MACE SECURITY INTERNATIONAL INC
Form 10-Q
May 15, 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 MARCH 31, 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.)

401 East Las Olas Boulevard, Suite 1570, Fort Lauderdale, Florida 33301
(Address of Principal Executive Offices)

Registrant's Telephone No., including area code: (954) 449-1300

1000 Crawford Place, Suite 400, Mount Laurel, New Jersey 08054
(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 ¨ No x

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 ¨   Accelerated filer ¨   Non-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 ¨ No x

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

As of May 12, 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 March 31, 2008

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

Mace Security International, Inc.
Consolidated Balance Sheets

(In thousands, except share information)

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,937	$ 8,103
Short-term investments	4,167	4,249
Accounts receivable, less allowance for doubtful accounts of $833 and $791 in 2008 and 2007, respectively	2,328	2,920
Inventories	9,853	9,296
Prepaid expenses and other current assets	2,192	2,241
Assets held for sale	1,004	5,665
Total current assets	32,481	32,474
Property and equipment:		
Land	12,041	12,322
Buildings and leasehold improvements	16,720	17,418
Machinery and equipment	6,038	6,353
Furniture and fixtures	643	558
Total property and equipment	35,442	36,651
Accumulated depreciation and amortization	(8,021)	(8,477)
Total property and equipment, net	27,421	28,174
Goodwill	8,231	8,231
Other intangible assets, net of accumulated amortization of $1,272 and $1,123 in 2008 and 2007, respectively	5,424	5,565
Other assets	941	992
Total assets	$ 74,498	$ 75,436

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

	March 31, 2008 (Unaudited)	December 31, 2007
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 931	$ 2,022
Accounts payable	3,906	4,661
Accrued expenses and other current liabilities	3,558	2,581
Income taxes payable	787	778
Deferred revenue	163	174
Liabilities related to assets held for sale	738	4,494
Total current liabilities	10,083	14,710
Long-term debt, net of current portion	6,826	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 March 31, 2008 and December 31, 2007	165	165
Additional paid-in capital	93,941	93,685
Accumulated other comprehensive income	115	322
Accumulated deficit	(36,521)	(40,495)
	57,700	53,677
Less treasury stock at cost-53,909 shares	(111)	(111)
Total stockholders' equity	57,589	53,566
Total liabilities and stockholders' equity	$ 74,498	$ 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 March 31,	
	2008	**2007**
Revenues:		
Security	$ 5,286	$ 5,435
Digital media marketing	5,445	-
Car wash and detailing services	2,545	3,031
Lube and other automotive services	681	805
Fuel and merchandise	545	544
	14,502	9,815
Cost of revenues:		
Security	3,746	4,047
Digital media marketing	3,589	-
Car wash and detailing services	2,169	2,429
Lube and other automotive services	540	634
Fuel and merchandise	561	518
	10,605	7,628
Selling, general and administrative expenses	5,834	3,976
Depreciation and amortization	382	331
Operating loss	(2,319)	(2,120)
Interest expense, net	(41)	(193)
Other income	115	129
Loss from continuing operations before income taxes	(2,245)	(2,184)
Income tax expense	25	25
Loss from continuing operations	(2,270)	(2,209)
Income from discontinued operations, net of tax of $0 in 2008 and 2007	6,244	1,551
Net income (loss)	$ 3,974	$ (658)
Per share of common stock (basic and diluted):		
Loss from continuing operations	$ (0.14)	$ (0.14)
Income from discontinued operations	0.38	0.10
Net income (loss)	$ 0.24	$ (0.04)
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 Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock	Total
	Shares	Amount					
Balance at December 31, 2007	16,465,253	$ 165	$ 93,685	$ 322	$ (40,495)	$ (111)	$ 53,566
Stock-based compensation expense (see note 6)	-	-	256	-	-	-	256
Unrealized loss on short-term investments	-	-	-	(207)	-	-	(207)
Net income	-	-	-	-	3,974	-	3,974
Total comprehensive income	-	-	-	-	-	-	3,767
Balance at March 31, 2008	16,465,253	$ 165	$ 93,941	$ 115	$ (36,521)	$ (111)	$ 57,589

