

Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 8-K/A

MACE SECURITY INTERNATIONAL INC  
Form 8-K/A  
August 02, 2004

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

FORM 8-K/A

PURSUANT TO SECTION 13 OR 15 (D)  
OF THE SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT: July 1, 2004                      COMMISSION FILE NO. 0-22810  
(Date of earliest event reported)

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

DELAWARE (State or other jurisdiction of incorporation or organization)	03-0311630 (I.R.S. Employer Identification No.)
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1000 Crawford Place, Suite 400, Mt. Laurel, NJ 08054  
(Address of Principal Executive Offices)

Registrant's Telephone No., including area code: (856) 778-2300

Item 2. Acquisition of Assets of Industrial Vision Source and SecurityandMore(R)  
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On July 1, 2004, Mace Security International, Inc., a Delaware corporation (the "Company" or "Registrant"), through its wholly owned subsidiary, Mace Security Products, Inc., acquired substantially all of the operating assets of two operating divisions, namely, Industrial Vision Source(R) ("IVS") and SecurityandMore(R) ("S&M"), of MDI Operating, L.P., a wholly owned subsidiary of American Building Control, Inc. The asset acquisition was pursuant to the terms of an Agreement for Purchase and Sale of Assets dated June 21, 2004 ( the "Agreement"), by and among the Registrant, MDI Operating, L.P., and American Building Control, Inc. (collectively the "Sellers").

The assets (the "Purchased Assets") include substantially all of the assets of the Sellers used in the business of operating S&M and IVS, which are a supplier of "do-it-yourself" video surveillance and security equipment and a distributor of technologically advanced imaging components and video equipment, respectively.

The Sellers are neither affiliated with the Registrant nor with any of the Registrant's subsidiaries, affiliates, directors, officers, or any associates of any director or officer. The description of the acquisition transaction set forth herein is qualified in its entirety by reference to the Agreement which is incorporated by reference as Exhibit 2.1.

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Pursuant to the Agreement, Registrant purchased the assets for cash consideration of \$5,621,000, subject to final adjustment as set forth in the Agreement. The source of funds used by the Registrant to acquire the Purchased Assets was the operating capital of the Registrant. The acquisition will be accounted for as a business combination in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations."

### Item 7. Financial Statements and Exhibits.

#### (a) Financial Statements of Business Acquired.

Report of Independent Registered Public Accounting Firm  
Balance Sheets as of December 31, 2003 and March 31, 2004 (Unaudited).  
Statements of Operations for the Year Ended December 31, 2003 and the  
Three Months Ended March 31, 2004 (Unaudited).  
Statements of Cash Flow for the Year Ended December 31, 2003 and the  
Three Months Ended March 31, 2004 (Unaudited).  
Notes to Financial Statements (Data related to 2004 is unaudited).

#### (b) Pro Forma Financial Information.

Pro forma Consolidated Statement of Operations for the Year Ended  
December 31, 2003 (Unaudited)  
Pro forma Consolidated Statement of Operations for the Three Months  
Ended March 31, 2004 (Unaudited)  
Pro forma Consolidated Balance Sheet as of March 31, 2004 (Unaudited)  
Notes to Pro Forma Financial Information

#### (c) The following Exhibits are hereby filed as part of this Current Report on Form 8-K/A.

- \* 2.1 Agreement for Purchase and Sale of Assets by and among MDI Operating, L.P., American Building Control, Inc. and Mace Security Products, Inc.
- \* 99 Press Release dated July 6, 2004.
- 23.1 Consent of Grant Thornton LLP

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\* Incorporated by reference

### SIGNATURES

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

MACE SECURITY INTERNATIONAL, INC.

By: /s/ Gregory M. Krzemien  
Gregory M. Krzemien  
Chief Financial Officer and Treasurer

Date: August 2, 2004

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
American Building Control, Inc.

