financial statements as discontinued operations.

Revenues from discontinued operations were $785,000 and $1.6 million for the three and six months ended June 30, 2008 and $3.8 million and $9.1 million for the three and six months ended June 30, 2007, respectively. Operating (loss) income from discontinued operations was $(89,000) and $(867,000) for the three and six months ended June 30, 2008 and $88,000 and $685,000 for the three and six months ended June 30, 2007, respectively.

Assets and liabilities held for sale are comprised of the following at June 30, 2008 (in thousands):

Assets held for sale:	**Fort Worth, Texas**	**Lubbock, Texas**	**Total**
Inventory	$ 66	$ 94	$ 160
Property, plant and equipment, net	924	3,516	4,440
Total assets	$ 990	$ 3 ,610	$ 4,600
Liabilities related to assets held for sale:			
Current portion of long-term debt	$ 202	$ 196	$ 398
Long-term debt, net of current portion	488	956	1,444
Total liabilities	$ 690	$ 1,152	$ 1,842

6. Stock-Based Compensation

The Company has two stock-based employee compensation plans. On January 1, 2006, the Company adopted SFAS 123(R), *Share-Based Payment,* which requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is recognized as compensation expense on a straight-line basis over the vesting period of the instruments, based upon the grant date fair value of the equity or liability instruments issued. Total stock compensation expense is approximately $37,100 and $293,500 for the three and six months ended June 30, 2008, respectively ($36,900 included in SG&A expense, and $200 in discontinued operations in the three month period and $290,900 in SG&A expense and $2,600 in discontinued operations in the six month period) and $104,600 and $331,300 for the three and six months ended June 30, 2007, respectively, ($102,200, included in SG&A expense and $2,400 in discontinued operations in the three month period and $309,500 in SG&A expense and $21,800 in discontinued operations in the six month period).

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 assumptions:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2008	**2007**	**2008**	**2007**
Expected term (years)	10	10	10	10
Risk-free interest rate	N/A	4.50%	3.50%-3.88%	4.50%-4.63%
Volatility	47%	52%	47%	52%
Dividend yield	0%	0%	0%	0%

Expected term: Company's expected life 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.

Expected 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 four years.

Dividend yield: The Company uses a 0% expected dividend yield as the Company has not paid and does not anticipate declaring dividends in the near future.

Forfeitures: The Company estimates forfeitures based on historical experience and factors of known historical or future projected work force reduction actions to anticipate the projected forfeiture rates.

The weighted-averages of the fair value of stock option grants are $1.02 and $1.86 for the six months ended June 30, 2008 and 2007, respectively. There were no stock options granted in either the three months ended June 30, 2008 or 2007. As of June 30, 2008, total unrecognized stock-based compensation expense is $341,000, which has a weighted average period to be recognized of approximately 1.65 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.

7. Commitments and Contingencies

The Company is obligated under various operating leases, primarily for certain equipment, vehicles, and real estate. Certain of these leases contain purchase options, renewal provisions, and contingent rentals for the proportionate share of taxes, utilities, insurance, and annual cost of living increases. Future minimum lease payments under operating leases with initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2008 for continuing operations are as follows: 2009 - $841,000; 2010 - $666,000; 2011 - $615,000; 2012 - $620,000; 2013 - $425,000 and thereafter - $800,000. Rental expense under these leases was $291,000, and $220,000 for the three months ended June 30, 2008, and 2007, respectively and $534,000 and $442,000 for the six months ended June 30, 2008 and 2007, respectively.

The Company subleases a portion of the building space at several of its car wash facilities and its California leased office space in its Digital Media Marketing Segment either on a month-to-month basis or under cancelable leases. During the three months ending June 30, 2008 and 2007, revenues under these leases were approximately $26,800, and $8,200, respectively and $39,900 and $20,200 for the six months ended June 30, 2008 and 2007, respectively. These amounts are classified as other income in the accompanying consolidated statements of operations.

As a result of its continued cost saving efforts, the Company decided to terminate a leased office in Fort Lauderdale, Florida during the second quarter 2008. Effective December 31, 2008, the lease's termination date, the executives in the terminated office will be moved to other offices of the Company. The lease termination resulted in a one time fee of $38,580, which was paid and included in SG&A expense in the three months ended June 30, 2008.

The Company is subject to federal and state environmental regulations, including rules relating to air and water pollution and the storage and disposal of oil, other chemicals, and waste. The Company believes that it complies, in all material respects, with all applicable laws relating to its business. See also the discussion below concerning the environmental remediation occurring at the Bennington, Vermont location.

Certain of the Company’s executive officers have entered into employee stock option agreements whereby options issued to them shall be entitled to immediate vesting upon a change in control of the Company.

The Board of Directors of the Company terminated Mr. Paolino as the Chief Executive Officer of the Company on May 20, 2008. On June 9, 2008, the Company received a Demand for Arbitration from Mr. Paolino ("Arbitration Demand"). The Arbitration Demand has been filed with the American Arbitration Association in Philadelphia, Pennsylvania ("Arbitration Proceeding"). The primary allegations of the Arbitration Demand are: (i) Mr. Paolino alleges that he was terminated by the Company wrongfully and is owed a severance payment of $3,918,120 due to the termination; (ii) Mr. Paolino is claiming that the Company owes him $322,606, because the Company did not issue him a sufficient number of stock options in August, 2007, under provisions of the Employment Contract between Mr. Paolino and the Company dated August 21, 2006; (iii) Mr. Paolino is claiming damages against the Company in excess of $6,000,000, allegedly caused by the Company having defamed Mr. Paolino's professional reputation and character in the Current Report on Form 8-K dated May 20, 2008 filed by the Company and in the press release the Company issued on May 21, 2008, relating to Mr. Paolino's termination; and (iv) Mr. Paolino is also seeking punitive damages, attorney's fees and costs in an unspecified amount. The Company is disputing the allegations made by Mr. Paolino and is defending itself in the Arbitration Proceeding. The Company has also filed a counterclaim in the Arbitration Proceeding demanding damages from Mr. Paolino of $1,000,000. It is not possible to predict the outcome of the Arbitration Proceeding which may take a year or more to reach a conclusion. No accruals have been made with respect to Mr. Paolino's claims.

On June 25, 2008, Mr. Paolino filed a claim with the United States Department of Labor claiming that his termination as Chief Executive Officer of the Company was an "unlawful discharge" in violation of 18 U.S.C. Sec. 1514A, a provision of the Sarbanes-Oxley Act of 2002 ("DOL Complaint"). Mr. Paolino has alleged that he was terminated in retaliation for demanding that the Company's Board of Directors make full and prompt disclosures of material facts relating to the Company's financial condition and other matters in its Form 10-Q for the quarter ended March 31, 2008 filed by the Company on May 15, 2008. Mr. Paolino in the DOL Complaint demands the same damages he requested in the Arbitration Demand and additionally requests reinstatement as Chief Executive Officer with back pay from the date of termination. The Company will defend itself against the allegations made in the DOL Complaint; which the Company believes are without merit. Though the Company is confident in prevailing, it is not possible to predict the outcome of the DOL Complaint or when the matter will reach a conclusion.

As previously disclosed, on March 13, 2006, the Company was served with a search warrant issued by the United States District Court for the District of New Jersey relating to a criminal immigration investigation. A search of the Company's headquarters and four out of the Company's then 48 car washes was conducted by representatives of the United States Department of Investigations and Customs Enforcement and certain other agencies. Three of the car washes searched were located in Pennsylvania and the fourth was located in New Jersey. These four car washes were sold by the Company in the quarter ended March 31, 2007. Documents were seized and a number of car wash employees of Car Care, Inc. ("Car Care"), a wholly owned subsidiary of the Company, were taken into custody by the United States immigration authorities. On May 8, 2008, Car Care, as well as the Company's former Northeast Regional car wash manager and four former general managers of the four Northeast Region car washes that were searched in March 2006, were indicted with one count of conspiracy to defraud the government, harboring illegal aliens and identity theft. To resolve the indictment, Car Care entered into a written Guilty Plea Agreement on June 23, 2008 with the government, to plead guilty to the one count of conspiracy charged in the indictment. Under this agreement, on June 27, 2008, Car Care paid a criminal fine of $100,000 and forfeited $500,000 in proceeds from the sale of the four car washes. An accrual of $600,000 was recorded as a component of income from discontinued operations as of March 31, 2008, as prescribed by SFAS No.5, *Accounting for Contingencies*. The Company was not named in the indictment and, according to the plea agreement, will not be charged. The Company fully cooperated with the government in its investigation of this matter.

Shortly following the search of the Company's premises in March 2006, the Company's Audit Committee retained independent outside counsel ("Special Counsel") to conduct an independent investigation of the Company's hiring practices at the Company's car washes and other related matters. Special Counsel's findings included, among other things, a finding that the Company's internal controls for financial reporting at the corporate level were adequate and appropriate, and that there was no financial statement impact implicated by the Company's hiring practices, except for a potential contingent liability. The Company incurred $704,000 in legal, consulting and accounting expenses associated with the Audit Committee investigations in fiscal 2006 and a total of $1.67 million ($674,000 and $796,000, in fiscal 2007 and 2006, respectively, and $204,000 in the six months ended June 30, 2008, (including $157,000 in the three months ended June 30, 2008)) in legal fees associated with the governmental investigation and Company's defense and negotiations with the government. As a result of this matter, the Company has incorporated additional internal control procedures at the corporate, regional and site level to further enhance the existing internal controls with respect to the Company's hiring procedures at the car wash locations to prevent the hiring of undocumented workers.

During January 2008, the Environmental Protection Agency ("EPA") conducted a site investigation at the Company's Bennington, Vermont location and the building the facility is located within. The Company does not own the building or land and leases 44,000 square feet of the building from Vermont Mill Properties, Inc ("Vermont Mill"). The site investigation was focused on discovering whether hazardous substances were being improperly stored. Subsequent to the investigation and search, the EPA notified the Company and the building owner that remediation of certain hazardous wastes are required. The hazardous materials and waste identified were (i) metal contaminated soils on the building grounds (waste from sand blasting paint from the building, the clean up of which has been completed by the building owner), (ii) 212 drums of hazardous waste (waste gases generated from testing the defense spray units sold by the Company, defective spray units, and empty containers which had contained hazardous wastes, this material has been segregated for proper disposal); (iii) 55 thousand pounds of 2-chlorobenzalmalononitrile stored in eight pound plastic containers (a chemical used to make tear gas, the remediation of this material has been completed); and (iv) three steel drums containing a chemical used to make pyrotechnic grenades (this material has been sold). The EPA, the Company and the building owner entered into an Administrative Consent Order under which the hazardous materials and waste were and are being remediated. The Company expects all remediation to be complete by August 31, 2008, within the time allowed by the EPA. A total estimated cost of approximately $730,000, which includes disposal of the waste materials, as well as expenses incurred to engage environmental engineers and legal counsel and the cost of reimbursing the EPA for its costs, has been recorded through June 30, 2008. This amount represents management's best estimate of probable loss, as defined by SFAS No. 5, *Accounting for Contingencies*. Approximately, $469,000 has been paid to date, leaving an accrual balance of $261,000 at June 30, 2008. The accrual was increased by $380,000 in the first quarter and $65,000 in the second quarter due to there being more hazardous waste to dispose of than originally estimated, increase in cost estimates for additional EPA requirements in handling and oversight related to disposing of the hazardous waste, and the cost of obtaining additional engineering reports requested by the EPA.

In addition to the EPA site investigation, the United States Attorney for the District of Vermont ("U.S. Attorney") conducted a search of the Company's Bennington, Vermont location and the building it is located within during February 2008 under a search warrant issued by the U.S. District Court for the District of Vermont. On May 2, 2008, the U.S. Attorney issued a grand jury subpoena to the Company. The subpoena required the Company to provide the U.S. Attorney documents related to the storage, disposal and transportation of materials at the Bennington, Vermont location. The Company has supplied the documents and fully cooperated with the U.S. Attorney's investigation and will continue to do so. The Company is unable at this time to determine whether further action will be taken by the U.S. Attorney or if any charges, fines or penalties will be sought from the Company. The Company has made no provision for any future costs associated with the investigation.

The Company is a party to various other legal proceedings related to its normal business activities. In the opinion of the Company's management, none of these proceedings are material in relation to the Company's results of operations, liquidity, cash flows, or financial condition.

8. Business Segments Information

The Company currently operates in three segments: the Security Segment, the Digital Media Marketing Segment and the Car Wash Segment.

Financial information regarding the Company's segments, excluding discontinued operations, is as follows (in thousands):

	Security	Digital Media Marketing	Car Wash	Corporate Functions*
Three months ended June 30, 2008				
Revenues from external customers	$ 5,555	$ 5,472	$ 4,072	$ -
Segment operating (loss) income	$ (578)	$ 317	$ 208	$ (1,263)
Segment assets	$ 17,630	$ 11,134	$ 35,989	$ -
Goodwill	$ 1,343	$ 6,888	$ -	$ -
Capital expenditures	$ 124	$ 6	$ 55	$ -
Six months ended June 30, 2008				
Revenues from external customers	$ 10,841	$ 10,917	$ 7,159	$ -
Segment operating (loss) income	$ (1,303)	$ 351	$ 123	$ (2,735)
Capital expenditures	$ 174	$ 23	$ 145	$ 3
Three months ended June 30, 2007				
Revenues from external customers	$ 5,625	$ -	$ 3,415	$ -
Segment operating (loss) income	$ (534)	$ -	$ (72)	$ (1,519)
Segment assets	$ 19,316	$ -	$ 53,287	$ -
Goodwill	$ 1,623	$ -	$ -	$ -
Capital expenditures	$ 26	$ -	$ 30	$ 4
Six months ended June 30, 2007				
Revenues from external customers	$ 11,060	$ -	$ 7,045	$ -
Segment operating (loss) income	$ (1,377)	$ -	$ 17	$ (2,895)
Capital expenditures	$ 85	$ -	$ 66	$ 5

* Corporate functions include the corporate treasury, legal, financial reporting, information technology, corporate tax, corporate insurance, human resources, investor relations, and other typical centralized administrative functions.