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

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

	Three Months Ended March 31,	
	2008	**2007**
Operating activities		
Net income (loss)	$ 3,974	$ (658)
Income from discontinued operations, net of tax	6,244	1,551
Loss from continuing operations	(2,270)	(2,209)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	382	331
Stock-based compensation (see Note 6)	254	200
Provision for losses on receivables	56	70
Loss (gain) on sale of property and equipment	2	(9)
Gain on short-term investments	(125)	(102)
Changes in operating assets and liabilities:		
Accounts receivable	536	50
Inventories	(450)	709
Prepaid expenses and other assets	116	(401)
Accounts payable	(755)	(677)
Deferred revenue	(129)	(118)
Accrued expenses	376	86
Income taxes payable	(6)	36
Net cash used in operating activities-continuing operations	(2,013)	(2,034)
Net cash (used in) provided by operating activities-discontinued operations	(85)	625
Net cash used in operating activities	(2,098)	(1,409)
Investing activities		
Purchase of property and equipment	(154)	(99)
Proceeds from sale of property and equipment	1	282
Payments for intangibles	(7)	(4)
Net cash (used in) provided by investing activities-continuing operations	(160)	179
Net cash provided by investing activities-discontinued operations	7,950	7,989
Net cash provided by investing activities	7,790	8,168
Financing activities		
Payments on long-term debt	(752)	(221)
Net cash used in financing activities-continuing operations	(752)	(221)
Net cash used in financing activities-discontinued operations	(106)	(356)
Net cash used in financing activities	(858)	(577)
Net increase in cash and cash equivalents	4,834	6,182
Cash and cash equivalents at beginning of period	8,103	4,055
Cash and cash equivalents at end of period	$ 12,937	$ 10,237

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 and truck wash operations as of March 31, 2008 were located in Texas. The Company entered into two separate agreements in November 2007 to sell five of its six Florida full service car washes and a third agreement in January 2008 to sell the Company's final car wash in the Sarasota, Florida area. All six Florida car washes were sold 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, 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 Statement of Financial Accounting Standards ("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 March 31, 2008**	**Quoted Market Prices[1]**	**Observable Inputs[2]**	**Unobservable Inputs[3]**
Short-term investments	$ 4,167	$ 4,167	$ -	$ -

(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.

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(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 noncontrolling 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):

	March 31, 2008		**December 31, 2007**	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Amortized intangible assets:				
Non-compete agreement	$ 465	$ 110	$ 465	$ 91
Customer lists	2,751	668	2,751	591
Product lists	590	221	590	207
Software	883	98	883	61
Deferred financing costs	231	175	231	173
Total amortized intangible assets	4,920	1,272	4,920	1,123
Non-amortized intangible assets:				
Trademarks-Security Segment	1,285	-	1,285	-
Trademarks-Digital Media Marketing Segment	478	-	478	-
Patent costs	13	-	5	-
Total non-amortized intangible assets	1,776	-	1,768	-

Total intangible assets	$	6,696	$	1,272	$	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	$ 596
2009	$ 560
2010	$ 551
2011	$ 551
2012	$ 541

Amortization expense of other intangible assets was approximately $149,000, and $70,000 for the three months ended March 31, 2008 and 2007, respectively. The weighted average useful life of amortizing intangible assets was 8.4 years at March 31, 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 enables 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 due on January 3, 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, net of estimated costs to register the stock. 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 reclasses 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 March 31, 2007	
Revenues	$	15,594
Net Loss	$	(529)
Loss per share-basic and dilutive	$	(0.03)

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 its 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.

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. Accordingly, for financial statement purposes, the assets, liabilities, results of operations and cash flows of the operations of our Arizona, Northeast 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 $81,000 and $4.6 million for the three months ended March 31, 2008 and 2007, respectively. Operating (loss) income from discontinued operations was $(707,000) and $587,000 for the three months ended March 31, 2008 and 2007, respectively.

In the third quarter ended September 30, 2007, the Company signed agreements to sell a full service car wash in Fort Worth, Texas. This car wash is presented in the Company’s consolidated financial statements as assets and liabilities held for sale.

Assets and liabilities held for sale are comprised of the following at March 31, 2008 (in thousands):

Assets held for sale:	**Fort Worth, Texas**	
Inventory		$ 86
Property, plant and equipment, net		918
Total assets	$	1,004
Liabilities related to assets held for sale:		
Current portion of long-term debt	$	197
Long-term debt, net of current portion		541
Total liabilities	$	738

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 life of the instruments, based upon the grant date fair value of the equity or liability instruments issued. Total stock compensation expense is approximately $256,000 for the three months ended March 31, 2008 ($253,600 included in SG&A expense, and $2,400 in discontinued operations) and $227,000 for the three months ended March 31, 2007 ($223,000 included in SG&A expense and $4,000 in discontinued operations).

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

	Three Months Ended March 31,	
	2008	**2007**
Expected term (years)	10	10
Risk-free interest rate	3.51% to 3.91%	5.80%
Volatility	46%	52%
Dividend yield	0%	0%

Expected term: The 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 three months ended March 31, 2008 and 2007, respectively. As of March 31, 2008, total unrecognized stock-based compensation expense is $512,000, which has a weighted average period to be recognized of approximately 1.47 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 noncancellable lease terms in excess of one year as of March 31, 2008 for continuing operations are as follows: 2009 - $1.0 million; 2010 - $738,000; 2011 - $603,000; 2012 - $481,000; 2013 - $409,000 and thereafter - $873,000. Rental expense under these leases was $200,500, and $221,800 for the three months ended March 31, 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 March 31, 2008 and 2007, revenues under these leases were approximately $13,600, and $4,200, respectively. These amounts are classified as other income in the accompanying statements of operations.