We have audited the accompanying balance sheet of the SecurityandMore and Industrial Vision Source divisions (collectively the "DSG Businesses") of American Building Control, Inc., as of December 31, 2003, and the related statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the DSG Businesses' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets acquired and liabilities assumed of the DSG Businesses as of December 31, 2003, and the results of their operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Dallas, Texas  
July 13, 2004

THE SECURITYANDMORE AND INDUSTRIAL VISION SOURCE DIVISIONS OF  
AMERICAN BUILDING CONTROL, INC.  
STATEMENTS OF OPERATIONS  
(in thousands)

	Quarter Ended March 31, 2004	Year Ended Dece 2003
	----- (Unaudited)	-----
Net sales	\$ 5,091	\$
Cost of sales	3,998	
	-----	-----
Gross profit	1,093	
Selling, general and administrative expenses	1,028	
	-----	-----

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Operating income		65	
Other expense		-	
		-----	-----
Income before income taxes		65	
Allocated income tax expense		24	
		-----	-----
Net Income	\$	41	\$
		=====	=====

The accompanying notes are an integral part of these statements.

THE SECURITYANDMORE AND INDUSTRIAL VISION SOURCE DIVISIONS OF  
 AMERICAN BUILDING CONTROL, INC.  
 BALANCE SHEETS  
 (in thousands)

	March 31, 2004	December 31,
	(Unaudited)	
	-----	-----
ASSETS		
Current assets:		
Trade accounts receivable, net	\$ 1,260	\$
Inventories, net	3,315	
	-----	-----
Total current assets	4,575	
Property and equipment, net	94	
Goodwill	729	
	-----	-----
Total assets	\$ 5,398	\$
	=====	=====
LIABILITIES		
Current liabilities:		
Trade accounts payable	\$ 2,161	\$
Accrued compensation	132	
Other current liabilities	276	
	-----	-----
Total current liabilities	2,569	
DIVISIONAL SURPLUS	2,829	
	-----	-----
Total liabilities and divisional surplus	\$ 5,398	\$

The accompanying notes are an integral part of these statements.

THE SECURITYANDMORE AND INDUSTRIAL VISION SOURCE DIVISIONS OF  
 AMERICAN BUILDING CONTROL, INC.  
 STATEMENTS OF CASH FLOWS  
 (in thousands)

	March 31, 2004	December 31,
	----- (Unaudited)	-----
Operating Activities:		
Net income	\$ 41	\$
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	15	
Provision for losses on accounts receivable	12	
Inventory write downs	9	
Changes in operating assets and liabilities		
Trade accounts receivable	261	
Inventories	(513)	
Trade accounts payable	1,050	
Other current liabilities	(237)	
Accrued compensation	(3)	
	-----	-----
Net cash provided by operating activities	635	
Investing activities		
Purchases of property and equipment	(2)	
Financing activities		
Allocated borrowings to Company	(633)	
	-----	-----
Net increase in cash	0	
Cash, beginning of period	0	
	-----	-----
Cash, end of period	\$ 0	\$
	=====	=====

The accompanying notes are an integral part of these statements.

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(Data related to 2004 is unaudited)

### Note 1: Basis of Presentation of the Acquired Businesses

On July 1, 2004, (the "Closing Date"), Mace Security Products, Inc. ("Mace"), a wholly owned subsidiary of Mace Security International, Inc., consummated the acquisition of the consumer/do-it-yourself business ("SecurityandMore" (R)) and the industrial vision business (Industrial Vision Source, or "IVSTM"), (collectively the "DSG Businesses"), of American Building Control, Inc., (the "Company"), pursuant to a purchase agreement (the "Purchase Agreement"), dated June 21, 2004, between the Company and Mace (the "Acquisition").

The consideration paid in the Acquisition (which was determined as a result of arms'-length negotiations) consisted of cash in the amount of \$5,620,834.

The Company has two operating segments: the Professional Security Group ("PSG"), whose primary focus is access control and alarm management products and the Diversified Sales Group ("DSG"), which includes products sold to the consumer/do-it-yourself channel and its industrial video businesses. The DSG segment is primarily comprised of the DSG Businesses.

The accompanying carve-out balance sheets, statements of operations, and statements of cash flows have been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission. These financial statements have been prepared on a historical cost basis from the books and records maintained by the Company, on the basis of established accounting methods, practices and procedures and policies (see Note 2) and the accounting judgments and estimation methodologies used by the Company, of which the DSG Businesses represented specific business units. The DSG Businesses never operated as separate entities, but rather were integrated parts of the Company's consolidated operations.