A reconciliation of operating income for reportable segments to total reported operating loss is as follows:

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Total operating loss for reportable segments	$ (1,316)	$ (3,564)
Asset impairment charges	(2,608)	(2,608)
Total reported operating loss	$ (3,924)	$ (6,172)

9. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of its consolidated financial statements. The Company bases its estimates on historical experience, actuarial valuations and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Some of those judgments can be subjective and complex, and consequently, actual results may differ from these estimates under different assumptions or conditions. The Company must make these estimates and assumptions because certain information is dependent on future events and cannot be calculated with a high degree of precision from the data currently available. Such estimates include the Company's estimates of reserves such as the allowance for doubtful accounts, sales returns, warranty allowances, inventory valuation allowances, insurance losses and loss reserves, valuation of long-lived assets, estimates of realization of income tax net operating loss carryforwards, computation of stock-based compensation, as well as valuation calculations such as the Company's goodwill impairment calculations under the provisions of SFAS 142, *Goodwill and Other Intangible Assets.*

10. Income Taxes

The Company recorded income tax expense of $50,000 from continuing operations in each of the six months ended June 30, 2008 and 2007, respectively. Income tax expense reflects the recording of income taxes on income from continuing operations at an effective rate of approximately (0.8)% and (1.2)% in 2008 and 2007, respectively. The effective rate differs from the federal statutory rate for each year primarily due to state and local income taxes, non-deductible costs related to intangibles, fixed asset adjustments and changes to the valuation allowance. It is management's belief that it is unlikely that the net deferred tax asset will be realized and as a result has been fully reserved. Additionally, the Company recorded no income tax expense related to discontinued operations for either of the six month periods ended June 30, 2008 and 2007.

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), an interpretation of FASB Statement No. 109 ("SFAS 109"). FIN 48 prescribes 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. Implementation of FIN 48 did not result in a cumulative effect adjustment to retained earnings. At June 30, 2008, the Company did not have any significant unrecognized tax benefits. The total amount of interest and penalties recognized in the statements of operations for the six months ended June 30, 2008 and 2007 is insignificant and when incurred is reported as interest expense.

11. Asset Impairment Charges

In accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS144"), we periodically review the carrying value of our long-lived assets held and used, and assets to be disposed of, of possible impairment when events and circumstances warrant such a review.

In June 2008, management made a decision to discontinue marketing efforts by its subsidiary, PromoPath, the on-line marketing division of Linkstar, to third-party customers on a non-exclusive CPA basis, both brokered and through promotional sites. Management's decision was the result of business environment changes in which the ability to maintain non-exclusive third-party relationships at an adequate profit margin became increasingly difficult. PromoPath will continue to market and acquire customers for the Company's e-commerce operation, Linkstar. As a result of this decision, the value assigned to customer relationships at the time of the acquisition of PromoPath in accordance with SFAS 141, *Business Combinations,* was determined to be impaired as of June 30, 2008 in that future undiscounted cash flows relating to this asset were insufficient to recover its carrying value. Accordingly, in the second quarter of 2008, in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we recorded an impairment charge of approximately $1.4 million representing the net book value of the PromoPath customer relationship intangible asset at June 30, 2008.

Additionally, during the quarter ended June 30, 2008, we wrote down assets related to two full service car washes in Arlington, Texas by approximately $1.2 million. We have determined that due to further reductions in car wash volumes at these sites resulting from increased competition and a deterioration in demographics in the immediate geographic areas of these sites, along with current data utilized to estimate the fair value of these car wash facilities, the further expected cash flows would not be sufficient to recover their carrying values.

12. Related Party Transactions

The Company's Security Segment leases manufacturing and office space under a five-year lease with Vermont Mill. Vermont Mill is controlled by Jon E. Goodrich, a former director and current employee of the Company. In November 2004, the Company exercised an option to continue the lease through November 2009 at a rate of $10,576 per month. The Company believes that the lease rate is lower than lease rates charged for similar properties in the Bennington, Vermont area. On July 22, 2002, the lease was amended to provide Mace the option and right to cancel the lease with proper notice and a payment equal to six months of the then current rent for the leased space occupied by Mace. Rent expense under this lease was $63,456 for each of the six months ending June 30, 2008 and 2007.

13. Long-Term Debt, Notes Payable and Capital Lease Obligations

At June 30, 2008, we had borrowings, including borrowings related to discontinued operations, of approximately $8.2 million, substantially all of which is secured by mortgages against certain of our real property. Of such borrowings, approximately $3.4 million, including $1.8 of long-term debt included in liabilities related to assets held for sale, is reported as current as it is due or expected to be repaid or up for renewal in less than twelve months from June 30, 2008.

We have two letters of credit outstanding at June 30, 2008 totaling $831,000 as collateral relating to workers' compensation insurance policies. We maintain a $500,000 revolving credit facility to provide financing for additional electronic surveillance product inventory purchases. There were no borrowings outstanding under the revolving credit facility at June 30, 2008. The Company also maintains a $300,000 line of credit for commercial letters of credit for the importation of inventory. There were no outstanding commercial letters of credit under this commitment at June 30, 2008.

Our most significant borrowings, including borrowings related to discontinued operations are secured notes payable to JPMorgan Chase Bank, N.A. ("Chase"), the successor of Bank One, Texas, N.A. in the amount of $5.8 million, $3.6 million of which was classified as non-current debt at June 30, 2008. The Chase agreements contain affirmative and negative covenants, including the maintenance of certain levels of tangible net worth, maintenance of certain levels of unencumbered cash and marketable securities, limitations on capital spending and certain financial reporting requirements. The Chase agreements are our only debt agreements that contain an expressed prohibition on incurring additional debt for borrowed money without the approval of the lender. As of June 30, 2008, our warehouse and office facility in Farmers Branch, Texas and nine car washes were encumbered by mortgages.

The Chase term loan agreement also limits capital expenditures annually to $1.0 million, requires the Company to provide Chase with a Form 10-K and audited financial statements within 120 days of the Company's fiscal year end and a Form 10-Q within 60 days after the end of each fiscal quarter, and requires the maintenance of a minimum total unencumbered cash and marketable securities balance of $5 million. If we are unable to satisfy these covenants and we cannot obtain waivers, the Chase notes may be reflected as current in future balance sheets and as a result our stock price may decline.

If we default on any of the Chase covenants and are not able to obtain further amendments or waivers of acceleration, Chase debt totaling $5.8 million at June 30, 2008, including debt recorded as long-term debt at June 30, 2008, could become due and payable on demand, and Chase could foreclose on the assets pledged in support of the relevant indebtedness. If our assets (including up to nine of our car wash facilities as of June 30, 2008) are foreclosed upon, revenues from our Car Wash Segment, which comprised 45% of our total revenues for fiscal year 2007 and 25% of our total revenues for the six months ended June 30, 2008, would be severely impacted and we may be unable to continue to operate our business.

14. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

	June 30, 2008	December 31, 2007
Accrued compensation	$ 771	$ 662
Accrued EPA remediation costs	261	285
Other	2,221	1,634
	$ 3,253	$ 2,581

15. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except shares and per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Numerator:				
Net income (loss)	$ (3,929)	$ (1,264)	$ 44	$ (1,922)
Denominator:				
Denominator for basic earnings per share - weighted-average shares	16,465,253	15,275,382	16,465,253	15,275,382
Dilutive effect of options and warrants	-	-	-	-
Denominator for diluted earnings per share - weighted-average shares	16,465,253	15,275,382	16,465,253	15,275,382
Basic and diluted (loss) income per share	$ (0.24)	$ (0.08)	$ -	$ (0.13)

The effect of options and warrants for the period in which we incurred a net loss has been excluded as it would be anti-dilutive. The dilutive effect of options and warrants excluded was 90,844 and 442,118 for the three months ended June 30, 2008 and 2007, respectively and 175,228 and 476,826 for the six months ended June 30, 2008 and 2007, respectively.

16. Equity

On August 13, 2007, the Company's Board of Directors authorized a share repurchase program to purchase shares of the Company's common stock up to a maximum value of $2.0 million. Purchases will be made in the open market, if and when management determines to effect purchases. Management may elect not to make purchases or to make purchases less than $2.0 million in amount. Through June 30, 2008, the Company purchased 36,538 shares on the open market, which are included in treasury stock, at a total cost of approximately $111,000.

17. Florida Security Division

In April 2007, we determined that the former divisional controller of the Florida Security division embezzled funds from the Company. We initially conducted an internal investigation, and our Audit Committee subsequently engaged a consulting firm to conduct an independent forensic investigation. As a result of the investigation, we identified that the amount embezzled by the employee during fiscal 2006 was approximately $240,000, with an additional $99,000 embezzled in the first quarter of fiscal 2007. The embezzlement primarily occurred from a local petty cash checking account and from diversion of customer cash payments at the Florida Security division. Additionally, the investigation uncovered an unexplained inventory shortage in 2006 in the Florida Security division of approximately $350,000, which may have been due to theft. We filed a civil complaint against the former employee in June 2007 and intend to pursue all legal measures to recover our losses. Selling, general and administrative expenses include $99,000 in the quarter ended March 31, 2007, representing embezzled funds at our Florida Security division. If we recover any of the embezzled funds, such amounts will be recorded as recoveries in future periods when they are received.

18. Subsequent Events

On July 18, 2008, the Company entered into an agreement to sell one of its full service car washes in Dallas, Texas for total cash consideration of $1.8 million. The agreement has a 45-day financing contingency. Additionally, on August 7, 2008, the Company entered into an agreement to sell a full service car wash in Arlington, Texas for total cash consideration of $3.6 million. The agreement provides for a 6% broker fee and a 30-day financing contingency.

On July 29, 2008, the Board of Directors of Company appointed Dennis Raefield as the Company's Chief Executive Officer and President, effective on August 18, 2008. Gerald LaFlamme will continue to serve as the Company's Interim Chief Executive Officer until August 18, 2008, the date that Mr. Raefield will commence to serve as the Company's Chief Executive Officer.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and results of operations should be read in conjunction with the financial statements and the notes thereto included in this report on Form 10-Q.

Forward-Looking Statements

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Forward-Looking Statements"). All statements other than statements of historical fact included in this report are Forward-Looking Statements. Although we believe that the expectations reflected in such Forward-Looking Statements are reasonable, we can give no assurance that such expectations will prove to be correct. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of such plans or strategies, number of acquisitions, and projected or anticipated benefits from acquisitions made by or to be made by us, or projections involving anticipated revenues, earnings, and levels of capital expenditures or other aspects of operating results. All phases of our operations are subject to a number of uncertainties, risks, and other influences, many of which are outside our control and any one of which, or a combination of which, could materially affect the results of our operations and whether Forward-Looking Statements made by us ultimately prove to be accurate. Such important factors that could cause actual results to differ materially from our expectations are disclosed in Part II, *Item 1A Risk Factors* of this report. All subsequent written and oral Forward-Looking Statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the important factors described below that could cause actual results to differ from our expectations. The Forward-Looking Statements made herein are only made as of the date of this filing, and we undertake no obligation to publicly update such Forward-Looking Statements to reflect subsequent events or circumstances.

Summary of Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. 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.

Critical 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 critical accounting policies are described below.

Revenue Recognition and Deferred Revenue

The Company recognizes revenue in accordance with Staff Accounting Bulletin (“SAB”) No. 104, *Revenue Recognition in Financial Statements*. Under SAB No. 104, the Company recognizes revenue when the following criteria have been met: persuasive evidence of an arrangement exists, the fees are fixed and determinable, no significant obligations remain and collection of the related receivable is reasonably assured. Allowances for sales returns, discounts and allowances, are estimated and recorded concurrent with the recognition of the sale and are primarily based on historical return rates.

Revenues from the Company’s Security Segment are recognized when shipments are made and title has passed.

Revenues from the Company’s Digital Media Marketing Segment are recognized in accordance with SAB No. 104, *Revenue Recognition in Financial Statements*. The e-commerce division recognizes revenue and the related product costs for trial product shipments after the expiration of the trial period. Marketing costs incurred by the e-commerce division are recognized as incurred. The online marketing division recognizes revenue and cost of sales consistent with the provisions of the Emerging Issues Task Force (“EITF”) Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, the Company records revenue based on the gross amount received from advertisers and the amount paid to the publishers placing the advertisements as cost of sales.

Revenues from the Company’s Car Wash Segment are recognized, net of customer coupon discounts, when services are rendered or fuel or merchandise is sold. The Company records a liability for gift certificates, ticket books, and seasonal and annual passes sold at its car care locations but not yet redeemed. The Company estimates these unredeemed amounts based on gift certificate and ticket book sales and redemptions throughout the year, as well as utilizing historical sales and tracking of redemption rates per the car washes’ point-of-sale systems. Seasonal and annual passes are amortized on a straight-line basis over the time during which the passes are valid.

Shipping and handling costs related to the Company’s Security and Digital Media Marketing Segments of $558,000 and $255,000 in the three months ending June 30, 2008 and 2007, respectively and $1.2 million and $449,000 in the six months ending June 30, 2008 and 2007, respectively are included in selling, general and administrative (SG&A) expense.

Accounts Receivable

The Company's accounts receivable are due from trade customers. Credit is extended based on evaluation of customers' financial condition and, generally, collateral is not required. Accounts receivable payment terms vary and amounts due from customers are stated in the financial statements net of an allowance for doubtful accounts. Accounts that are outstanding longer than the payment 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, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Risk of losses from international sales within the Security Segment are reduced by requiring substantially all international customers to provide irrevocable confirmed letters of credit and/or cash advances.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in first-out (FIFO) method for security, e-commerce and car care products. Inventories at the Company's car wash locations consist of various chemicals and cleaning supplies used in operations and merchandise and fuel for resale to consumers. Inventories within the Company's Security Segment consist of defense sprays, child safety and personal protection products, electronic security monitors, cameras and digital recorders, and various other consumer security and safety products and their component parts. Inventories within the e-commerce division of the Digital Media Marketing segment consist of several health and beauty products. The Company continually reviews the book value of slow moving inventory items, as well as, discontinued product lines to determine if inventory items are properly valued. The Company identifies slow moving or discontinued product lines and assesses the ability to dispose of them at a price greater than costs. If it is determined that costs is less than market value, then cost is used for inventory valuation. If market value is less than costs, then an adjustment is made to the Company's obsolescence reserve to adjust the inventory to market value.

Advertising and Marketing Costs

The Company expenses advertising costs in its Security and Car Wash Segments, including advertising production cost, as the costs are incurred or the first time the advertisement appears. Marketing costs in the Company's Digital Media Marketing Segment, which consist of the costs to acquire new members for its e-commerce business, are expensed as incurred rather than deferred and amortized over the expected life of a customer, based on the Company's application of Statement of Position ("SOP") 93-7. Under SOP 93-7, a company could capitalize and amortize direct-response advertising costs in a stable, established market where a company can demonstrate a history of profitability in the related product or advertising campaign. The Company's determination is that neither the history nor stable market criteria are currently met.