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 occuring 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. Additionally, the employment agreement of the Company's Principal Executive Officer, Louis D. Paolino, Jr., dated August 21, 2006, entitles Mr. Paolino to a payment of 2.99 times Mr. Paolino's average total compensation (base salary plus any bonuses plus the value of any option award, valued using the Black-Scholes method) over the past five years, upon termination of employment under certain conditions or upon a change in control. The employment agreement also provides that if Mr. Paolino receives the change of control bonus, his employment agreement can then be terminated without an additional payment.

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., a wholly-owned subsidiary of the Company, were taken into custody by the United States immigration authorities. 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 with one count of conspiracy to

defraud the government, harboring illegal aliens and identity theft. Car Care has reached an agreement in principle, subject to executing a written plea agreement with the government, to plead guilty to the one count of conspiracy charged in the indictment. Under this agreement, Car Care will pay a criminal fine of $100,000 and will forfeit $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 agreement in principle, 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 $1.52 million ($674,000 and $796,000, in fiscal 2007 and 2006, respectively and $47,000 in the three months ended March 31, 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 to date are (i) metal contaminated soils on the building grounds (waste from sand blasting paint from the building, the clean up of which the Company believes the building owner and not Mace is responsible); (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); (iii) 55 thousand pounds of 2-chlorobenzalmalononitrile stored in eight pound plastic containers (a chemical used to make tear gas); and (iv) three steel drums containing a chemical used to make pyrotechnic grenades (this material is held for resale). The EPA, the Company and the building owner have entered into an Administrative Consent Order under which the hazardous materials and waste are being remediated. The Company expects the remediation to be complete by May 30, 2008, within the time required by the Administrative Consent Order. A total cost of approximately $665,000, 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 March 31, 2008. This amount represents management's best estimate of probable loss, as defined by SFAS No. 5, *Accounting for Contingencies.* Approximately $68,000 has been paid to the date, leaving an accrual balance of $597,000 at March 31, 2008. The accrual was increased by $380,000 in the first 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 ("US 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 US Attorney issued a grand jury subpoena to the Company. The subpoena requires the Company to provide the US Attorney with documents related to the storage, disposal and transportation of materials at the Bennington, Vermont location. The Company intends to supply the documents and fully cooperate with the US Attorney's investigation. The Company is unable at this time to determine whether further action will be taken by the US 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 March 31, 2008								
Revenues from external customers	$	5,286	$	5,445	$	3,771	$	-
Segment operating (loss) income	$	(724)	$	34	$	(156)	$	(1,473)
Segment assets	$	18,847	$	12,131	$	42,516	$	-
Goodwill	$	1,343	$	6,888	$	-	$	-
Capital expenditures	$	43	$	17	$	91	$	3
Three months ended March 31, 2007								
Revenues from external customers	$	5,435	$	-	$	4,380	$	-
Segment operating(loss) income	$	(843)	$	-	$	97	$	(1,374)
Segment assets	$	18,466	$	-	$	48,984	$	-
Goodwill	$	1,623	$	-	$	-	$	-
Capital expenditures	$	59	$	-	$	38	$	1

* 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.

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 $25,000 from continuing operations in each of the three months ended March 31, 2008 and 2007. Income tax expense reflects the recording of income taxes on income at an effective rate of approximately (1)% in 2008 and 2007. 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 three month periods ended March 31, 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 March 31, 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 three months ended March 31, 2008 and 2007 is insignificant and when incurred is reported as interest expense.

11. 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 $31,728 for each of the three months ending March 31, 2008 and 2007.

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

At March 31, 2008, we had borrowings, including borrowings related to discontinued operations, of approximately $8.5 million, substantially all of which is secured by mortgages against certain of our real property. Of such borrowings, approximately $1.7 million, including $738,000 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 March 31, 2008.

We have two letters of credit outstanding at March 31, 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 March 31, 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 March 31, 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 $6.0 million, $4.6 million of which was classified as non-current debt at March 31, 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 agreement that contains an expressed prohibition on incurring

additional debt for borrowed money without the approval of the lender. As of March 31, 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 $6.0 million at March 31, 2008, including debt recorded as long-term debt at March 31, 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 March 31, 2008) are foreclosed upon, revenues from our Car Wash Segment, which comprised 45% of our total revenues for fiscal year 2007 and 26% of our total revenues for the three months ended March 31, 2008, would be severely impacted and we may be unable to continue to operate our business.

13. Accrued Expenses and Other Current Liabilities

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

	March 31, 2008	December 31, 2007
Accrued compensation	$ 557	$ 662
Accrued fines and penalties	600	-
Accrued EPA remediation costs		