The carve-out financial statements include the direct revenue and direct operating expenses that relate to the DSG Businesses. Direct operating expenses include salaries and wages, fringe benefits, materials, depreciation, and other expenses solely attributable to the DSG Businesses. In addition, the carve-out financial statements also include allocations of corporate expenses incurred by the Company that are associated with the revenue-producing activities of the DSG Businesses and are therefore indirectly attributable to the DSG Businesses. Such allocated costs include sales and marketing costs, corporate overhead such as finance, accounting, human resources, information systems costs, and occupancy and procurement costs, which have been allocated using allocation factors such as square footage, headcount and workload.

### Note 2: Summary of Significant Accounting Policies

#### Trade Accounts Receivable

The DSG Businesses estimate the collectibility of trade accounts receivable. In order to assess the collectibility of these receivables, the DSG Businesses monitor the current creditworthiness of each customer and analyze the aging of related past due balances. These evaluations may indicate a situation in which a customer cannot meet its financial obligations due to deterioration of its financial viability, credit ratings or bankruptcy. The allowance requirements are based on current facts and are reevaluated and adjusted as additional information is received. Trade accounts receivable are reserved when it is determined the receivable may not be collected.

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### Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, the DSG Businesses' management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Inventories

Inventories are comprised primarily of goods held for resale and are stated at the lower of cost (first-in, first-out) or market through the use of an inventory valuation allowance. In order to assess the ultimate realization of inventories, the DSG Businesses are required to make judgments as to future demand requirements compared to current or committed inventory levels. Allowance requirements generally increase as the projected demand requirement decreases due to market conditions and technological or product life cycle changes.

### Goodwill

The DSG Businesses adopted Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets, on January 1, 2002. In performing the impairment analysis required by SFAS No. 142, the DSG Businesses complete a two step process to determine the amount of any impairment as of December 31st of each year. The first step involves comparison of the fair value of the reporting unit to its carrying value to determine if an impairment may exist. The second step involves comparison of the fair value of the goodwill to the carrying value of the goodwill. Any excess of the carrying value over the fair value is recorded as an impairment charge. In calculating an impairment charge, the fair value of a reporting unit is estimated using discounted cash flow methodology or other valuation methods.

In connection with the DSG Businesses' annual impairment analysis as of December 31, 2003, no impairment was necessary based on the estimated proceeds to be received from the anticipated sale of the DSG Businesses.

### Income Taxes

Operating results of the DSG Businesses are included in the consolidated income tax returns of the Company. The Company has significant net operating loss carryforwards and has provided a full valuation allowance against its net deferred tax assets. Accordingly, the consolidated financial statements of the Company contain no provision for income taxes. The income tax expense presented in these financial statements has been determined on a standalone basis for the DSG Businesses assuming an effective tax rate equivalent to that of the Company prior to the valuation allowance for deferred taxes and is not necessarily reflective of actual tax expense that may have been attributable to the DSG Businesses.

### Revenue Recognition

Revenue is recognized when a firm sales agreement is in place, the price is fixed and determinable, delivery has occurred and collectibility is probable.

### Warranty Reserves

Reserves are provided for estimated warranty costs when revenue is recognized. The costs of warranty obligations are estimated based on the Company's warranty policy or applicable contractual warranty, historical experience of known product failure rates and use of materials and service

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delivery charges incurred in correcting product failures. Specific warranty accruals may be made if unforeseen technical problems arise. If actual experience, relative to these factors, adversely differs from these estimates, additional warranty expense may be required.

The table below shows the roll forward of warranty reserves for the year ended December 31, 2003, and three months ended March 31, 2004 (in thousands):

	Three Months Ended ----- March 31, 2004 -----	Twelve Months Ended ----- December 31, 2003 -----
Beginning balance	\$ 112	\$ 62
Charged to expense	7	50
Usage	(5)	(0)
	-----	-----
Closing balance	\$ 114 =====	\$ 112 =====

### Statements of Cash Flows

During the three months ended March 31, 2004, and year ended December 31, 2003, the funding requirements of the DSG Businesses and the Company were combined. As the DSG Businesses have historically been managed as a part of the operations of the Company, outstanding cash balances have not been reflected on the accompanying financial statements.