Impairment of Long-Lived Assets

In accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we periodically review the carrying value of our long-lived assets held and used, and 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, we perform 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, we determine whether an impairment has occurred for the group of assets for which we can identify the projected cash flows. If the carrying values are in excess of undiscounted expected future cash flows, we measure 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, an impairment in the amount of the difference is recorded.

Goodwill

In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, the Company completes its annual impairment tests as of November 30 for its Security Segment and as of June 30 for its Digital Media Marketing Segment of each year. In addition, an impairment test is conducted whenever there is an impairment indicator. The Company's annual impairment testing corresponds with the Company's determination of its annual operating budgets for the upcoming year. The Company's valuation of goodwill is based on a discounted cash flow model applying an appropriate discount rate to future expected cash flows and management's annual review of historical data and future assessment of certain critical operating factors, including security and e-commerce product sales and related costs, car wash volumes, average car wash and detailing revenue rates per car, wash and detailing labor cost percentages, weather trends and recent and expected operating cost levels. Estimating cash flows requires significant judgment including factors beyond our control and our projections may vary from cash flows eventually realized. Adverse business conditions could affect recoverability of goodwill in the future and, accordingly, the Company may record additional impairments in subsequent years.

Other Intangible Assets

Other intangible assets consist primarily of deferred financing costs, non-compete agreements, customer lists, software costs, product lists and trademarks. In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, our trademarks are considered to have indefinite lives, and as such, are not subject to amortization. These assets are tested for impairment using 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 our control, and determining whether or not they will occur cannot be predicted with any certainty. Deferred financing costs are amortized on a straight-line basis over the terms of the respective debt instruments. Customer lists, product lists, software costs, patents and non-compete agreements are amortized on a straight-line or accelerated basis over their respective assigned estimated useful lives.

Income Taxes

Deferred income taxes are determined based on the difference between the financial accounting and tax bases 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.

Stock-Based Compensation

The Company has two stock-based employee compensation plans. On January 1, 2006, the Company adopted SFAS 123 (R), *Share-Based Payment,* which requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. The cost is recognized as compensation expense on a straight-line basis over the vesting period of the instruments, based upon the grant date fair value of the equity or liability instruments issued. Total stock compensation expense is approximately $37,100 and $293,500 for the three and six month periods ended June 30, 2008, respectively ($36,900 included in SG&A expense, and $200 in discontinued operations in the three month period and $290,900 in SG&A expense and $2,600 in discontinued operations in the six month period) and $104,600 and $331,300 for the three and six month periods ended June 30, 2007, respectively, ($102,200 included in SG&A expense and $2,400 in discontinued operations in the three month period and $309,500 in SG&A expense and $21,800 in discontinued operations in the six month period).

The Company expects the application of SFAS 123(R) to result in stock compensation expense and therefore a reduction of income before income taxes in 2008 of approximately $650,000 to $700,000. The Company's actual stock compensation expense in 2008 could differ materially from this estimate depending on the timing, magnitude and vesting of new awards, the number of new awards and changes in the market price or the volatility of the Company's common stock.

Supplementary Cash Flow Information

Interest paid on all indebtedness was approximately $126,000 and $223,000 for the three months ended June 30, 2008 and 2007, respectively and $307,000 and $451,000 for the six months ended June 30, 2008 and 2007, respectively. Income taxes paid were $111,000 and $81,000 for the six months ended June 30, 2008 and 2007, respectively. Noncash investing and financing activity of the Company include the recording of the sale of property and equipment and the simultaneous pay down of related mortgages of $4.2 million for the six months ended June 30, 2008.

Introduction

Revenues

Security

Our Security Segment designs, manufactures, markets and sells a wide range of products. The Company's primary focus in the Security Segment is the sourcing and selection of electronic surveillance products and components that it produces and sells, primarily to installing dealers, system integrators, retailers and end users. Other products in our Security Segment include, but are not limited to, less-than-lethal Mace® defense sprays, other personal defense products, high-end digital and machine vision cameras and imaging components, as well as video conferencing equipment and monitors. The main marketing channels for our products are industry shows and publications, outside sales representatives, catalogs, internet and sales through a call center. Revenues generated for the six months ended June 30, 2008 for the Security Segment were comprised of approximately 36% from our professional electronic surveillance operation in Florida, 43% from our consumer direct electronic surveillance and machine vision camera and video conferencing equipment operation in Texas, and 21% from our personal defense operation in Vermont.

Digital Media Marketing

Our Digital Media Marketing Segment is an online marketing and e-commerce business which has two business divisions: (1) online marketing and (2) e-commerce. The segment uses proprietary technologies and software to provide marketing services to third party advertisers and to sell products on the internet.

Our online marketing division, PromoPath, is an online affiliate marketing company that drives customer acquisitions or leads for advertising clients principally using the cost-per-acquisition ("CPA") model. PromoPath helps companies create effective performance driven marketing campaigns and provides design, brand and technical support services in order to achieve these goals. PromoPath works with many large publishers to reach many areas of interactive media. PromoPath's advertising clients are typically established direct-response advertisers with well recognized brands and broad consumer appeal such as NetFlix®, Discover® credit cards and Bertelsmann Group. PromoPath generates CPA revenue, both brokered and through co-partnered sites, as well as list management and lead generation revenues. CPA revenue in the digital media marketplace refers to paying a fee for the acquisition of a new customer, prospect or lead. List management revenue is based on a relationship between a data owner and a list management company. The data owner compiles, collects, owns and maintains a proprietary computerized database composed of consumer information. The data owner grants a list manager a non-exclusive, non-transferable, revocable worldwide license to manage, make use and have access to the data pursuant to defined terms and conditions for which the data owner is paid revenue. Lead generation is referred to as cost per lead ("CPL") in the digital media marketplace. Advertisers purchasing media on a CPL basis are interested in collecting data from consumers expressing interest in a product or service. CPL varies from CPA in that no credit card information needs to be provided to the advertiser for the publishing source to be paid for the lead.

In June of 2008, the Company revised PromoPath's business plan. PromoPath, the online marketing division of the Digital Media Marketing Segment, will no longer market non-exclusive CPA offers on the internet for third-party clients. The revised business plan has focused Promopath on marketing the Linkstar products. PromoPath's primary mission is now focused on increasing the distribution of the products of the e-commerce division, Linkstar.

Our e-commerce division is a direct-response product business that develops, markets and sells products directly to consumers through the internet. We reach our customers predominately through online advertising on both the PromoPath platform as well as third-party websites. Our products include: Vioderm, an anti-wrinkle skin care product (www.vioderm.com); Purity by Mineral Science, a mineral cosmetic (www.mineralscience.com); TrimDay™, a weight-loss supplement (www.trimday.com); and Eternal Minerals, a dead sea spa product line (www.eternalminerals.com); as well as Mace's pepper sprays and surveillance products. We continuously develop and test product offerings to determine customer acquisition costs and revenue potential, as well as to identify the most efficient marketing programs.

Revenues within our Digital Media Marketing Segment for the six months ended June 30, 2008, were approximately $10.9 million.

Car Wash Services

At June 30, 2008, we owned full service and self-service car wash locations in Texas. We earn revenues from washing and detailing automobiles; performing oil and lubrication services, minor auto repairs, and state inspections; selling fuel; and selling merchandise through convenience stores within the car wash facilities. Revenues generated in the six months ended June 30, 2008 for the Car Wash Segment were comprised of approximately 65% from car washing and detailing, 20% from lube and other automotive services, and 15% from fuel and merchandise. Additionally, our Arizona, Florida, Lubbock, Texas and Northeast region car washes and our truck washes are being reported as discontinued operations, (see Note 4 and 5 of the Notes to Consolidated Financial Statements), and accordingly, have been segregated from the following revenue and expense discussion. Revenues from discontinued operations were $1.6 and $9.1 million for the six months ending June 30, 2008 and 2007, respectively. Operating (loss) income from discontinued operations was $(867,000), and $685,000 for the six months ended June 30, 2008 and 2007, respectively.

The Company executed a lease-to-sell agreement on December 31, 2005 with Eagle to lease Mace's five truck washes beginning January 1, 2006 for up to two years. Pursuant to the terms of the agreement, Eagle paid Mace $9,000 per month to lease the Company's truck washes and was responsible for all underlying property expenses. On December 31, 2007 Eagle completed the purchase of the truck washes for $1.2 million consideration, consisting of $280,000 cash and a $920,000 note payable to Mace secured by mortgages on the truck washes. The $920,000 note has a five-year term, with principal and interest paid on a 15-year amortization schedule. As a result, we did not recognize revenue or operating expenses during the term of the lease other than rental income and interest expense.

The majority of revenues from our Car Wash Segment are collected in the form of cash or credit card receipts, thus minimizing customer accounts receivable.

Cost of Revenues

Security

Cost of revenues within the Security Segment consists primarily of costs to purchase or manufacture the security products including direct labor and related taxes and fringe benefits, and raw material costs. Product warranty costs related to the Security Segment are mitigated in that a significant portion of customer product warranty claims are reimbursed by the supplier.

Digital Media Marketing

Cost of revenues within the Digital Media Marketing Segment consist primarily of amounts we pay to website publishers that are directly related to revenue-generating events, including the cost to enroll new members, fulfillment and warehousing costs, including direct labor and related taxes and fringe benefits and e-commerce product costs.

Car Wash Services

Cost of revenues within the Car Wash Segment consists primarily of direct labor and related taxes and fringe benefits, certain insurance costs, chemicals, wash and detailing supplies, rent, real estate taxes, utilities, car damages, maintenance and repairs of equipment and facilities, as well as the cost of the fuel and merchandise sold.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses consist primarily of management, clerical and administrative salaries, professional services, insurance premiums, sales commissions, and other costs relating to marketing and sales.

We capitalize direct incremental costs associated with business acquisitions. Indirect acquisition costs, such as executive salaries, corporate overhead, public relations, and other corporate services and overhead are expensed as incurred.

Depreciation and Amortization

Depreciation and amortization consists primarily of depreciation of buildings and equipment, and amortization of leasehold improvements and certain intangible assets. Buildings and equipment are depreciated over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are amortized over the shorter of their useful lives or the lease term with renewal options. Intangible assets, other than goodwill or intangible assets with indefinite useful lives, are amortized over their useful lives ranging from three to fifteen years, using the straight-line method.

Other Income

Other income consists primarily of rental income received on renting out excess space at our car wash facilities and includes gains and losses on the sale of property and equipment and gains and losses on short-term investments.

Income Taxes

Income tax expense is derived from tax provisions for interim periods that are based on the Company's estimated annual effective rate. Currently, the effective rate differs from the federal statutory rate primarily due to state and local income taxes, non-deductible costs related to acquired intangibles, and changes to the valuation allowance.

Liquidity and Capital Resources

Liquidity

Cash and cash equivalents and short-term investments were approximately $15.2 million at June 30, 2008. The ratio of our total debt to total capitalization, which consists of total debt plus stockholders' equity, was 13.3% at June 30, 2008, and 20.2% at December 31, 2007.

Our business requires a substantial amount of capital, most notably to fund operating losses, make capital improvements to the car wash properties we still own and to pursue our expansion strategies. Our expansion strategy is to grow revenue by making accretive acquisitions in the Security and Digital Media Marketing business sectors. We plan to meet these capital needs from various financing sources, including borrowings, internally generated funds, and the issuance of common stock, if the market price of the Company's stock is at an acceptable level.

As of June 30, 2008, we had working capital of approximately $22.9 million. At December 31, 2007, working capital was approximately $17.8 million. Our working capital increased by approximately $5.1 million from December 31, 2007 to June 30, 2008 principally due to the sale of our six Florida car washes in the first quarter of 2008 and the repayment of their related mortgage debt, which was recorded as current at December 31, 2007.

During the six month periods ending June 30, 2008 and 2007, we made capital expenditures within our Car Wash Segment of $148,000 and $192,000, respectively, including $2,800 and $126,000, respectively, of capital expenditures related to discontinued operations. We estimate aggregate capital expenditures for our Car Wash Segment, exclusive of acquisitions of businesses, of approximately $150,000 for the remainder of the year ending December 31, 2008. In years subsequent to 2008, we estimate that our Car Wash Segment will require annual capital expenditures of $200,000 to $300,000. This estimate could differ depending on the timing of the sale of the remaining car washes. Capital expenditures within our Car Wash Segment are necessary to maintain the efficiency and competitiveness of our sites.

Capital expenditures for our Security Segment were $174,000 and $85,000 for the six month periods ending June 30, 2008 and 2007, respectively. We estimate capital expenditures for the Security Segment will be approximately $100,000 for the remainder of 2008. We expect to invest resources and capital to grow our Security Segment. We expect to invest in engineering staff and in designing and sourcing new products. We also expect to spend funds to further develop our dealer network.

We expect to invest significant resources and capital to grow our new Digital Media Marketing Segment. We expect to continue to invest in engineering staff and in the development of new services and technologies within our online marketing division as well as additional products within our e-commerce division. Further, we may need to expend additional capital resources in member acquisition costs and in integrating new technologies to improve the speed, performance, features, ease of use and reliability of our consumer services in order to adapt to rapidly changing industry standards. As usage of our websites increases, we will need to increase networking equipment to maintain adequate data transmission speeds, the availability of which may be limited or the cost of which may be significant. Additionally, as we introduce new e-commerce products we develop, upfront capital spending is required to purchase inventory as well as pay for upfront media costs to enroll new e-commerce members.

We intend to continue to expend significant cash for the purchase of inventory for our Security Segment and the e-commerce division of our Digital Media Marketing Segment as we grow and introduce new video surveillance products and e-commerce products in 2008 and in years subsequent to 2008. We anticipate that inventory purchases will be funded from cash collected from sales and working capital. At June 30, 2008, we maintained an unused $500,000 revolving credit facility with Chase to provide financing for additional inventory purchases. The amount of capital that we will spend for the remainder of 2008 and in years subsequent to 2008 is largely dependent on the marketing success we achieve with our video surveillance systems and components and in our e-commerce internet business.

As previously disclosed, on June 27, 2008 Car Care, a subsidiary of the Company, paid a criminal fine of $100,000 and forfeited $500,000 in proceeds from the sale of the four car washes to settle a criminal indictment. An accrual of $600,000 was recorded as a component of income from discontinued operations as of March 31, 2008, as prescribed by SFAS No.5, *Accounting for Contingencies*.