### Note 3: Trade Accounts Receivable

Supplemental information on net trade accounts receivable (in thousands):

	March 31, 2004 -----	December 31, 2003 -----
Gross trade accounts receivable	\$ 1,503	\$ 1,940
Less: allowance for doubtful accounts	(243)	(407)
	-----	-----
	\$ 1,260 =====	\$ 1,533 =====

Allowance for doubtful accounts (in thousands):

	Balance at Beginning Of Period -----	Charged to Operations -----	Deductions From Accounts Receivable -----	Balance at End of Period -----
Quarter ended March 31, 2004	\$ 407	\$ 12	\$ 176	\$ 243
Year ended December 31, 2003	\$ 411	\$ 321	\$ 325	\$ 407

### Note 4: Property and Equipment

The components of property and equipment are as follows (in thousands):

	Useful Lives	March 31, ----- 2004 -----	December 31, ----- 2003 -----
Machinery and equipment	3-7 years	\$ 268	\$ 268

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Furniture and fixtures	3-7 years	152	152
Internal software/computers	3-8 years	42	40
		-----	-----
		462	460
Accumulated depreciation		(368)	(353)
		-----	-----
		\$ 94	\$ 107
		=====	=====

### Note 5: Inventories

Supplemental information on net inventories (in thousands):

	March 31, 2004	December 31, 2003
	-----	-----
Gross inventories	\$ 3,756	\$ 3,243
Less: inventory reserve	(441)	(432)
	-----	-----
Net inventories	\$ 3,315	\$ 2,811
	=====	=====

### Note 6: Commitments and Contingencies

#### Operating Leases

The DSG Businesses lease a mailing machine under a long-term, non-cancelable lease. The mailing machine lease terminates on December 31, 2007. Minimum future rental payments are presented below (in thousands):

	Years ending December 31,	
	-----	
	2004	\$ 6
	2005	6
	2006	6
	2007	6
		-----
		\$ 24
		=====

### Note 7: Major Customers and Suppliers

Costco, a major national retailer, accounted for approximately 28% of the DSG Businesses sales in 2003. For the three months ended March 31, 2004, Costco represented 29% of sales. Loss of this customer would have a material adverse effect on the DSG Businesses' operations.

Hitron, Inc., Sony, and Mitsubishi Digital were the DSG Businesses' major suppliers for electronic video products during 2003, collectively representing 83% and 90% of purchases for 2003 and the three months ended March 31, 2004, respectively. Loss of any of these suppliers could result in short-term supply problems and a possible loss of sales.

### Note 8: Segment Reporting

Operating information for each segment within the DSG Businesses is as follows (in thousands):

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Three months ended March 31, 2004	IVS	SecurityandMore	
Revenue from external customers	\$ 1,852	\$ 3,239	\$
Gross profit	\$ 241	\$ 852	\$
Selling, general and administrative expenses	\$ 246	\$ 782	\$
Operating (loss) income	\$ (5)	\$ 70	\$
Year ended December 31, 2003			
Revenue from external customers	\$ 9,292	\$ 12,181	\$
Gross profit	\$ 1,302	\$ 3,379	\$
Selling, general and administrative expenses	\$ 912	\$ 2,810	\$
Operating income	\$ 390	\$ 569	\$

A reconciliation of total assets per segment to the consolidated balance sheet is as follows (in thousands):

	March 31, 2004	December 31, 2003
SecurityandMore	\$ 3,986	\$ 3,472
IVS	1,412	1,708
	\$ 5,398	\$ 5,180

Note 9: Employee Benefit Plan and Option Plan Participation

Personnel that became employees of Mace as a result of the Acquisition participated in a defined contribution employee benefit plan of the Company prior to the Acquisition. As a result of the Acquisition, these employees are no longer covered under the Company's benefit plan and these employees will be eligible to participate in plans sponsored by Mace based on eligibility criteria specified in the Purchase Agreement and the respective plan. Former DSG Businesses' employees were also participants in various stock option plans sponsored by the Company. The Purchase Agreement, did not provide for the replacement or substitution of stock options held by former DSG Businesses employees with similar instruments of Mace and the stock options were cancelled by the Company without compensation subsequent to the Closing Date.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
AND THE THREE MONTHS ENDED MARCH 31, 2004

The following unaudited pro forma consolidated statements of operations for the year ended December 31, 2003 and the three months ended March 31, 2004 give effect to the acquisition of substantially all of the operating assets of two operating divisions, namely, Industrial Vision Source(R) ("IVS") and

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SecurityandMore(R) ("S&M"), of MDI Operating, L.P., a wholly owned subsidiary of American Building Control, Inc. for cash consideration of \$5,621,000.