Shortly following March 6, 2006, the date the Company’s Audit Committee became aware of the now resolved criminal investigation into the hiring of illegal aliens at four of the Company’s car washes, the Company’s Audit Committee retained independent outside counsel (“Special Counsel”) to conduct an independent investigation of the Company’s hiring practices at the Company’s car washes and other related matters. Special Counsel’s findings included, among other things, a finding that the Company’s internal controls for financial reporting at the corporate level were adequate and appropriate, and that there was no financial statement impact implicated by the Company’s hiring practices, except for a potential contingent liability. The Company incurred $704,000 in legal, consulting and accounting expenses associated with the Audit Committee investigations in fiscal 2006 and a total of $1.67 million ($674,000 and $796,000, in fiscal 2007 and 2006, respectively, and $204,000 in the six months ended June 30, 2008, (including $157,000 in the three months ended June 30, 2008)) in legal fees associated with the governmental investigation and Company’s defense and negotiations with the government. As a result of this matter, the Company has incorporated additional internal control procedures at the corporate, regional and site level to further enhance the existing internal controls with respect to the Company's hiring procedures at the car wash locations to prevent the hiring of undocumented workers.

As previously discussed, during January 2008, the Environmental Protection Agency ("EPA") conducted a site investigation at the Company's Bennington, Vermont location and the building the facility is located within. The Company does not own the building or land and leases 44,000 square feet of the building from Vermont Mill Properties, Inc ("Vermont Mill"). The site investigation was focused on discovering whether hazardous substances were being improperly stored. Subsequent to the investigation and search, the EPA notified the Company and the building owner that remediation of certain hazardous wastes were required. The Company expects the remediation to be complete by August 31, 2008, within the time allowed by the EPA. A total cost of approximately $730,000, which includes disposal of the waste materials, as well as expenses incurred to engage environmental engineers and legal counsel and the cost of reimbursing the EPA for its costs, has been recorded through June 30, 2008. Approximately $469,000 has been paid to date, leaving an accrual balance of $261,000 at June 30, 2008. The accrual was increased by $380,000 in the first quarter and $65,000 in the second quarter due to there being more hazardous waste to dispose of than originally estimated, increase in cost estimates for additional EPA requirements in handling and oversight related to disposing of the hazardous waste, and the cost of obtaining additional engineering reports requested by the EPA. The United States Attorney for the District of Vermont ("U.S. Attorney") conducted a search of the Company's Bennington, Vermont location and the building it is located within during February 2008 under a search warrant issued by the U.S. District Court for the District of Vermont. On May 2, 2008 the U.S. Attorney issued a grand jury subpoena to the Company. The subpoena required the Company to provide the U.S. Attorney documents related to the storage, disposal and transportation of materials at the Bennington, Vermont location. The Company has supplied the documents and fully cooperated with the U.S. Attorney's investigation and will continue to do so. The Company is unable at this time to determine whether further action will be taken by the U.S. Attorney or if any charges, fines or penalties will be sought from the Company. The Company has made no provision for any future costs associated with the investigation.

The Company is a party to various other legal proceedings related to its normal business activities. In the opinion of the Company's management, none of these proceedings are material in relation to the Company's results of operations, liquidity, cash flows, or financial condition.

Despite our continued operating losses, we believe our cash and short-term investment balance of approximately $15.2 million at June 30, 2008, cash flow from operating activities, cash provided from the sale of assets, and the revolving credit facility will be sufficient to meet our Security, Digital Media Marketing and Car Wash Segments' capital expenditure and operating funding needs through at least the next twelve months, provide for growth in 2008 and future years, and continue to satisfy our debt covenant requirement with Chase to maintain a total unencumbered cash and marketable securities balance of $5 million.

From December 2005 through March 31, 2008, we sold 34 car washes and our five truck washes with total cash proceeds generated of approximately $33.7 million, net of pay off of related mortgage debt. We believe we will be successful in selling additional car washes and generating cash. Cash from car wash sales has been used to fund operating needs and expansion of our Security and Digital Media Marketing Segments. If the cash provided from operating activities does not improve during the balance of 2008 and in future years and if current cash balances are depleted, we will need to raise additional capital to meet our ongoing capital requirements.

In the past, we have been successful in raising capital by selling common stock, obtaining mortgage loans and selling car wash properties. Our ability to raise additional capital can be adversely impacted by our stock price. Any failure to maintain the required debt covenants on existing loans could also adversely impact our ability to raise additional capital. We are reluctant to sell common stock at market prices below our per share book value. Our ability to raise additional capital will be limited if our stock price is not above our per share book value and if our cash from operating activities does not improve. Currently, we cannot incur additional long-term debt without the approval of Chase, which requires the Company to demonstrate that the cash flow benefit from the use of any new loan proceeds exceeds the resulting future debt service requirements.

Debt Capitalization and Other Financing Arrangements

At June 30, 2008, we had borrowings, including liabilities related to assets held for sale, of approximately $8.2 million. We had two letters of credit outstanding at June 30, 2008, totaling $831,000, as collateral relating to workers' compensation insurance policies. We maintain a $500,000 revolving credit facility to provide financing for additional video surveillance product inventory purchases. There were no borrowings outstanding under the revolving credit facility at June 30, 2008. The Company also maintains a $300,000 guidance line for commercial letters of credit for the importation of inventory. There were outstanding commercial letters of credit under this commitment at June 30, 2008.

Several of our debt agreements, as amended, contain certain affirmative and negative covenants and require the maintenance of certain levels of tangible net worth, require the maintenance of certain unencumbered cash and marketable securities balances, contain limitations on capital spending and certain financial reporting requirements.

The Chase term loan agreements limit capital expenditures annually to $1.0 million, require the Company to provide Chase with a Form 10-K and audited financial statements within 120 days of the Company's fiscal year end and a Form 10-Q within 60 days after the end of each fiscal quarter, and require the maintenance of a minimum total unencumbered cash and marketable securities balance of $5 million. If we are unable to satisfy these covenants and we cannot obtain waivers, the Chase notes may be reflected as current in future balance sheets and as a result our stock price may decline.

If we default on any of the Chase covenants and are not able to obtain amendments or waivers of acceleration, Chase debt totaling $5.8 million at June 30, 2008, including debt recorded as long-term debt at June 30, 2008, could become due and payable on demand, and Chase could foreclose on the assets pledged in support of the relevant indebtedness. If our assets (including up to nine of our car wash facilities as of June 30, 2008) are foreclosed upon, revenues from our Car Wash Segment, which comprised 45% of our total revenues for fiscal year 2007 and 25% of our total revenues in the six months ended June 30, 2008, would be severely impacted and we may be unable to continue to operate our business.

The Company is obligated under various operating leases, primarily for certain equipment and real estate within the Car Wash Segment. Certain of these leases contain purchase options, renewal provisions, and contingent rentals for our proportionate share of taxes, utilities, insurance and annual cost of living increases.

The following are summaries of our contractual obligations and other commercial commitments at June 30, 2008, including debt included in liabilities related to assets held for sale (in thousands):

	Payments Due By Period				
Contractual Obligations(1)	**Total**	**Less than One Year**	**One to Three Years**	**Three to Five Years**	**More Than Five Years**
Long-term debt (2)	$ 8,221	$ 1,967	$ 3,034	$ 2,192	$ 1,028
Minimum operating lease payments	3,967	841	1,281	1,045	800
	$ 12,188	$ 2,808	$ 4,315	$ 3,237	$ 1,828

	Amounts Expiring Per Period				
Other Commercial Commitments	**Total**	**Less Than One Year**	**One to Three Years**	**Three to Five Years**	**More Than Five Years**
Line of credit(3)	$ -	$ -	$ -	$ -	$ -
Standby letters of credit(4)	831	831	-	-	-
	$ 831	$ 831	$ -	$ -	$ -

30

(1) Potential amounts for inventory ordered under purchase orders are not reflected in the amounts above as they are typically cancelable prior to delivery and, if purchased, would be sold within the normal business cycle.
(2) Related interest obligations have been excluded from this maturity schedule. Our interest payments for the next twelve month period, based on current market rates, are expected to be approximately $435,000.
(3) The Company maintains a $500,000 line of credit with Chase. There were no borrowings outstanding under this line of credit at June 30, 2008.
(4) The Company maintains a $300,000 guidance line for commercial letters of credit with Chase for the importation of inventory. There were no outstanding commercial letters of credit under this commitment at June 30, 2008. Outstanding letters of credit of $831,000 represent collateral for workers' compensation insurance policies.

Cash Flows

Operating Activities. Net cash used in operating activities totaled $3.7 million for the six months ended June 30, 2008. Cash used in operating activities in 2008 was primarily due to a net loss from continuing operations of $6.0 million, which included $290,900 in non-cash stock-based compensation charges from continuing operations, $703,000 of depreciation and amortization and asset impairment charges of $2.6 million. Cash was also impacted by a decrease in accounts payable of $1.3 million, a decrease in accounts receivable of $480,000 and an increase in inventory of $460,000. Net cash used in operating activities totaled $3.8 million for the six months ended June 30, 2007. Cash used in operating activities in 2007 was primarily due to a net loss from continuing operations of $4.1 million offset partially by $309,500 in non-cash stock based compensation charges from continuing operations and $605,000 of depreciation and amortization.

Investing Activities. Cash provided by investing activities totaled approximately $7.6 million for the six months ended June 30, 2008, which includes cash provided by investing activities from discontinued operations of $7.9 million related to the sale of six car wash sites in the six months ended June 30, 2008. Cash provided by investing activities totaled approximately $17.4 million for the six months ended June 30, 2007, which includes proceeds from sale of discontinued operations of $17.2 million, capital expenditures of $66,000 related to ongoing car wash operations, $90,000 for security segment operations and corporate, and $126,000 for discontinued operations.

Financing Activities. Cash used in financing activities was approximately $1.1 million for the six months ended June 30, 2008, which includes $932,000 of routine principal payments on debt from continuing operations and $94,000 of routine principal payments on debt related to discontinued operations. Cash used in financing activities was approximately $1.1 million for the six months ended June 30, 2007, which includes $356,000 of routine principal payments on debt from continuing operations and $714,000 of routine principal payments on debt related to discontinued operations.

Results of Operations for the Six Months Ended June 30, 2008
Compared to the Six Months Ended June 30, 2007

The following table presents the percentage each item in the consolidated statements of operations bears to revenues:

	Six months Ended June 30, 2008	Six months Ended June 30, 2007
Revenues	100%	100%
Cost of revenues	71.0	77.4
Selling, general and administrative expenses	38.9	42.8
Depreciation and amortization	2.4	3.3
Asset impairment charges	9.0	-

Operating loss	(21.3)	(23.5)
Interest expense, net	0.1	1.4
Other income	0.7	2.4
Loss from continuing operations before income taxes	(20.7)	(22.5)
Income tax expense	0.2	0.3
Loss from continuing operations	(20.9)	(22.8)
Income from discontinued operations	21.1	12.2
Net income (loss)	0.2%	(10.6)%

Revenues

Security

Revenues within the Security Segment were approximately $10.8 million and $11.1 million for the six months ended June 30, 2008 and 2007, respectively. Of the $10.8 million of revenues for the six months ended June 30, 2008, $3.9 million, or 36%, was generated from our professional electronic surveillance operation in Florida, $1.9 million, or 18%, from our consumer direct electronic surveillance equipment operations in Texas, $2.7 million or 25%, from our machine vision camera and video conferencing equipment operation in Texas, and $2.3 million, or 21%, from our personal defense operation. Of the $11.1 million of revenues for the six months ended June 30, 2007, $3.8 million, or 35%, was generated from our professional electronic surveillance operation in Florida, $2.1 million, or 19%, from our consumer direct electronic surveillance equipment operation in Texas, $3.0 million, or 27%, from our machine vision camera and video conference equipment operation in Texas, and $2.1 million, or 19%, from our personal defense operation in Vermont. The decrease in revenues within the Security Segment was due to a decrease in sales of our consumer direct electronic surveillance and machine vision camera and video conferencing equipment in Texas partially offset by an increase in our professional electronic surveillance operation in Florida and our personal defense operations in Vermont. The slight increase in sales in our professional electronic surveillance operation was the result of an improvement in vendor relationships to supply high volume products in a timely manner, increased sales effort, and the elimination of the impact on operations and management of the Florida embezzlement investigation in the first six months of 2007. The decrease in sales of our consumer direct electronic surveillance and machine vision camera and video conference equipment operations in Texas was largely a result of increased competition. The Company's machine vision camera and video conferencing equipment operations continue to be impacted by competition and certain large customers purchasing direct from its main supplier. The increase of approximately $183,000 in revenues in our personal defense operation was largely a result of growth in aerosol and law enforcement sales and from the introduction of new products such as our Mace Pepper Gun™.

Digital Media Marketing

Revenues within our Digital Media Marketing Segment, acquired in July 2007, were approximately $10.9 million for six months ended June 30, 2008. Of this amount, $2.1 million related to our online marketing division and $8.8 million related to our e-commerce division.

Car Wash Services

Revenues for the six months ended June 30, 2008 were $7.2 million as compared to $7.0 million for the six months ended June 30, 2007, an increase of $114,000, or 1.6%. This increase was attributable to increase in fuel and merchandise revenue offset partially by a decrease in wash and detail services and lube and other automotive services. Of the $7.2 million of revenues for the six months ended June 30, 2008, $4.7 million, or 65.2%, was generated from car wash and detailing, $1.4 million, or 19.7%, from lube and other automotive services, and $1.1 million, or 15.1%, from fuel and merchandise sales. Of the $7.0 million of revenues for the six months ended June 30, 2007, $4.9 million, or 70.0%, was generated from car wash and detailing, $1.6 million, or 22.1%, from lube and other automotive services, and $561,000, or 7.9%, from fuel and merchandise sales. The decrease in wash and detail revenues in 2008 was principally due to the sale of car washes. Total car wash volumes declined by 12,000 cars, or 4.6%, in the first six months of 2008 as compared to the first six months of 2007. Considering the impact of a car wash volume reduction of 29,000 cars from the closure and divestiture of three Texas car wash locations since January 2007 included in continuing operations, car wash volumes on remaining sites increased 17,000 cars. Additionally, the Company experienced a slight decline in average wash and detailing revenue per car from $18.85 in the first six months of 2007 to $18.71 in the same period in 2008.

Cost of Revenues

Security

During the six months ended June 30, 2008, cost of revenues was $7.7 million, or 70.8% of revenues, as compared to $8.2 million, or 74.4% of revenues, for the six months ended June 30, 2007. The decrease in cost of revenues as a percentage of revenues is due to a change in customer and product mix and a conscious effort to reduce discounting of list prices and sell products at higher profit margins. Additionally, the margins within our professional electronic surveillance operation in Florida were negatively impacted in the first six months of 2007 by an increase in sales of discontinued products, refurbished items and substitute items as a result of the inability of some of Mace's vendors to supply high volume products in a timely manner.

Digital Media Marketing

Cost of revenues within our Digital Media Marketing Segment were approximately $6.9 million, or 63.4% of revenues, for the six months ended June 30, 2008. Of this amount, $2.0 million related to our online marketing division and $4.9 million related to our e-commerce division.

Car Wash Services

Cost of revenues for the six months ended June 30, 2008 were $5.9 million, or 82.9% of revenues, with car washing and detailing costs at 81.1% of respective revenues, lube and other automotive services costs at 75.8% of respective revenues, and fuel and merchandise costs at 99.5% of respective revenues. Cost of revenues for the six months ended June 30, 2007 were $5.8 million, or 82.0% of revenues, with car washing and detailing costs at 81.6% of respective revenues, lube and other automotive services costs at 80.8% of respective revenues, and fuel and merchandise costs at 89.5% of respective revenues. This slight increase in car wash costs as a percent of revenues in 2008 was the result of an increase in the cost of labor as a percentage of car wash and detailing revenues from 51.0% in 2007 to 52.9% in 2008 as a result of reduced volumes.

Selling, General and Administrative Expenses

SG&A expenses for the six months ended June 30, 2008 were $11.2 million, compared to $7.7 million for the same period in 2007. SG&A expenses as a percent of revenues were 38.9% for the six months ended June 30, 2008 and 42.7% for the six months ended June 30, 2007. The increase in SG&A costs is primarily the result of the acquisition of Linkstar, which added SG&A costs of $3.4 million in the first six months of 2008. SG&A expenses for the six months ended June 30, 2008 include an additional accrual of approximately $445,000 for the waste remediation at our personal defense operation in Vermont (See Note 7. Commitments and Contingencies). This increase was partially offset by a decrease in costs related to the immigration investigation. SG&A expenses include $204,000 of legal, consulting and accounting fees in the first six months of 2008 relating to the immigration investigation as compared to $248,000 in the first six months of 2007. SG&A costs also include non-cash compensation expense from continuing operations of approximately $290,900 and $309,500 in the six months ended June 30, 2008 and 2007, respectively. In April 2007, we determined that our former Florida security based divisional controller embezzled funds from the Company. The Company conducted an internal investigation, and our Audit Committee engaged an independent consulting firm to conduct an independent forensic investigation. As a result of our investigation, we estimated that the amount embezzled by the employee was approximately $240,000 during fiscal 2006 and $99,000 in the first quarter of fiscal 2007. SG&A expenses for the six months ending June 30, 2007 also include approximately $300,000 of legal, consulting and accounting fees related to the Florida embezzlement investigation.

Depreciation and Amortization

Depreciation and amortization totaled $703,000 for the six months ended June 30, 2008, compared to $605,000 for the same period in 2007. The increase in depreciation and amortization expense was related to amortization expense on Linkstar acquired intangible assets.

Asset Impairment Charges

In June 2008, management made a decision to discontinue marketing efforts by its subsidiary, PromoPath, the on-line marketing division of Linkstar, to third-party customers on a non-exclusive CPA basis, both brokered and through promotional sites. Management's decision was the result of business environment changes in which the ability to maintain non-exclusive third-party relationships at an adequate profit margin became increasingly difficult. PromoPath will continue to market and acquire customers for the Company's e-commerce operation, Linkstar. As a result of this decision, the value assigned to customer relationships at the time of the acquisition of PromoPath in accordance with SFAS 141, *Business Combinations,* was determined to be impaired as of June 30, 2008 in that future undiscounted cash flows relating to this asset were insufficient to recover its carrying value. Accordingly, in the second quarter of 2008, in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we recorded an impairment charge of approximately $1.4 million representing the net book value of the PromoPath customer relationship intangible asset at June 30, 2008. Additionally, during the quarter ended June 30, 2008, we wrote down assets related to two full service car washes in Arlington, Texas by approximately $1.2 million. We have determined that due to further reductions in car wash volumes at these sites resulting from increased competition and a deterioration in demographics in the immediate geographic areas of these sites, along with current data utilized to estimate the fair value of these car wash facilities, the further expected cash flows would not be sufficient to recover their carrying values.

Interest Expense, Net

Interest expense, net of interest income, for the six months ended June 30, 2008 was $39,000, compared to $244,000 for the six months ended June 30, 2007. The decrease in net interest expense is due to a decrease in interest expense of approximately $172,000 as a result of decreasing interest rates and a reduction in outstanding debt due to routine principal payments, repayment of debt related to car wash sales, offset partially by an increase in interest income of approximately $33,000 with the Company's increase in cash and cash equivalents.

Other Income

Other income for the six months ended June 30, 2008 was $225,000, compared to $426,000 for the six months ended June 30, 2007. The 2008 other income includes $177,000 of earnings on short term investments. The 2007 other income includes $216,000 of earnings on short-term investments and the recovery of a previously written off acquisition deposit of $150,000.

Income Taxes

The Company recorded tax expense of $50,000 in each of the six months ended June 30, 2008 and 2007. Tax expense (benefit) reflects the recording of income taxes at an effective rate of approximately (0.8)% in 2008 and (1.2)% in 2007.

Results of Operations for the Three Months Ended June 30, 2008
Compared to the Three Months Ended June 30, 2007

The following table presents the percentage each item in the consolidated statements of operations bears to revenues:

	Three months Ended June 30, 2008	2007
Revenues	100%	100%
Cost of revenues	70.0	77.9
Selling, general and administrative expenses	36.4	42.2
Depreciation and amortization	2.4	3.4
Asset impairment charges	17.3	-
Operating loss	(26.1)	(23.5)
Interest expense, net	0.1	0.8
Other income	0.8	3.3
Loss from continuing operations before income taxes	(25.4)	(21.0)
Income tax expense	0.2	0.3
Loss from continuing operations	(25.6)	(21.3)
Income from discontinued operations	(0.5)	7.3
Net income (loss)	(26.1)%	(14.0)%

Revenues

Security

Revenues within the Security Segment were approximately $5.6 million for both the three months ended June 30, 2008 and 2007, respectively. Of the $5.6 million of revenues for the three months ended June 30, 2008, $2.0 million, or 37%, was generated from our professional electronic surveillance operation in Florida, $900,000, or 16%, from our consumer direct electronic surveillance equipment operations in Texas, $1.4 million or 25%, from our machine vision camera and video conferencing equipment operation in Texas, and $1.2 million, or 22%, from our personal defense operation. Of the $5.6 million of revenues for the three months ended June 30, 2007, $2.0 million, or 36%, was generated from our professional electronic surveillance operation in Florida, $1.0 million, or 18%, from our consumer direct electronic surveillance equipment operation in Texas, $1.6 million, or 28%, from our machine vision camera and video conference equipment operation in Texas, and $1.0 million, or 18%, from our personal defense operation in Vermont. The decrease in revenues within the Security Segment was due to a decrease in sales of our consumer direct electronic surveillance and machine vision camera and video conferencing equipment in Texas, partially offset by an increase in our personal defense operations. The decrease in sales of our consumer direct electronic surveillance and machine vision camera and video conference equipment operations in Texas was largely a result of increased competition. The Company's machine vision camera and video conferencing equipment operations continue to be impacted by competition and certain large customers purchasing direct from its main supplier. The increase of approximately $219,000 in revenues in our personal defense operation was largely a result of growth in aerosol sales and from the introduction of new products such as our Mace Pepper Gun™.

Digital Media Marketing

Revenues within our Digital Media Marketing Segment, acquired in July 2007, were approximately $5.5 million for three months ended June 30, 2008. Of this amount, $1.1 million related to our online marketing division and $4.4 million related to our e-commerce division.

Car Wash Services

Revenues for the three months ended June 30, 2008 were $4.1 million as compared to $3.4 million for the three months ended June 30, 2007, an increase of approximately $650,000, or 19.2%. This increase was primarily attributable to an increase in car wash and detailing and fuel and merchandise sales. Of the $4.1 million of revenues for the three months ended June 30, 2008, $2.5 million, or 62.1%, was generated from car wash and detailing, $732,000, or 18.0%, from lube and other automotive services, and $812,000, or 19.9%, from fuel and merchandise sales. Of the $3.4 million of revenues for the three months ended June 30, 2007, $2.4 million, or 69.3%, was generated from car wash and detailing, $750,000, or 22.0%, from lube and other automotive services, and $298,000, or 8.7%, from fuel and merchandise sales. The increase in wash and detail revenues in 2008 was principally due to improved car wash volumes in the Texas market partially offset by volume reductions from car wash divestitures. Overall car wash volumes increased by 11,000 cars, or 9.2%, in the three months ending June 30, 2008 as compared to the same period in 2007, including the impact of a car wash volume reduction of 13,000 cars from the closure and divestiture of three Texas car wash locations since January 2007 included in continuing operations. Additionally, the Company experienced a slight decline in average wash and detailing revenue per car from $19.78 in the three months ending June 30, 2007 to $19.19 in the same period in 2008.

Cost of Revenues

Security

During the three months ended June 30, 2008, cost of revenues was $3.9 million, or 70.7% of revenues, as compared to $4.2 million, or 74.5% of revenues, for the three months ended June 30, 2007. The decrease in cost of revenues as a percentage of revenues is due to a change in customer and product mix and a conscious effort to reduce discounting of list prices and sell products at higher profit margins. Additionally, the margins within our professional electronic surveillance operation in Florida were negatively impacted in the first six months of 2007 by an increase in sales of discontinued products, refurbished items and substitute items as a result of the inability of some of Mace's vendors to supply high volume products in a timely manner.

Digital Media Marketing

Cost of revenues within our Digital Media Marketing Segment were approximately $3.3 million, or 60.9% of revenues, for the three months ended June 30, 2008. Of this amount, $1.1 million related to our online marketing division and $2.2 million related to our e-commerce division.

Car Wash Services

Cost of revenues for the three months ended June 30, 2008 were $3.3 million, or 81.2% of revenues, with car washing and detailing costs at 77.9% of respective revenues, lube and other automotive services costs at 72.7% of respective revenues, and fuel and merchandise costs at 99.4% of respective revenues. Cost of revenues for the three months ended June 30, 2007 were $2.9 million, or 83.5% of revenues, with car washing and detailing costs at 83.4% of respective revenues, lube and other automotive services costs at 82.9% of respective revenues, and fuel and merchandise costs at 86.6% of respective revenues. This decrease in car wash and detailing costs as a percent of revenues in 2008 was the result of increased volumes.

36

Selling, General and Administrative Expenses

SG&A expenses for the three months ended June 30, 2008 were $5.5 million, compared to $3.8 million for the same period in 2007. SG&A expenses as a percent of revenues were 36.4% for the three months ended June 30, 2008 and 42.2% for the three months ended June 30, 2007. The increase in SG&A costs is primarily the result of the acquisition of Linkstar, which added SG&A costs of $1.7 million in the three months ended June 30, 2008. SG&A expenses for the three months ended June 30, 2008 include an additional accrual of approximately $65,000 for the waste remediation at our personal defense operation in Vermont (See Note 7. Commitments and Contingencies). SG&A also includes costs related to the immigration investigation. SG&A expenses include $157,000 of legal, consulting and accounting fees in the three months ended June 30, 2008 relating to the immigration investigation as compared to $117,000 in the three months ended June 30, 2007. SG&A costs also include non-cash compensation expense from continuing operations of approximately $36,900 and $102,200 in the three months ended June 30, 2008 and 2007, respectively. In April 2007, we determined that our former Florida security based divisional controller embezzled funds from the Company. The Company initially conducted an internal investigation, and our Audit Committee subsequently engaged an independent consulting firm to conduct an independent forensic investigation. As a result of our investigation, we estimated that the amount embezzled by the employee was approximately $240,000 during fiscal 2006 and $99,000 in the first quarter of fiscal 2007. SG&A expenses for the six months ending June 30, 2007 also include approximately $300,000 of legal, consulting and accounting fees related to the Florida embezzlement investigation.

Depreciation and Amortization

Depreciation and amortization totaled $352,000 for the three months ended June 30, 2008, compared to $304,000 for the same period in 2007. The increase in depreciation and amortization expense was related to amortization expense on Linkstar acquired intangible assets.

Asset Impairment Charges

In June 2008, management made a decision to discontinue marketing efforts by its subsidiary, PromoPath, the on-line marketing division of Linkstar, to third-party customers on a non-exclusive CPA basis, both brokered and through promotional sites. Management's decision was the result of business environment changes in which the ability to maintain non-exclusive third-party relationships at an adequate profit margin became increasingly difficult. PromoPath will continue to market and acquire customers for the Company's e-commerce operation, Linkstar. As a result of this decision, the value assigned to customer relationships at the time of the acquisition of PromoPath in accordance with SFAS 141, *Business Combinations,* was determined to be impaired as of June 30, 2008 in that future undiscounted cash flows relating to this asset were insufficient to recover its carrying value. Accordingly, in the second quarter of 2008, in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we recorded an impairment charge of approximately $1.4 million representing the net book value of the PromoPath customer relationship intangible asset at June 30, 2008. Additionally, during the quarter ended June 30, 2008, we wrote down assets related to two full service car washes in Arlington, Texas by approximately $1.2 million. We have determined that due to further reductions in car wash volumes at these sites resulting from increased competition and a deterioration in demographics in the immediate geographic areas of these sites, along with current data utilized to estimate the fair value of these car wash facilities, the further expected cash flows would not be sufficient to recover their carrying values.

Interest Expense, Net

Interest expense, net of interest income, for the three months ended June 30, 2008 was $13,000, compared to $71,000 for the three months ended June 30, 2007. The decrease in net interest expense is due to a decrease in interest expense of approximately $98,000 as a result of decreasing interest rates and a reduction in outstanding debt due to routine principal payments, repayment of debt related to car wash sales and a decrease in interest income of approximately $41,000.

Other Income

Other income for the three months ended June 30, 2008 was $111,000, compared to $298,000 for the three months ended June 30, 2007. The 2008 other income includes $81,000 of earnings on short term investments. The 2007 other income includes $111,000 of earnings on short-term investments and the recovery of a previously written off acquisition deposit of $150,000.

Income Taxes

The Company recorded tax expense of $25,000 in each of the three months ended June 30, 2008 and 2007. Tax expense (benefit) reflects the recording of income taxes at an effective rate of approximately (0.7)% in 2008 and (1.3)% in 2007.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in our exposure to market risks arising from fluctuations in foreign currency exchange rates, commodity prices, equity prices or market interest rates since December 31, 2007 as reported on our Form 10-K for the year ended December 31, 2007.