The following unaudited pro forma consolidated statements of operations for the year ended December 31, 2003 and the three months ended March 31, 2004 give effect to the aforementioned transaction as if the transaction had occurred on the first day of each period presented. The following unaudited pro forma financial data may not be indicative of what the results of operations or financial position of Mace Security International, Inc. would have been, had the transaction to which such data gives effect been completed on the date assumed, nor are such data necessarily indicative of the results of operations or financial position of Mace Security International, Inc. that may exist in the future. The following unaudited pro forma information should be read in conjunction with the notes thereto, the other pro forma financial statements and notes thereto, and the consolidated financial statements and notes of Mace Security International, Inc. as of December 31, 2003 and for each of the three years in the period then ended appearing in the Company's Form 10-K and the historical financial statements of the SecurityandMore and Industrial Vision Source Divisions of American Building Control, Inc. appearing elsewhere in this filing.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS  
For the Year Ended December 31, 2003  
(In thousands, except share and per share data)

	Mace Security International, Inc.	SecurityandMore and Industrial Vision Source	
	-----	-----	-----
Revenues	\$ 48,996	\$ 21,473	\$
Cost of revenues	35,812	16,792	
Selling, general and administrative	9,486	3,564	
Depreciation and amortization	1,958	158	
Goodwill and asset impairment charges	3,798	-	
	-----	-----	-----
Operating (loss) income	(2,058)	959	
Interest expense, net	(1,963)	-	
Other income	438	(8)	
	-----	-----	-----
(Loss) income from operations before income tax expense	(3,583)	951	
Income tax benefit (expense)	50	(361)	
	-----	-----	-----
Net (loss) income	\$ (3,533)	\$ 590	\$
	=====	=====	=====
Net loss per common share (basic and dilutive):	\$ (0.28)		
	=====		

Weighted average number of

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common shares outstanding:

Basic	12,414,816
	=====
Diluted	12,414,816
	=====

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS  
For the Three Months Ended March 31, 2004  
(In thousands, except share and per share data)

	Mace Security International, Inc.	Security and More and Industrial Vision Source	Pr Ad
	-----	-----	-----
Revenues	\$ 12,675	\$ 5,091	\$
Cost of revenues	8,998	3,998	
Selling, general and administrative expenses	2,471	1,013	
Depreciation and amortization	500	15	
	-----	-----	-----
Operating income	706	65	
Interest expense, net	(479)	-	
Other income	112	-	
	-----	-----	-----
Income(loss) before income tax expense	339	65	
Income tax (expense) benefit	(122)	(24)	
	-----	-----	-----
Net income(loss)	\$ 217	\$ 41	\$
	=====	=====	=====
Net income per common share (basic and dilutive)	\$ 0.02		
	=====		
Weighted average number of common shares outstanding:			
Basic	12,461,029		
	=====		
Diluted	12,618,837		
	=====		

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UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET  
As of March 31, 2004  
(In thousands)

	Mace Security International, Inc.	SecurityandMore and Industrial Vision Source	Pr Adj
	-----	-----	-----
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 3,651	\$ -	\$
Accounts receivable, net	1,555	1,260	
Inventories	3,295	3,315	
Deferred income taxes	265	-	
Prepaid expenses and other	2,089	-	
	-----	-----	-----
Total current assets	10,855	4,575	
Property and equipment, net	65,796	94	
Goodwill	10,623	729	
Other Intangibles, net	1,006	-	
Other assets	1,851	-	
	-----	-----	-----
Total Assets	\$ 90,131	\$ 5,398	\$
	=====	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities			
Current portion of long term debt	5,404	-	
Accounts payable	\$ 2,055	\$ 2,161	\$
Accrued expenses and Other current liabilities	2,969	408	
	-----	-----	-----
Total current liabilities	10,428	2,569	
Long term debt, less current portion	25,223	-	
Other long term liabilities	12	-	
	-----	-----	-----
Total liabilities	35,663	2,569	
Stockholders' equity:			
Common stock	125	-	
Additional paid-in capital	69,824	-	
(Accumulated deficit) retained earnings	(15,481)	2,829	
	-----	-----	-----
Total stockholders' equity	54,468	2,829	
	-----	-----	-----
Total liabilities and stockholders' equity	\$ 90,131	\$ 5,398	\$
	=====	=====	=====