With the pay off of the Arizona fixed rate mortgages in 2007, nearly 100% of the Company's debt at June 30, 2008, including debt related to discontinued operations, is at variable rates. Substantially all of our variable rate debt obligations are tied to the prime rate, as is our incremental borrowing rate. A one percent increase in the prime rates would not have a material effect on the fair value of our variable rate debt at June 30, 2008. The impact of increasing interest rates by one percent would have been an increase in interest expense of approximately $111,000 on an annual basis.

Item 4T. Controls and Procedures

The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules, and include controls and procedures designed to ensure that such information is accumulated and communicated to the Company's management, including its principal executive and financial officers, to allow timely decisions regarding required disclosure. Based on the evaluation of the effectiveness of the Company's disclosure controls and procedures as of June 30, 2008 required by Rule 13a-15(b) under the Exchange Act and conducted by the Company's chief executive officer and chief financial officer, such officers concluded that the Company's disclosures controls and procedures were effective as of June 30, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework.* In addition, there was no change in the Company's internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2008 that materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

The Board of Directors of the Company terminated Mr. Paolino as the Chief Executive Officer of the Company on May 20, 2008. On June 9, 2008, the Company received a Demand for Arbitration from Mr. Paolino ("Arbitration Demand"). The Arbitration Demand has been filed with the American Arbitration Association in Philadelphia, Pennsylvania ("Arbitration Proceeding"). The primary allegations of the Arbitration Demand are: (i) Mr. Paolino alleges that he was terminated by the Company wrongfully and is owed a severance payment of $3,918,120 due to the termination; (ii) Mr. Paolino is claiming that the Company owes him $322,606, because the Company did not issue him a sufficient number of stock options in August, 2007, under provisions of the Employment Contract between Mr. Paolino and the Company dated August 21, 2006; (iii) Mr. Paolino is claiming damages against the Company in excess of $6,000,000, allegedly caused by the Company having defamed Mr. Paolino's professional reputation and character in the Current Report on Form 8-K dated May 20, 2008 filed by the Company and in the press release the Company issued on May 21, 2008, relating to Mr. Paolino's termination; and (iv) Mr. Paolino is also seeking punitive damages, attorney's fees and costs in an unspecified amount. The Company is disputing the allegations made by Mr. Paolino and is defending itself in the Arbitration Proceeding. The Company has also filed a counterclaim in the Arbitration Proceeding demanding damages from Mr. Paolino of $1,000,000. It is not possible to predict the outcome of the Arbitration Proceeding which may take a year or more to reach a conclusion. No accruals have been made with respect to Mr. Paolino's claims.

On June 25, 2008, Mr. Paolino filed a claim with the United States Department of Labor claiming that his termination as Chief Executive Officer of the Company was an "unlawful discharge" in violation of 18 U.S.C. Sec. 1514A, a provision of the Sarbanes-Oxley Act of 2002 ("DOL Complaint"). Mr. Paolino has alleged that he was terminated in retaliation for demanding that the Company's Board of Directors make full and prompt disclosures of material facts relating to the Company's financial condition and other matters in its Form 10-Q for the quarter ended March 31, 2008 filed by the Company on May 15, 2008. Mr. Paolino in the DOL Complaint demands the same damages he requested in the Arbitration Demand and additionally requests reinstatement as Chief Executive Officer with back pay from the date of termination. The Company will defend itself against the allegations made in the DOL Complaint; which the Company believes are without merit. Though the Company is confident in prevailing, it is not possible to predict the outcome of the DOL Complaint or when the matter will reach a conclusion.

On May 8, 2008, Car Care, Inc., a wholly-owned subsidiary of the Company ("Car Care"), as well as the Company's former Northeast Regional car wash manager and four former general managers of the four Northeast Region car washes that were searched in March 2006, were indicted by the U.S Attorney for the Eastern District of Pennsylvania with one count of conspiracy to defraud the government, harboring illegal aliens and identity theft. To resolve the indictment, Car Care entered into a written Guilty Plea Agreement on June 23, 2008 with the government to plead guilty to the one count of conspiracy charged in the indictment. Under this agreement, on June 27, 2008, Car Care paid a criminal fine of $100,000 and forfeited $500,000 in proceeds from the sale of the four car washes. An accrual of $600,000 was recorded as a component of income from discontinued operations as of March 31, 2008, as prescribed by SFAS No. 5, *Accounting for Contingencies*. The Company was not named in the indictment and will not be charged. The Company fully cooperated with the government in its investigation of this matter.

The Company is a party to various other legal proceedings related to its normal business activities. In the opinion of the Company's management, none of these proceedings are material in relation to the Company's results of operations, liquidity, cash flows, or financial condition.

Additional information regarding our legal proceedings can be found in Note 7 of the Notes to Consolidated Financial Statements included in this Form 10-Q.

39

Item 1A. Risks Factors

Risks Related to Our Business

If we are unable to finance the growth of our business, our stock price could decline. Our business plan involves growing our Security and Digital Media Marketing Segments through acquisitions and internal development, and divesting of our car washes through third party sales. The growth of our Security and Digital Media Segments requires significant capital that we hope to partially fund through the sale of our car washes. Our capital requirements also include working capital for daily operations and capital for equipment purchases. Although we had positive working capital of $22.9 million as of June 30, 2008, we have a history of net losses and in some years we have ended our fiscal year with a negative working capital balance. Our positive working capital increased by approximately $5.1 million from December 31, 2007 to June 30, 2008 principally due the sale of our six Florida car washes and payoff of their related mortgage debt recorded as current at December 31, 2007 in the first quarter of 2008. To the extent that we lack cash to meet our future capital needs, we will need to raise additional funds through bank borrowings and additional equity and/or debt financings, which may result in significant increases in leverage and interest expense and/or substantial dilution of our outstanding equity. If we are unable to raise additional capital, we may need to substantially reduce the scale of our operations and curtail our business plan. Although we have generated cash from the sale of our car washes, there is no guarantee that we will be able to sell our remaining car washes.

If we fail to manage the growth of our business, our stock price could decline. Our business plan is predicated on growth. If we succeed in growing, it will place significant burdens on our management and on our operational and other resources. For example, it may be difficult to assimilate the operations and personnel of an acquired business into our existing business; we must integrate management information and accounting systems of an acquired business into our current systems; our management must devote its attention to assimilating the acquired business, which diverts attention from other business concerns; we may enter markets in which we have limited prior experience; and we may lose key employees of an acquired business. We will also need to attract, train, motivate, retain, and supervise senior managers and other employees. If we fail to manage these burdens successfully, one or more of the acquisitions could be unprofitable, the shift of our management's focus could harm our other businesses, and we may be forced to abandon our business plan, which relies on growth.

We have debt secured by mortgages, which can be foreclosed upon if we default on the debt. Our bank debt borrowings as of June 30, 2008 were $8.2 million, including borrowings related to assets held for sale, substantially all of which are secured by mortgages against certain of our real property (including up to nine of our car wash facilities at June 30, 2008). Our most significant borrowings are secured notes payable to Chase in the amount of $5.8 million. We have in the past violated loan covenants in our Chase agreements. We have obtained waivers for our violations of the Chase agreements. Our ongoing ability to comply with the debt covenants under our credit arrangements and refinance our debt depends largely on our achievement of adequate levels of cash flow. Our cash flow has been and could continue to be adversely affected by the expenses of economic conditions. If we default on our loan covenants in the future and are not able to obtain amendments or waivers of acceleration, our debt could become due and payable on demand, and Chase could foreclose on the assets pledged in support of the relevant indebtedness. If our assets (including up to nine of our car wash facilities at June 30, 2008) are foreclosed upon, revenues from our Car Wash Segment, which comprised 25% of our total revenues for the six months of 2008, would be severely impacted and we may go out of business.

Our loans with Chase have financial covenants that restrict our operations, and which can cause our loans to be accelerated. Our secured notes payable to Chase total $5.8 million, $3.6 million of which was classified as non-current debt at June 30, 2008. The Chase agreements contain affirmative and negative covenants, including the maintenance of certain levels of tangible net worth, maintenance of certain levels of unencumbered cash and marketable securities, limitations on capital spending, and certain financial reporting requirements. Our Chase agreements are the only debt agreements that contain an express prohibition on incurring additional debt without the approval of the lender. None of our other agreements contain such a prohibition. The Chase term loan agreements also limit capital expenditures annually to $1.0 million, require the Company to provide Chase with a Form 10-K and audited financial statements within 120 days of the Company's fiscal year end and a Form 10-Q within 60 days after the end of each fiscal quarter, and require the maintenance of a minimum total unencumbered cash and marketable securities balance of $5 million. If we are unable to satisfy the Chase covenants and we cannot obtain further waivers or amendments to our loan agreements, the Chase notes may be reflected as current in future balance sheets and as a result our stock price may decline.

We have reported net losses in the past. If we continue to report net losses, the price of our common stock may decline, or we could go out of business. We reported net losses for the years ended December 31, 2007, 2006, 2005 and 2004 and we reported negative cash flow from operating activities from continuing operations in 2007, 2006 and 2005. Although a portion of the reported losses in past years related to non-cash impairment charges of intangible assets under SFAS 142 and non-cash stock-based compensation expense under SFAS 123(R), we may continue to report net losses and negative cash flow in the future. Additionally, SFAS 142 requires annual fair value based impairment tests of goodwill and other intangible assets identified with indefinite useful lives. As a result, we may be required to record additional impairments in the future, which could materially reduce our earnings and equity. If we continue to report net losses and negative cash flows, our stock price could be adversely impacted.

We compete with many companies, some of whom are more established and better capitalized than us. We compete with a variety of companies on a worldwide basis. Some of these companies are larger and better capitalized than us. There are also few barriers to entry in our markets and thus above average profit margins will likely attract additional competitors. Our competitors may develop products and services that are superior to, or have greater market acceptance than our products and services. For example, many of our current and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources and larger customer bases than us. These factors may allow our competitors to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Our competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies which may allow them to offer superior products and services.

Failure or circumvention of our controls or procedures could seriously harm our business. An internal control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no system of controls can provide absolute assurance that all control issues, mistakes and instances of fraud, if any, within the Company have been or will be detected. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Any failure of our controls and procedures to detect error or fraud could seriously harm our business and results of operations.

If we lose the services of our executive officers, our business may suffer. If we lose the services of one or more of our executive officers and do not replace them with experienced personnel, that loss of talent and experience will make our business plan, which is dependent on active growth and management, more difficult to implement and could adversely impact our operations.

If our insurance is inadequate, we could face significant losses. We maintain various insurance coverages for our assets and operations. These coverages include property coverages including business interruption protection for each location. We maintain commercial general liability coverage in the amount of $1 million per occurrence and $2 million in the aggregate with an umbrella policy which provides coverage up to $25 million. We also maintain workers' compensation policies in every state in which we operate. Commencing July 2002, as a result of increasing costs of the Company's insurance program, including auto, general liability, and workers' compensation coverage, we are insured through participation in a captive insurance program with other unrelated businesses. The Company maintains excess coverage through occurrence-based policies. With respect to our auto, general liability, and workers' compensation policies, we are required to set aside an actuarially determined amount of cash in a restricted "loss fund" account for the payment of claims under the policies. We expect to fund these accounts annually as required by the insurance company. Should funds deposited exceed claims incurred and paid, unused deposited funds are returned to us with interest after the fifth anniversary of the policy year-end. The captive insurance program is further secured by a letter of credit from Mace in the amount of $827,747 at June 30, 2008. The Company records a monthly expense for losses up to the reinsurance limit per claim based on the Company's tracking of claims and the insurance company's reporting of amounts paid on claims plus an estimate of reserves for possible future losses on reported claims and claims incurred but not reported. There can be no assurance that our insurance will provide sufficient coverage in the event a claim is made against us, or that we will be able to maintain in place such insurance at reasonable prices. An uninsured or under insured claim against us of sufficient magnitude could have a material adverse effect on our business and results of operations.

Risks Related to our Security Segment

We could become subject to litigation regarding intellectual property rights, which could seriously harm our business. Although we have not been the subject of any such actions, third parties may in the future assert against us infringement claims or claims that we have violated a patent or infringed upon a copyright, trademark or other proprietary right belonging to them. We provide the specifications for most of our security products and contract with independent suppliers to engineer and manufacture those products and deliver them to us. Certain of these products contain proprietary intellectual property of these independent suppliers. Third parties may in the future assert claims against our suppliers that such suppliers have violated a patent or infringed upon a copyright, trademark or other proprietary right belonging to them. If such infringement by our suppliers or us were found to exist, a party could seek an injunction preventing the use of their intellectual property. In addition, if an infringement by us were found to exist, we may attempt to acquire a license or right to use such technology or intellectual property. Some of our suppliers have agreed to indemnify us against any such infringement claim, but any infringement claim, even if not meritorious and/or covered by an indemnification obligation, could result in the expenditure of a significant amount of our financial and managerial resources, which would adversely effect our operations and financial results.

If our Mace brand name falls into common usage, we could lose the exclusive right to the brand name. The Mace registered name and trademark is important to our security business and defense spray business. If we do not defend the Mace name or allow it to fall into common usage, our security segment business could be adversely affected.

If our original equipment manufacturers ("OEMs") fail to adequately supply our products, our security products sales may suffer. Reliance upon OEMs, as well as industry supply conditions generally involves several additional risks, including the possibility of defective products (which can adversely affect our reputation for reliability), a shortage of components and reduced control over delivery schedules (which can adversely affect our distribution schedules), and increases in component costs (which can adversely affect our profitability). We have some single-sourced manufacturer relationships, either because alternative sources are not readily or economically available or because the relationship is advantageous due to performance, quality, support, delivery, capacity, or price considerations. If these sources are unable or unwilling to manufacture our products in a timely and reliable manner, we could experience temporary distribution interruptions, delays, or inefficiencies, adversely affecting our results of operations. Even where alternative OEMs are available, qualification of the alternative manufacturers and establishment of reliable suppliers could result in delays and a possible loss of sales, which could affect operating results adversely.

The businesses that manufacturer our electronic surveillance products are located in foreign countries, making it difficult to recover damages, if the manufacturers fail to meet their obligations. Our electronic surveillance products and many non-aerosol personal protection products are manufactured on an OEM basis. Most of the OEM suppliers we deal with are located in Asian countries and are paid a significant portion of an order in advance of the shipment of the product. We also have limited information on the OEM suppliers from which we purchase, including their financial strength, location and ownership of the actual manufacturing facilities producing the goods. If any of the OEM suppliers defaulted on their agreement with the Company, it would be difficult for the Company to obtain legal recourse because of the suppliers' assets being located in foreign countries.

If people are injured by our consumer safety products, we could be held liable and face damage awards. We face claims of injury allegedly resulting from our defense sprays, which we market as less-than-lethal. For example, we are aware of allegations that defense sprays used by law enforcement personnel resulted in deaths of prisoners and of suspects in custody. In addition to use or misuse by law enforcement agencies, the general public may pursue legal action against us based on injuries alleged to have been caused by our products. We may also face claims by purchasers of our electronic surveillance systems, if they fail to operate properly during the commission of a crime. As the use of defense sprays and electronic surveillance systems by the public increases, we could be subject to additional product liability claims. We currently have a $25,000 deductible on our consumer safety products insurance policy, meaning that all such lawsuits, even unsuccessful ones and ones covered by insurance, cost the Company money. Furthermore, if our insurance coverage is exceeded, we will have to pay the excess liability directly. Our product liability insurance provides coverage of $1 million per occurrence and $2 million in the aggregate with an umbrella policy which provides coverage up to $25 million. However, if we are required to directly pay a claim in excess of our coverage, our income will be significantly reduced, and in the event of a large claim, we could go out of business.

If governmental regulations regarding defense sprays change or are applied differently, our business could suffer. The distribution, sale, ownership and use of consumer defense sprays are legal in some form in all 50 states and the District of Columbia. Restrictions on the manufacture or use of consumer defense sprays may be enacted, which would severely restrict the market for our products or increase our costs of doing business.

Our defense sprays use hazardous materials which if not properly handled would result in our being liable for damages under environmental laws. Our consumer defense spray manufacturing operation currently incorporates hazardous materials, the use and emission of which are regulated by various state and federal environmental protection agencies, including the United States Environmental Protection Agency. If we fail to comply with any environmental requirements, these changes or failures may expose us to significant liabilities that would have a material adverse effect on our business and financial condition. The Environmental Protection Agency conducted a site investigation at our Bennington, Vermont facility in January, 2008 and found the facility in need of remediation. See *Note 7. Commitments and Contingencies.*

Risks Related to our Digital Media Marketing Segment

If we lose the services of the two operational executives who head our Digital Media Marketing Segment, our business will suffer. If we lose the services of one or both of the executives who head the operations of our Linkstar and PromoPath subsidiaries and do not replace the executives with equally experienced personnel, the segment will be adversely impacted. The two executives have in the recent past tendered and then revoked their resignations. The executives revoked their resignations after the Company agreed to significantly increase their compensation. Even more recently, the executive who is in charge of the Linkstar subsidiary has informed the company that he intends to resign by August 31, 2008. The business plan for the Digital Media Marketing Segment is dependent on active growth and management. Without experienced executives it is unlikely that the business plan will be accomplished, resulting in revenue loss and lack of profit. If the executives leave and are not replaced with equally experienced executives, the Digital Marketing Segment will be negatively impacted.

Our current Board of Directors and Chief Executive Officer lack experience in the Digital Media Marketing business sector. Mr. LaFlamme, the interim Chief Executive Officer of the Company, Mr. Raefiled, who will be the Chief Executive Officer of the Company commencing August 18, 2008, and the members of the Company's board of directors do not have any practical experience with e-commerce or digital media marketing advertising. The Nominating Committee has conducted a search for a director nominee with e-commerce experience; however, the Board has not committed to add a director with e-commerce or digital media marketing advertising expertise.

Our online marketing business lacks long-term contracts with clients. Our clients who retain us to perform online marketing of their products hire us under contracts of less than twelve months. As a result, our online marketing revenues are difficult to predict and may vary significantly. Because we sometimes incur costs based on expectations of future revenues, our failure to predict future revenues accurately could have a material adverse effect on our business, results of operations, and financial condition.

Our e-commerce brands are not well known. Our e-commerce brands of Vioderm (anti-wrinkle products), TrimDay (diet supplement), Purity by Mineral Science (mineral based facial makeup) and Eternal Minerals (dead sea spa products) are relatively new. We have not yet been able to develop widespread awareness of our e-commerce brands. Lack of brand awareness could harm the success of our marketing campaigns, which could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

We have a concentration of our e-commerce business in limited products. E-Commerce revenues are currently generated from four product lines. The concentration of our business in limited products creates the risk of adverse financial impact if we are unable to continue to sell these products or unable to develop new additional products. We believe that we can mitigate the financial impact of any decrease in sales by the development of new products, however we cannot predict the timing of or success of new products.

We compete with many established e-commerce companies that have been in business longer than us. Current and potential e-commerce and online marketing competitors are making, and are expected to continue to make, strategic acquisitions or establish cooperative, and, in some cases, exclusive relationships with significant companies or competitors to expand their businesses or to offer more comprehensive products and services. To the extent these competitors or potential competitors establish exclusive relationships with major portals, search engines and ISPs, our ability to reach potential members through online advertising may be restricted. Any of these competitors could cause us difficulty in attracting and retaining online registrants and converting registrants into customers and could jeopardize our existing affiliate program and relationships with portals, search engines, ISPs and other internet properties. Failure to compete effectively including by developing and enhancing our services offerings would have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

We need to attract and retain a large number of e-commerce customers who purchase our products on a recurring basis. Our e-commerce model is driven by the need to attract a large number of customers to our continuity program and to maintain customers for an extended period of time. We have fixed costs in obtaining an initial customer which can be defrayed only by a customer making further purchases. For our business to be profitable, we must convert a certain percentage of our initial customers to customers that purchase our products on a reoccurring monthly basis for a period of time. To do so, we must continue to invest significant resources in order to enhance our existing products and to introduce new high-quality products and services. There is no assurance we will have the resources, financial or otherwise, required to enhance or develop products and services. Further, if we are unable to predict user preferences or industry changes, or if we are unable to improve our products and services on a timely basis, we may lose existing members and may fail to attract new customers. Failure to enhance or develop products and services or to respond to the needs of our customers in an effective or timely manner could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

Our member acquisition costs may increase significantly. The customer acquisition cost of our business depends in part upon our ability to purchase advertising at a reasonable cost. Advertising costs vary over time, depending upon a number of factors, some of which are beyond our control. Historically, we have used online advertising as the sole means of marketing our products. In general, the costs of online advertising have increased substantially and are expected to continue to increase as long as the demand for online advertising remains robust. We may not be able to pass these costs on in the form of higher product prices. Continuing increases in advertising costs could thus have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

Our online marketing business must keep pace with rapid technological change to remain competitive. Our online marketing business operates in a market characterized by rapidly changing technology, evolving industry standards, frequent new product and service announcements, enhancements, and changing customer demands. We must adapt to rapidly changing technologies and industry standards and continually improve the speed, performance, features, ease of use and reliability of our services and products. Introducing new technology into our systems involves numerous technical challenges, requires substantial amounts of capital and personnel resources, and often takes many months to complete. We may not successfully integrate new technology into our websites on a timely basis, which may degrade the responsiveness and speed of our websites. Technology, once integrated, may not function as expected. Failure to generally keep pace with the rapid technological change could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

We depend on our merchant and banking relationships, as well as strategic relationships with third parties, who provide us with payment processing solutions. Our e-commerce products are sold by us on the internet and are paid for by customers through credit cards. From time to time, VISA and MasterCard increase the fees that they charge processors. We may attempt to pass these increases along to our customers, but this might result in the loss of those customers to our competitors who do not pass along the increases. Our revenues from merchant account processing are dependent upon our continued merchant relationships which are highly sensitive and can be canceled if customer charge-backs escalate and generate concern that the company has held back sufficient funds in reserve accounts to cover these charge-backs. Cancellation by our merchant providers would most likely result in the loss of new customers and lead to a reduction in our revenues.

We depend on credit card processing for a majority of our e-commerce business, to include but not be limited to Visa, MasterCard, American Express, and Discover. Significant changes to the merchant operating regulations, merchant rules and guidelines, card acceptance methods and/or card authorization methods could significantly impact our revenues. Additionally our e-commerce membership programs are accepted under a negative option billing term (customers are charged monthly until they cancel), and change in regulation of negative option billing could significantly impact our revenue.

We are exposed to risks associated with credit card fraud and credit payment. Our customers use credit cards to pay for our e-commerce products and for the products we market for third parties. We have suffered losses, and may continue to suffer losses, as a result of orders placed with fraudulent credit card data, even though the associated financial institution approved payment. Under current credit card practices, a merchant is liable for fraudulent credit card transactions when the merchant does not obtain a cardholder's signature. A failure to adequately control fraudulent credit card transactions would result in significantly higher credit card-related costs and could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

Security breaches and inappropriate internet use could damage our Digital Media Marketing business. Failure to successfully prevent security breaches could significantly harm our business and expose us to lawsuits. Anyone who is able to circumvent our security measures could misappropriate proprietary information, including customer credit card and personal data, cause interruptions in our operations, or damage our brand and reputation. Breach of our security measures could result in the disclosure of personally identifiable information and could expose us to legal liability. We cannot assure you that our financial systems and other technology resources are completely secure from security breaches or sabotage. We have experienced security breaches and attempts at "hacking." We may be required to incur significant costs to protect against security breaches or to alleviate problems caused by breaches. All of these factors could have a material adverse effect on our business, results of operations, financial condition and the trading price of our common stock.

Our online marketing business depends on strategic relationships with our partners. We expect to generate significant commerce and advertising revenues from strategic relationships with certain outside companies. It is our business plan that our websites and the websites of strategic partners will be jointly promoted. However, there can be no assurance that our existing relationships will be maintained through their initial terms or that additional third-party alliances will be available to the Company on acceptable commercial terms, or at all. The inability to enter into new strategic alliances or to maintain any one or more of our existing strategic alliances could result in decreased third-party paid advertising and product and service sales revenue. Even if we are able to maintain our strategic alliances, there can be no assurance that these alliances will be successful or that our infrastructure of hardware and software will be sufficient to handle any potential increased traffic or sales volume resulting from these alliances.

Changes in government regulation and industry standards, could decrease demand for our products and services and increase our costs of doing business. Laws and regulations that apply to internet communications, commerce and advertising are becoming more prevalent. These regulations could affect the costs of communicating on the web and could adversely affect the demand for our advertising solutions or otherwise harm our business, results of operations and financial condition. The United States Congress has enacted internet legislation regarding children's privacy, copyrights, sending of commercial email (e.g., the Federal CAN-SPAM Act of 2003), and taxation. The United States Congress has pending legislation regarding spyware (e.g., H.R. 964, the "Spy Act of 2007"). Other laws and regulations have been adopted and may be adopted in the future, and may address issues such as user privacy, spyware, "do not email" lists, pricing, intellectual property ownership and infringement, copyright, trademark, trade secret, export of encryption technology, click-fraud, acceptable content, search terms, lead generation, behavioral targeting, taxation, and quality of products and services. This legislation could hinder growth in the use of the web generally and adversely affect our business. Moreover, it could decrease the acceptance of the web as a communications, commercial and advertising medium. The Company does not use any form of spam or spyware and has policies to prohibit abusive internet behavior, including prohibiting the use of spam and spyware by our web publisher partners.

Government enforcement actions could result in decreased demand for our products and services. The Federal Trade Commission and other governmental or regulatory bodies have increasingly focused on issues impacting online marketing practices and consumer protection. The Federal Trade Commission has conducted investigations of competitors and filed law suits against competitors. Some of the investigations and law suits have been settled by consent orders which have imposed fines and changes with regard to how competitors conduct business. The New York Attorney General's office has sued a major Internet marketer for alleged violations of legal restrictions against false advertising and deceptive business practices related to spyware. In our judgment, the marketing claims we make in advertisements we place to obtain new e-commerce customers are legally permissible. Governmental or regulatory bodies may make a different judgment about the legally permissibility of the advertising we place and the marketing claims we make. We could be subject to regulatory proceedings for past marketing campaigns, or could be required to make changes in our future marketing claims, either of which could adversely affect our revenues.

Our business could be subject to regulation by foreign countries, new unforeseen laws and unexpected interpretations of existing laws, resulting in an increase cost of doing business. Due to the global nature of the web, it is possible that, although our transmissions originate in California and Pennsylvania, the governments of other states or foreign countries might attempt to regulate our transmissions or levy sales or other taxes relating to our activities. In addition, the growth and development of the market for internet commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad, that may impose additional burdens on companies conducting business over the Internet. The laws governing the internet remain largely unsettled, even in areas where there has been some legislative action. It may take years to determine how existing laws, including those governing intellectual property, privacy, libel and taxation, apply to the Internet and Internet advertising. Our business, results of operations and financial condition could be materially and adversely affected by the adoption or modification of industry standards, laws or regulations relating to the Internet, or the application of existing laws to the Internet or Internet-based advertising.

If the technology that we currently use to deliver online advertisements is restricted, our expenses would increase. Websites typically place small files of non-personalized (or "anonymous") information, commonly known as cookies, on an Internet user's hard drive. Cookies generally collect information about users on a non-personalized basis to enable websites to provide users with a more customized experience. Cookie information is passed to the website through an Internet user's browser software. We currently use cookies to track an Internet user's movement through our advertiser customer's websites and to monitor and prevent fraudulent activity on our networks. Most currently available Internet browsers allow Internet users to modify their browser settings to prevent cookies from being stored on their hard drive, and some users currently do so. Internet users can also delete cookies from their hard drives at any time. Some Internet commentators and privacy advocates have suggested limiting or eliminating the use of cookies, and legislation has been introduced in some jurisdictions to regulate the use of cookie technology. The effectiveness of our technology could be limited by any reduction or limitation in the use of cookies. If the use or effectiveness of cookies were limited, we would have to switch to other technologies to gather demographic and behavioral information. While such technologies currently exist, they are substantially less effective than cookies. We would also have to develop or acquire other technology to monitor and prevent fraudulent activity on our networks. Replacement of cookies could require significant reengineering time and resources, might not be completed in time to avoid losing customers or advertising inventory, and might not be commercially feasible. Our use of cookie technology or any other technologies designed to collect Internet usage information may subject us to litigation or investigations in the future. Any litigation or government action against us could be costly and time consuming, could require us to change our business practices and could divert management's attention.

We could lose customers or advertising inventory if we fail to measure impressions, clicks and actions on advertisements in a manner that is acceptable to our advertisers and web publishers. We earn revenue from advertisers and make payments to web publishers based on the number of impressions, clicks and actions from advertisements delivered on our networks of websites. Advertisers' and web publishers' willingness to use our products and services and join our networks will depend on the extent to which they perceive our measurements of impressions, clicks and actions to be accurate and reliable. Advertisers and web publishers often maintain their own technologies and methodologies for counting impressions, clicks and actions, and from time to time we have had to resolve differences between our measurements and theirs. Any significant dispute over the proper measurement of user responses to advertisements could cause us to lose customers or advertising inventory.