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### Notes to Unaudited Pro Forma Consolidated Statement of Operations Adjustments

The Unaudited Pro Forma Consolidated Statement of Operations for the Year Ended December 31, 2003 has been adjusted to reflect the following:

- (1) To adjust depreciation and amortization expense for the change in the basis of property and equipment and intangible assets as if the purchase of S&M and IVS had been completed on January 1, 2003, net of historical depreciation and amortization expense of S&M and IVS.
- (2) To eliminate intercompany administrative charges of \$151,000 related directly to cost sharing arrangements provided by S&M and IVS's prior parent, which were terminated as a result of the purchase transaction. Certain administrative services were absorbed by excess capacity of the Registrant and the Registrant has not hired additional employees to perform these administrative services.
- (3) The Registrant's pro forma tax provision reflects an effective tax rate of 36% considering federal and state income taxes and the effect of certain non-deductible costs principally related to the acquisitions consummated.

The Unaudited Pro Forma Consolidated Statement of Operations for the Three Months Ended March 31, 2004 has been adjusted to reflect the following:

- (1) To adjust depreciation and amortization expense for the change in the basis of property and equipment and intangible assets as if the purchase of S&M and IVS had been completed on January 1, 2004, net of historical depreciation and amortization expense of S&M and IVS.
- (2) To eliminate intercompany administrative charges of \$17,000 related directly to cost sharing arrangements provided by S&M and IVS's prior parent, which were terminated as a result of the purchase transaction. Certain administrative services were absorbed by excess capacity of the Registrant and the Registrant has not hired additional employees to perform these administrative services.
- (3) The Registrant's pro forma tax provision reflects an effective tax rate of 36% considering federal and state income taxes and the effect of certain non-deductible costs principally related to acquisitions consummated.

### Notes to Unaudited Pro Forma Consolidated Balance Sheet Adjustments

The unaudited Pro Forma Consolidated Balance Sheet as of March 31, 2004 has been adjusted to reflect the following:

- (1) On July 1, 2004, Mace Security International, Inc., a Delaware corporation (the "Company" or "Registrant"), through its wholly owned subsidiary, Mace Security Products, Inc., acquired substantially all of the operating assets of two operating divisions, namely, Industrial Vision Source(R) ("IVS") and SecurityandMore(R) ("S&M"), of MDI Operating, L.P., a wholly owned subsidiary of American Building Control, Inc. The asset acquisition was pursuant to the terms of an Agreement for Purchase and Sale of Assets dated June 21, 2004 (collectively the "Agreement"), by and among the Registrant, MDI Operating, L.P., and American Building Control, Inc. (the "Sellers").

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The assets (the "Purchased Assets") include substantially all of the assets of the Sellers used in the business of operating S&M and IVS, which are a supplier of "do-it-yourself" video surveillance and security equipment and a distributor of technological advanced imaging components and video equipment, respectively. Pursuant to the Agreement, Registrant purchased the assets for cash consideration totaling \$5,621,000. The allocation of the purchase price is preliminary. The actual allocation will be based on management's final evaluation of the assets and liabilities acquired. For purposes of these pro forma financial statements, the excess of the purchase price over the fair value of the identifiable tangible and intangible assets was allocated to goodwill; however, this excess may ultimately be allocated to other specific tangible and intangible assets. The final allocation of the purchase price and the resulting effect on operations may differ significantly from the pro forma amounts included herein. The preliminary allocation of the purchase price is as follows:

Current assets.....	\$3,230,000
Property and equipment.....	100,000
Goodwill.....	368,000
Other intangible assets.....	2,173,000
Current liabilities assumed.....	( 250,000)
	-----
	\$5,621,000
	=====

EXHIBIT INDEX

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Exhibit No.	Description
-----	-----
23.1	Consent of Grant Thornton LLP