Competition from other internet advertising companies could result in less revenue and smaller margins. Competition for advertising placements among current and future suppliers of Internet navigational and informational services, high-traffic websites and Internet service providers ("ISPs"), as well as competition with other media for advertising placements, could result in significant price competition, declining margins and reductions in advertising revenue. Google has made available offline public-domain works through its search engine, which creates additional competition for advertisers. In addition, as we continue our efforts to expand the scope of our web services, we may compete with a greater number of web publishers and other media companies across an increasing range of different web services, including in vertical markets where competitors may have advantages in expertise, brand recognition and other areas. If existing or future competitors develop or offer products or services that provide significant performance, price, creative or other advantages over those offered by us, our business, results of operations and financial condition would be negatively affected. We also compete with traditional advertising media, such as direct mail, television, radio, cable, and print, for a share of advertisers' total advertising budgets. Many current and potential competitors enjoy competitive advantages over us, such as longer operating histories, greater name recognition, larger customer bases, greater access to advertising space on high-traffic websites, and significantly greater financial, technical, sales, and marketing resources. As a result, we may not be able to compete successfully. If we fail to compete successfully, we could lose customers or advertising inventory and our revenue and results of operations could decline.

We depend on third parties to manufacture all of the products we sell within our e-commerce division, and if we are unable to maintain these manufacturing and product supply relationships or enter into additional or different arrangements, we may fail to meet customer demand and our net sales and profitability may suffer as a result. In addition, shortages of raw ingredients, especially for our Purity mineral cosmetics line, could affect our supply chain and impede current and future sales and net revenues. All of our products are contract manufactured or supplied by third parties. The fact that we do not have long-term contracts with our other third-party manufacturers means that they could cease manufacturing these products for us at any time and for any reason. In addition, our third-party manufacturers are not restricted from manufacturing our competitors' products, including mineral-based products. If we are unable to obtain adequate supplies of suitable products because of the loss of one or more key vendors or manufacturers, our business and results of operations would suffer until we could make alternative supply arrangements. In addition, identifying and selecting alternative vendors would be time-consuming and expensive, and we might experience significant delays in production during this selection process. Our inability to secure adequate and timely supplies of merchandise would harm inventory levels, net sales and gross profit, and ultimately our results of operations.

The quality of our e-commerce products depend on quality control of third party manufacturers. For our e-commerce products, third-party manufacturers may not continue to produce products that are consistent with our standards or current or future regulatory requirements, which would require us to find alternative suppliers of our products. Our third-party manufacturers may not maintain adequate controls with respect to product specifications and quality and may not continue to produce products that are consistent with our standards or applicable regulatory requirements. If we are forced to rely on products of inferior quality, then our customer satisfaction and brand reputation would likely suffer, which would lead to reduced net sales.

47

Within our e-commerce division, we manufacture and market health and beauty consumer products that are ingestible or applied topically. These products may cause unexpected and undesirable side effects that could limit their use, require their removal from the market or prevent further development. In addition, we are vulnerable to claims that our products are not as effective as we claim them to be. We also may be vulnerable to product liability claims from their use. Unexpected and undesirable side effects caused by our products for which we have not provided sufficient label warnings could result in our recall or discontinuance of sales of our products. Unexpected and undesirable side effects could prevent us from achieving or maintaining market acceptance of the affected products or could substantially increase the costs and expenses of commercializing new products. In addition, consumers or industry analysts may assert claims that our products are not as effective as we claim them to be. Unexpected and undesirable side effects associated with our products or assertions that our products are not as effective as we claim them to be also could cause negative publicity regarding our company, brand or products, which could in turn harm our reputation and net sales. Our business exposes us to potential liability risks that arise from the testing, manufacture and sale of our beauty products. Plaintiffs in the past have received substantial damage awards from other cosmetics companies based upon claims for injuries allegedly caused by the use of their products. We currently maintain general liability insurance in the amount of $1 million per occurrence and $2 million in the aggregate with an umbrella policy which provides coverage up to $25 million. Any claims brought against us may exceed our existing or future insurance policy coverage or limits. Any judgment against us that is in excess of our policy limits would have to be paid from our cash reserves, which would reduce our capital resources. Any product liability claim or series of claims brought against us could harm our business significantly, particularly if a claim were to result in adverse publicity or damage awards outside or in excess of our insurance policy limits.

Risks Related to our Car Wash Segment

Our car wash work force may expose us to claims that might adversely affect our business, financial condition and results of operations; our insurance coverage may not cover all of our potential liability. We employ a large number of workers who perform manual labor at the car washes we operate. Many of the workers are paid at or slightly above minimum wage. Also, a large percentage of our car wash work force is composed of employees who have been employed by us for relatively short periods of time. This work force is constantly turning over. Our work force may subject us to financial claims in a variety of ways, such as:

- claims by customers that employees damaged automobiles in our custody;
- claims related to theft by employees;
- claims by customers that our employees harassed or physically harmed them;
- claims related to the inadvertent hiring of undocumented workers;
- claims for payment of workers' compensation claims and other similar claims; and
- claims for violations of wage and hour requirements.

We may incur fines and other losses or negative publicity with respect to these claims. In addition, some or all of these claims may rise to litigation, which could be costly and time consuming to our management team, and could have a negative impact on our business. We cannot assure you that we will not experience these problems in the future, that our insurance will cover all claims or that our insurance coverage will continue to be available at economically feasible rates

Our car wash operations face governmental regulations, including environmental regulations, and if we fail to or are unable to comply with those regulations, our business may suffer. We are governed by federal, state and local laws and regulations, including environmental regulations, that regulate the operation of our car wash centers and other car care services businesses. Other car care services and products, such as gasoline and lubrication, use a number of oil derivatives and other regulated hazardous substances. As a result, we are governed by environmental laws and regulations dealing with, among other things:

48

- transportation, storage, presence, use, disposal, and handling of hazardous materials and wastes;
- discharge of storm water; and
- underground storage tanks.

If uncontrolled hazardous substances are found on any of our properties, including leased property, or if we are otherwise found to be in violation of applicable laws and regulations, we could be responsible for clean-up costs, property damage, fines, or other penalties, any one of which could have a material adverse effect on our financial condition and results of operations.

Through our Car Wash Segment, we face a variety of potential environmental liabilities, including those arising out of improperly disposing waste oil or lubricants at our lube centers, and leaks from our underground gasoline storage tanks. If we improperly dispose of oil or other hazardous substances, or if our underground gasoline tanks leak, we could be assessed fines by federal or state regulatory authorities and/or be required to remediate the property. Although each case is different, and there can be no assurance as to the cost to remediate an environmental problem, if any, at one of our properties, the costs for remediation of a leaking underground storage tank typically range from $30,000 to $75,000.

If our car wash equipment is not maintained, our car washes will not be operable. Many of our car washes have older equipment that requires frequent repair or replacement. Although we undertake to keep our car washing equipment in adequate operating condition, the operating environment in car washes results in frequent mechanical problems. If we fail to properly maintain the equipment in a car wash, that car wash could become inoperable or malfunction resulting in a loss of revenue, damage to vehicles and poorly washed vehicles.

If we sell our Car Wash Segment, our revenues will decrease and our business may suffer. We can offer no assurances that we will be able to locate additional potential buyers for our remaining car washes or that we will be able to consummate any further sales to potential buyers we do locate. In addition if we are able to sell our remaining car washes, our total revenues will decrease and our business will become reliant on the success of our Security Segment and our Digital Marketing Media Segment. Our business faces significant risks as set forth herein and may impact our ability to generate positive operating income or cash flows from operations, may cause our financial results to become more volatile, or may otherwise materially adversely affect us.

Risks Related to our Stock

Our stock price has been, and likely will continue to be, volatile and your investment may suffer a decline in value. The market price of our common stock, has in the past been, and is likely to continue to be volatile in the future. That volatility depends upon many factors, some of which are beyond our control, including:

- announcements regarding the results of expansion or development efforts by us or our competitors;
- announcements regarding the acquisition of businesses or companies by us or our competitors;
- announcements regarding the disposition of all or a significant portion of the assets that comprise our Car Wash Segment, which may or may not be on favorable terms;
- technological innovations or new commercial products developed by us or our competitors;
- changes in our, or our suppliers' intellectual property portfolio;
- issuance of new or changed securities analysts' reports and/or recommendations applicable to us or our competitors;
- additions or departures of our key personnel;
- operating losses by us;
- actual or anticipated fluctuations in our quarterly financial and operating results and degree of trading liquidity in our common stock; and
- our ability to maintain our common stock listing on the Nasdaq Global Market.

One or more of these factors could cause a decline in our revenues and income or in the price of our common stock, thereby reducing the value of an investment in our Company.

We could lose our listing on the Nasdaq Global Market if our stock price falls below $1.00 for 30 consecutive days, and the loss of the listing would make our stock significantly less liquid and would affect its value. Our common stock is listed on Nasdaq Global Market with a closing price of $1.53 at the close of the market on August 7, 2008. If the price of our common stock falls below $1.00 and for 30 consecutive days remains below $1.00, we would be subject to being delisted from the Nasdaq Global Market. Upon delisting from the Nasdaq Global Market, our stock would be traded on the Nasdaq Capital Market until we maintain a minimum bid price of $1.00 for 30 consecutive days at which time we would be able to regain our listing on the Nasdaq Global Market. If our stock fails to maintain a minimum bid price of $1.00 for 30 consecutive days during a 180-day grace period on the Nasdaq Capital Market or a 360-day grace period if compliance with certain core listing standards are demonstrated, we could receive a delisting notice from the Nasdaq Capital Market. Upon delisting from the Nasdaq Capital Market, our stock would be traded over-the-counter, more commonly known as OTC. OTC transactions involve risks in addition to those associated with transactions in securities traded on the Nasdaq Global Market or the Nasdaq Capital Market (together "Nasdaq-listed Stocks"). Many OTC stocks trade less frequently and in smaller volumes than Nasdaq-listed Stocks. Accordingly, our stock would be less liquid than it would be otherwise. Also, the values of these stocks may be more volatile than Nasdaq-listed Stocks. If our stock is traded in the OTC market and a market maker sponsors us, we may have the price of our stock electronically displayed on the OTC Bulletin Board, or OTCBB. However, if we lack sufficient market maker support for display on the OTCBB, we must have our price published by the National Quotations Bureau LLP in a paper publication known as the Pink Sheets. The marketability of our stock would be even more limited if our price must be published on the Pink Sheets.

Because we are a Delaware corporation, it may be difficult for a third party to acquire us, which could affect our stock price. We are governed by Section 203 of the Delaware General Corporation Law, which prohibits a publicly held Delaware corporation from engaging in a "business combination" with an entity who is an "interested stockholder" (as defined in Section 203 an owner of 15% or more of the outstanding stock of the corporation) for a period of three years following the shareholders becoming an "interested shareholder," unless approved in a prescribed manner. This provision of Delaware law may affect our ability to merge with, or to engage in other similar activities with, some other companies. This means that we may be a less attractive target to a potential acquirer who otherwise may be willing to pay a premium for our common stock above its market price.

If we issue our authorized preferred stock, the rights of the holders of our common stock may be affected and other entities may be discouraged from seeking to acquire control of our Company. Our certificate of incorporation authorizes the issuance of up to 10 million shares of "blank check" preferred stock that could be designated and issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt. No shares of preferred stock are currently outstanding. It is not possible to state the precise effect of preferred stock upon the rights of the holders of our common stock until the board of directors determines the respective preferences, limitations, and relative rights of the holders of one or more series or classes of the preferred stock. However, such effect might include: (i) reduction of the amount otherwise available for payment of dividends on common stock, to the extent dividends are payable on any issued shares of preferred stock, and restrictions on dividends on common stock if dividends on the preferred stock are in arrears, (ii) dilution of the voting power of the common stock to the extent that the preferred stock has voting rights, and (iii) the holders of common stock not being entitled to share in our assets upon liquidation until satisfaction of any liquidation preference granted to the holders of our preferred stock. The "blank check" preferred stock may be viewed as having the effect of discouraging an unsolicited attempt by another entity to acquire control of us and may therefore have an anti-takeover effect. Issuances of authorized preferred stock can be implemented, and have been implemented by some companies in recent years, with voting or conversion privileges intended to make an acquisition of a company more difficult or costly. Such an issuance, or the perceived threat of such an issuance, could discourage or limit the stockholders' participation in certain types of transactions that might be proposed (such as a tender offer), whether or not such transactions were favored by the majority of the stockholders, and could enhance the ability of officers and directors to retain their positions.

Our policy of not paying cash dividends on our common stock could negatively affect the price of our common stock. We have not paid in the past, and do not expect to pay in the foreseeable future, cash dividends on our common stock. We expect to reinvest in our business any cash otherwise available for dividends. Our decision not to pay cash dividends may negatively affect the price of our common stock.

Item 2. Unregistered Sales of Securities and Use of Proceeds

None

e) Issuer Purchases of Securities

The following table summarizes our equity security repurchase during the three months ended June 30, 2008:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Share Purchased as part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 1 to April 30, 2008	-	-	-	$ 1,888,000
May 1 to May 31, 2008	-	-	-	$ 1,888,000
June 1 to June 30, 2008	-	-	-	$ 1,888,000
Total	-	-	-	

(1) On August 13, 2007, the Company's Board of Directors approved a share repurchase program to allow the Company to repurchase up to an aggregate $2,000,000 of its common shares in the future if the market conditions so dictate. As of June 30, 2008, 53,909 shares had been repurchased under this program at an aggregate cost of approximately $111,000.

Item 6. Exhibits

(a) Exhibits:

31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
10.1	Employment Agreement dated July 29, 2008 between Mace Security International, Inc. and Dennis Raefield (Incorporated by reference to Exhibit 10.1 to the July 29, 2008 Form 8-K dated July 31, 2008). (1)
(1)	Indicates a management contract or compensation plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Mace Security International, Inc.

BY:	/s/ Gerald T. LaFlamme Gerald T. LaFlamme, Principal Executive Officer
BY:	/s/ Gregory M. Krzemien Gregory M. Krzemien, Principal Financial Officer

DATE: August 13, 2008

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
10.1	Employment Agreement dated July 29, 2008 between Mace Security International, Inc. and Dennis Raefield (Incorporated by reference to Exhibit 10.1 to the July 29, 2008 Form 8-K dated July 31, 2008). (1)
(1)	Indicates a management contract or compensation plan or arrangement.